Gap Analysis

Idea In Short

Most of us have at least a rough vision of where we'd like to take our organization. But sometimes, knowing where and how to begin can be challenging. This is where the process of gap analysis comes into play. Gap analysis is a great strategic analysis tool that gives us a broad framework for defining not just where we are today, but more importantly where we want to be and how we're going to get there.

Performing a gap analysis for an organization is surprisingly easy.Gap Analysis is the process of comparing your client's current state to their desired future state. Then, you create a series of actions to bridge the identified gap. Gap analysis is a great tool to use as part of internal analysis of an organization. The gap analysis approach to strategic planning is one of the best ways to structure thinking about goals.

Benefits of a Gap analysis

Gap analysis forces you to think about your current state, your desired future state, the gaps between the two, and your action plan in a very clear and structured form. It provides a framework for people to collaborate on the first steps of creating a strategic plan. Sometimes, involving multiple people in strategic planning elicits approaches that can be incompatible. Gap analysis solves this issue by requiring people to answer specific questions. Subsequently, a consultant can compile the ideas into a cohesive strategic plan. Finally, you can use gap analysis to analyze historical performance of an organization. The first time you perform a gap analysis process, you will capture the current state (both, qualitative and quantitative) of a business. You have a baseline to benchmark performance during subsequent analyses.

How to Conduct a Gap Analysis

Define strategic focus areas

Before delving into gap analysis, set some boundaries i.e. define the scope of your analysis. It is easy to frame grandiose future states as:

> The desired future state is to the biggest and best company in Asia

However, there's little value in such formulations. Instead, you need be very specific in areas that need improvement i.e. strategic focus areas. Typical focus areas that companies often settle on include:

- Financial growth
- Customer excellence
- Innovation
- Employee happiness
- Scientific achievement
- Community impact

Once you've settled on the strategic focus areas, define the desired future state.

Identify the desired future state

You should start with the future state, rather than the current state. This is because organizations don't have just one current state. Usually, they have hundreds of possible future states. These vary among teams, measures, or even the client stakeholder. Hence, defining current state without any idea of the desired future state is ineffective. So, start your gap analysis by defining the future state. Strategic focus areas help distill the scope of analyses. Let's assume that **Innovation** is a strategic focus area. You should frame the desired future state for Innovation in fairly broad terms.

> The desired future state for Innovation is to be recognized as one of the most innovative eCommerce platforms in the industry

Keep things fairly high-level at this stage and avoid adding any specific KPIs or measures at this juncture. Once you've identified the high-level desired future state for all focus areas, start assessing the current states.

Assess the current state

The next step involves getting a better understanding of where your client is today - their current state. You'll use the focus areas to scope your analysis. Start off high-level and then get more specific. For each focus area, write a sentence that gives a realistic summary of the current state. Try to use similar language and structure as the one you used when defining the desired future state. For example, for the Innovation focus area, summarize the current state as:

> We are not currently known for innovation. However, our eCommerce portal contains a few unique features

For this step of your gap analysis, it's extremely important to solicit honest and realistic inputs about strengths and weaknesses. The next step is about getting specific about the whats and hows of achieving the organizational goals.

4. Apply measures

So far, the gap analysis was quite general in both, desired future state and current state. In this step, add specific measures (KPIs) for each focus area. To select the right KPIs for your gap analysis:

- Select KPIs that you can actually measure and decide on your measurement approach
- Only choose KPIs that you have a baseline for today, so that you can easily measure the gap which you need to bridge
- Apply a mix of both leading and lagging KPIs to give you a complete set of measures for each focus area
- Define the targets for desired future state and document the current state KPIs underneath

For the Innovation focus area, you might select two KPIs as follows: **Leading KPI**

> Dedicate at least 50% of our developer resources to creating new features. (current state: <10% of developer resources are on creating new features)

Lagging KPI

> Achieve an 'Innovation' score of over 80% on at least one customer review website. (current state: Our 'Innovation' score on XYZ.com is less than 60%)

The gap component of a gap analysis is the variance between the current state and desired future state KPIs.

5. Create an action plan

Finally, formulate a specific action plan to address the gaps that you've identified. Envision the action plan as a series of projects for each focus area. When the client completes the proposed projects / action items, they will progressively close the gaps. Subsequently, they are likely to witness a performance improvement. The number of projects you propose to close each gap depends on the scope of the focus area. Usually, you'll have at least 2 for each gap. You should use your best judgment to determine which projects will most likely close the gap. With the Innovation focus area, one of the projects that can help close the 40% gap is active hiring. Through this project, the client can close the gap in number of developers required for new features from current state (10%) to the desired future state (50%).

- **Project 1:** Hire an additional 4 developers and dedicate them to new feature development
- **Project 2:** Implement a new Innovation Checklist for all new features that we create to ensure that they meet our own definition of something Innovative

Prioritization

Add a prioritization layer to your gap analysis. This will help manage the portfolio of new initiatives and KPIs that result from gap analysis. Whilst not strictly part of gap analysis, prioritization helps focus on initiatives that are easy they are to implement and deliver a higher impact by bridging the gaps.

Summary

Gap analysis is a great starting point to formulate strategy. You can layer additional frameworks and tools on top to prioritize initiatives and identify gaps in other focus areas. These frameworks are not substitutes for gap analysis, but add additional depth and richness to your analysis. Think of them as lenses that help ensure that you did not miss anything important.