Worksheet 3

Internal Analysis

In order to carry out an internal analysis, it is necessary to relate a business to its competitive environment. Complete the exercises below to determine which assets are most critical for the success of a chosen business.

Exercise 1 – Strategy Canvas

A strategy canvas is a useful tool that will help you to consider a business’s strategic position in terms of its competitive environment.

1. Select an industry and list the attributes important to buyers within it. Please note the factors that are important to buyers may not always be obvious and therefore this exercise may require some creative, lateral thinking. Getting to grips with these factors can be key to understanding the most critical factors for success within a client’s business.

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1. Strategy Canvas

On the next page insert the attributes important to buyers (listed above) on the x-axis. Next, select a business within this industry and draw a strategy canvas for it - comparing it with at least one of its competitors.

When you draw the strategy canvas remember: The horizontal axis captures the range of factors that are important to the buyers and the vertical axis captures the level of investment in those factors. A high score means that an organisation offers buyers more, and hence invests more in that factor. In the case of price, a higher score indicates a higher price.

High

Low

Range of factors that the industry competes on

Exercise 2:

Select the most appropriate strategy(ies) for dealing with each of the forces within this industry:

**Buyer Power**

* + Differentiate products / services from those of competitors (e.g. Paccar)

Specify means for differentiation……………………………………………………………………………

* + Market to end user in order to put pressure on buyers (e.g. Intel)
  + Purchase a competitor (e.g. TUI Travel owns First Choice and Thompson)
  + Form a consortium with other competitors (e.g. farmers to reduce supermarket power)
  + Tie buyers in with long term agreements (e.g. Gym Membership)
  + Increase customer loyalty / make switching more difficult (e.g. Nectar card / Boots card)
  + Provide lowest price offering whilst maintaining margin (e.g. Ryan Air, Stagecoach)
  + Exploit demand side economies of scale (e.g Facebook, ebay, Twitter)
  + Make it difficult for buyers to compare prices (e.g. Mobile Providers), avoid price comparison sites (e.g. Direct Line Insurance)

Specify any other possible strategies for reducing Buyer Power:

1 ……………………………………………………………………………

2 …………………………………………………………………………..

3 …………………………………………………………………………..

**Supplier Power**

* + Outsource manufacturing to where it is cheaper (e.g. Manufacturing to Asia)
  + Develop Automated Manufacturing Processes (e.g. Electronics - Japan)
  + Standardise specifications for parts to make supplier switching easier (e.g. car manufacturing)
  + Purchase a supplier (vertical integration)(e.g. Cobra Beer, TUI Travel)
  + Search for lowest cost suppliers (e.g. Lidl)
  + Bind-in suppliers and prevent them from working with competitors (e.g. exclusivity agreements, restrictive covenants, garden leave clauses)
  + Maximise resource utilisation (e.g. Southwest Airlines)
  + Efficient Supply Chain Management (e.g. Tesco, Primark)
  + Grow the business (organically / acquisition) & generate supply side economies of scale (e.g. Pepsi)
  + Buy and sell derivatives to secure dependable prices (e.g. energy/commodities)
  + Get the end users to go to work for you (e.g. Supermarket self-checkout, Amazon Customer reviews, IKEA self-selection, transport and assembly)

Specify any other possible strategies for reducing Supplier Power:

* 1 ……………………………………………………………………………
* 2 …………………………………………………………………………..
* 3 …………………………………………………………………………..

**Competitive Rivalry**

*(note that several of these strategies have been taken from the Buyer Power and the Supplier Power strategies. This is because, as well as dealing with these specific profit constraints, these strategies will also provide a business with a competitive advantage.)*

* Develop an industry standard (e.g. Qualcomm, Microsoft, Google (Android))
* Protect IP (e.g. patent registration)
* Retaliation Tactics (e.g. sell at loss to price competition out of market)
* Form alliances with linked / complimentary businesses/organisations (e.g. Games developers)
* Differentiate products / services from those of competitors (e.g. Paccar)

Specify means for differentiation……………………………………………………………………………

* + Purchase a competitor (e.g. TUI Travel owns First Choice and Thompson)
  + Tie buyers in with long term agreements (e.g. Gym Membership)
  + Increase customer loyalty / make switching more difficult (e.g. Nectar card / Boots card)
  + Provide lowest price offering whilst maintaining margin (e.g. Ryan Air, Stagecoach)
  + Exploit demand side economies of scale (e.g Facebook, ebay, Twitter)
  + Make it difficult for buyers to compare prices (e.g. Mobile Providers), avoid price comparison sites (e.g. Direct Line Insurance)
  + Outsource manufacturing to where it is cheaper (e.g. Manufacturing to Asia)
  + Develop Automated Manufacturing Processes (e.g. Electronics - Japan)
  + Standardise specifications for parts to make supplier switching easier (e.g. car manufacturing)
  + Purchase a supplier (vertical integration)(e.g. Cobra Beer, TUI Travel)
  + Search for lowest cost suppliers (e.g. Lidl)
  + Bind-in suppliers and prevent them from working with competitors (e.g. exclusivity agreements, restrictive covenants, garden leave clauses)
  + Maximise resource utilization (e.g. Southwest Airlines)
  + Efficient Supply Chain Management (e.g. Tesco, Primark)
  + Grow the business (organically / through acquisition) & generate supply side economies of scale (e.g. Pepsi)
  + Buy and sell derivatives to secure dependable prices (e.g. energy/commodities)
  + Get the end users to go to work for you (e.g. Supermarket self-checkout, Amazon Customer reviews, IKEA self-selection, transport and assembly)

Specify any other possible strategies for reducing Competitive Rivalry:

* 1 ……………………………………………………………………………
* 2 …………………………………………………………………………..
* 3 ………………………………………………………………………….

**Threat of New Entrants**

* + Protect IP (e.g. patent registration)
  + Tie up raw materials / Take on the best employees (e.g. Google)
  + Tie up channels with exclusivity agreements (e.g. Southwest Airlines)
  + Develop an industry standard (Qualcomm, Microsoft, Google (Android))
  + Exploit Demand Side Economies of Scale (e.g. Facebook, ebay, Twitter)
  + Exploit Supply Side Economies of Scale (e.g. Pepsi)
  + Retaliation Tactics (sell at loss to price new competition out of market)
  + Form alliances with linked / complimentary products (e.g. Games developers)

Specify any other possible strategies for reducing the Threat of New Entrants:

* 1 ……………………………………………………………………………
* 2 …………………………………………………………………………..
* 3 ………………………………………………………………………….

**Threat of Substitutes**

* + Accentuate differences through marketing and advertising (e.g Train over Car)
  + Adopt benefits provided by substitutes (e.g. Southwest Airlines – frequent departures, B&Q – as easy to install yourself as to use builders but cheaper)
  + Enhance product features to ensure substitute is not determined to be a valid replacement (e.g. David Lloyd / Holmes Place (fitness classes, restaurant bar, swimming pool, beauty spa))
  + Customer tie-ins / Create loyalty (e.g. David Lloyd, Holmes Place - gym membership contracts)

Specify any other possible strategies for reducing the Threat of Substitutes:

* 1 ……………………………………………………………………………
* 2 …………………………………………………………………………..
* 3 …………………………………………………………………………

Exercise 3 – The Key Asset Map

Enter at least one of the strategies selected on the previous pages into the Strategy Selection box (on the right hand side below) and specify which assets (in terms of its physical, financial, human resources, organizational assets (IP and third party agreements) and organizational processes) need to be in place in order to execute this strategy by completing the Key Asset Map in the left hand box below.

**Step 4 – Functional Strategies**

**Tool: Key Asset Map**

**Step 3 – Business Strategies**

**Tool: Strategy Selection**

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