Internal Business Environment - Analysis

Lecture 6 / 06.04.2023
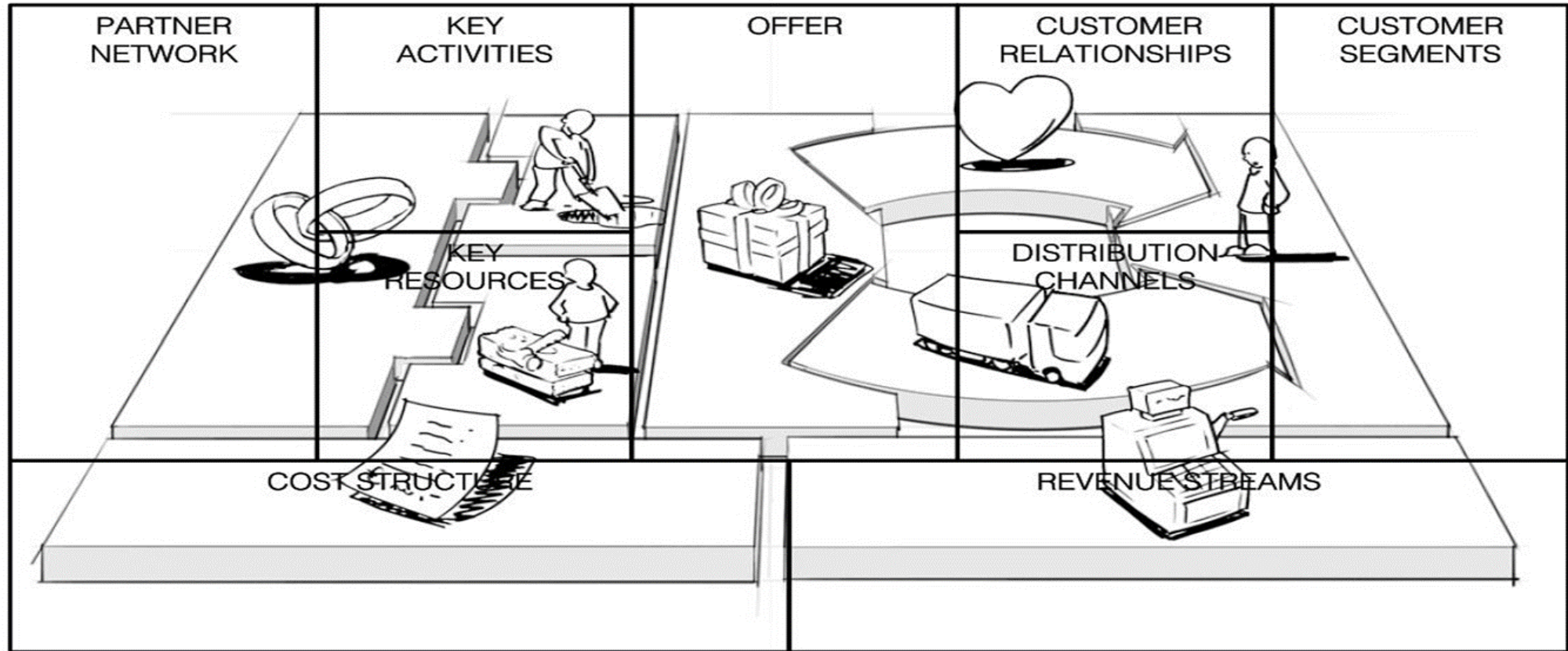
Lucie Reczková

Lecture outline
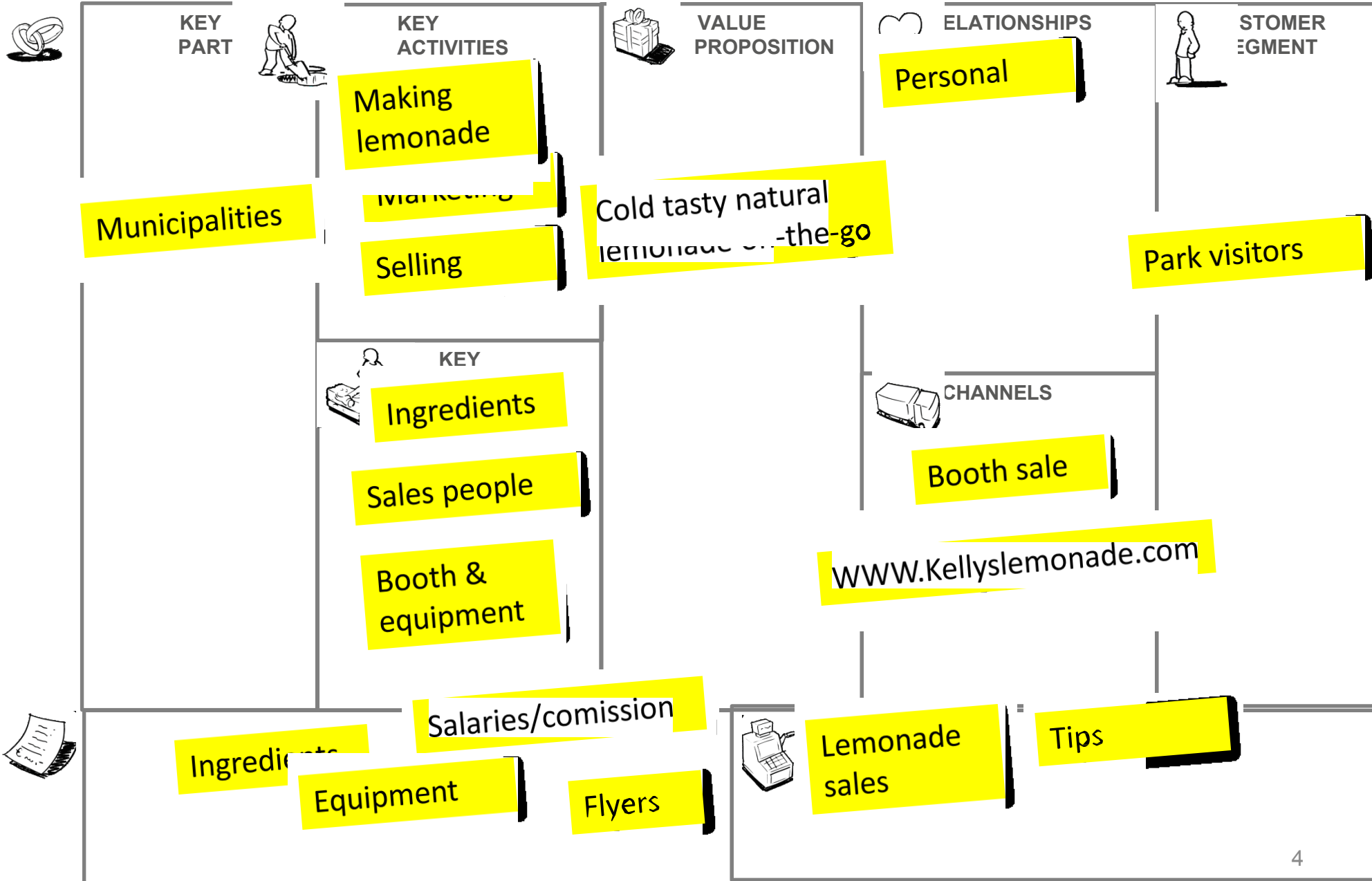
❖ Business model canvas - examples

❖ Porter's Value chain analysis

❖ VRIO analysis

❖ McKinsey 7S model

❖ Stakeholders analysis

❖ Portfolio analysis

❖ SWOT analysis

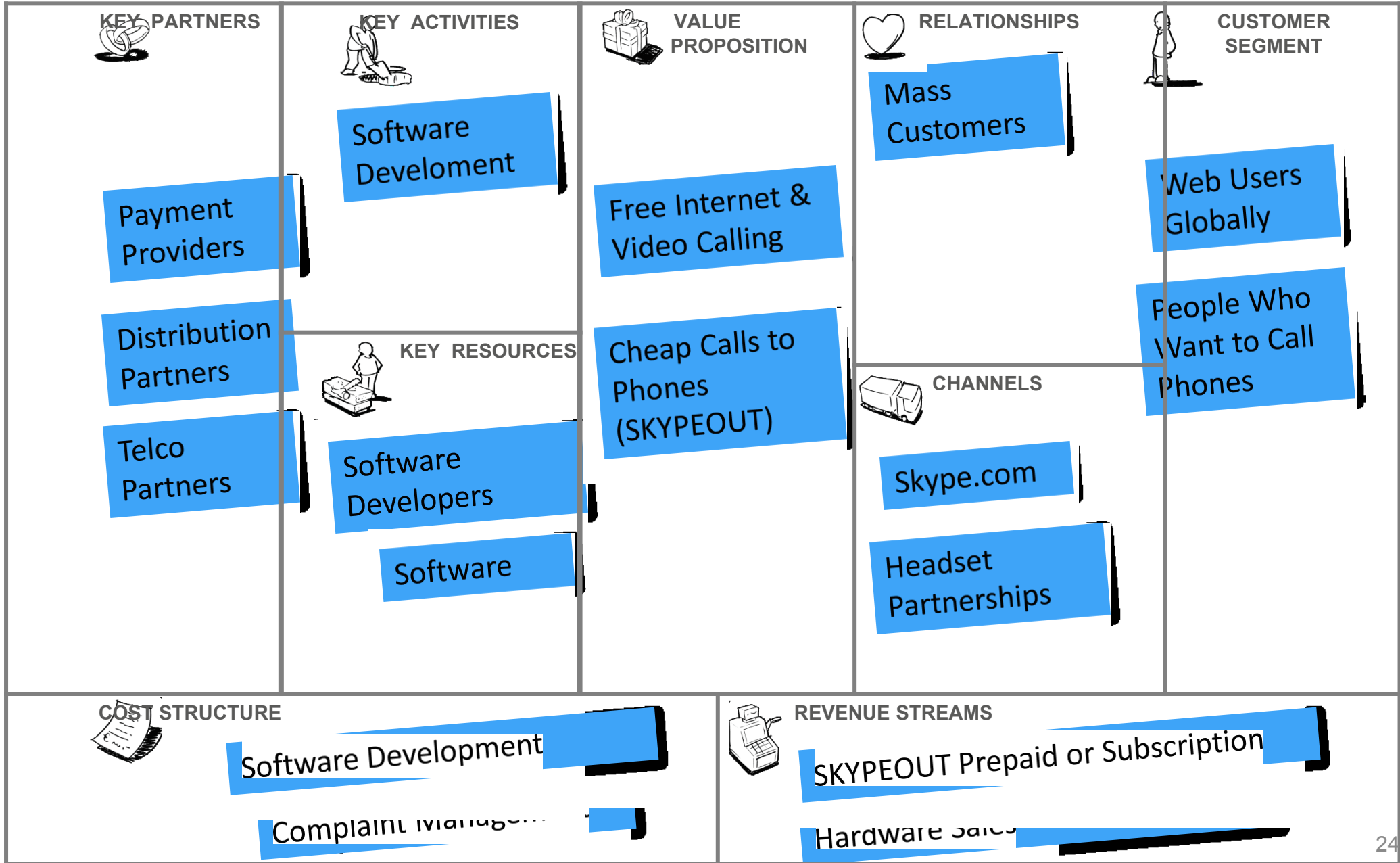❖ Exercise on Business model canvas

Business model canvas and lean canvas

drawings by JAM

Kelly's Lemonade Stand: Refreshing Lemonade

KEY PART

Municipalities

KEY ACTIVITIES

Making lemonade

Marketing

Selling

KEY

Ingredients

Sales people

Booth & equipment

VALUE PROPOSITION

Cold tasty natural lemonade on-the-go

RELATIONSHIPS

Personal

CUSTOMER SEGMENT

Park visitors

CHANNELS

Booth sale

WWW.Kellyslemonade.com

Salaries/comission

Ingredients

Equipment

Flyers

Lemonade sales

Tips

Skype

KEY PARTNERS

Payment Providers

Distribution Partners

Telco Partners

KEY ACTIVITIES

Software Develoment

KEY RESOURCES

Software Developers

Software

VALUE PROPOSITION

Free Internet & Video Calling

Cheap Calls to Phones (SKYPEOUT)

RELATIONSHIPS

Mass Customers

CHANNELS

Skype.com

Headset Partnerships

CUSTOMER SEGMENT

Web Users Globally

People Who Want to Call Phones

COST STRUCTURE

Software Development

Complaint Management

REVENUE STREAMS

SKYPEOUT Prepaid or Subscription
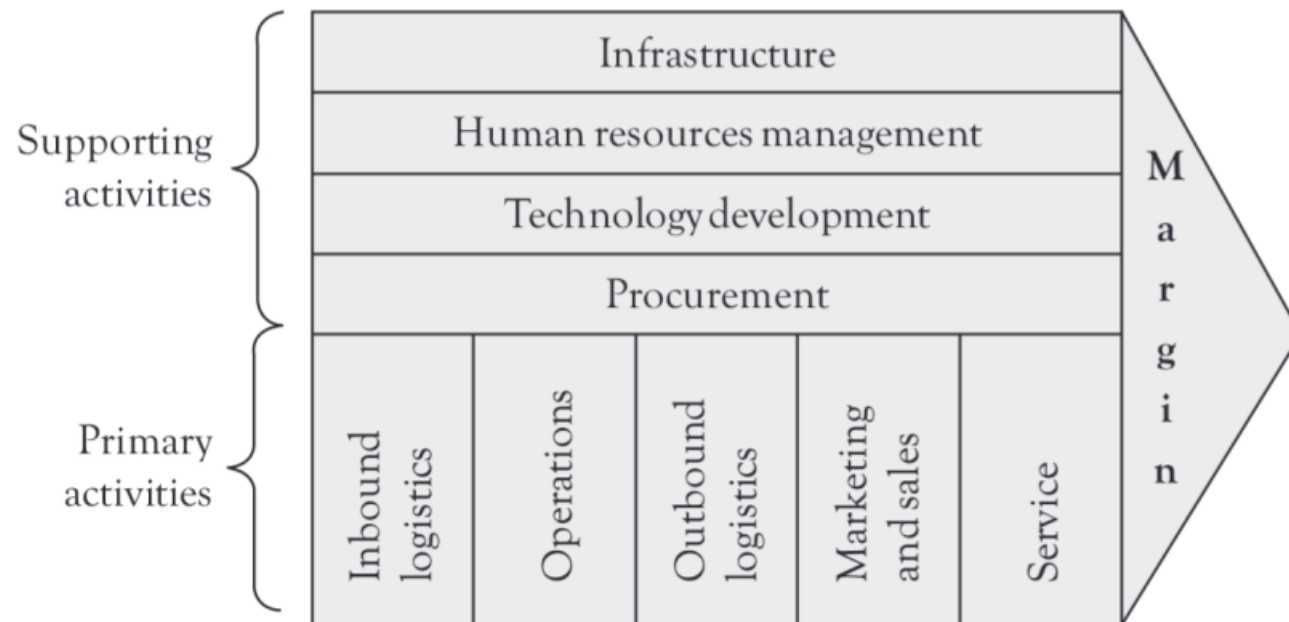
Hardware Sales

24

Value chain

- Companies create value by taking materials or ideas and produce them to create something for which they can charge a price that covers the costs of the conversion.

- The value chain is the way that materials enter the company and move through each stage while increasing the product in value.

Porter's Value chain analysis

- It identifies 9 generic activities into four support activities and five primary activities.

- Support activities: firm's infrastructure, human resource management, technology development, and procurement.

- Primary activities: inbound logistics, operations, outbound logistics, marketing and sales, and customer service.

- The main goal is to realize a suitable margin form the activities the company undertakes to deliver their products or services to the customer.

Presutti, W. D. & Mawhinney, J. (2013). Understanding the dynamics of the value chain. Business Expert Press

Porter's Value chain analysis

Presutti, W. D. & Mawhinney, J. (2013). Understanding the dynamics of the value chain. Business Expert Press

Porter's Value chain analysis

- This model emphasize the importance of linkages.

- The linkages are horizontally among companies' internal activities and

- Vertically among suppliers, channel members, and customers.

- The linkages represent relationships between the way one value activity is performed and the cost or performance of another.

Presutti, W. D. & Mawhinney, J. (2013). Understanding the dynamics of the value chain. Business Expert Press

Porter's Value chain analysis

- Value chain analysis involves the following three steps:

1. Examine each product line's value chain in terms of the various activities involved in producing that product or service.

2. Examine the "linkages" within each product line's value chain: Linkages are the connections between the way one value activity (for example, marketing) is performed and the cost of performance of another activity (for example, quality control).

3. Examine the potential synergies among the value chains of different product lines or business units: Each value element, such as advertising or manufacturing, has an inherent economy of scale in which activities are conducted at their lowest possible cost per unit of output. If a particular product is not being produced at a high enough level to reach economies of scale in distribution, another product could be used to share the same distribution channel.

Presutti, W. D. & Mawhinney, J. (2013). Understanding the dynamics of the value chain. Business Expert Press

VRIO analysis

Ability to perform at a higher level than others in the same industry or market through gained attributes and resources

❖ developed by Barney (1995) to identify strategically valuable resources.

❖ The VRIO Model is part of the Resource-Based View (RBV), which is a perspective that examines the link between a company's internal characteristics and its performance.

❖ The analysis builds on the basic ideas of the resource-based view (RBV).

❖ Resources are valuable for the organization if they contribute to sustain **competitive advantage** and these resources are the acronyms of VRIO:

➤ **V for value** – able to create customer value

➤ **R for rarity** – resources are rare

➤ **I for imitability** – imperfectly imitable and substitutable

➤ **O for organization** – company has to be organized in such a way that it can fully exploit the potential of its strategic resources.
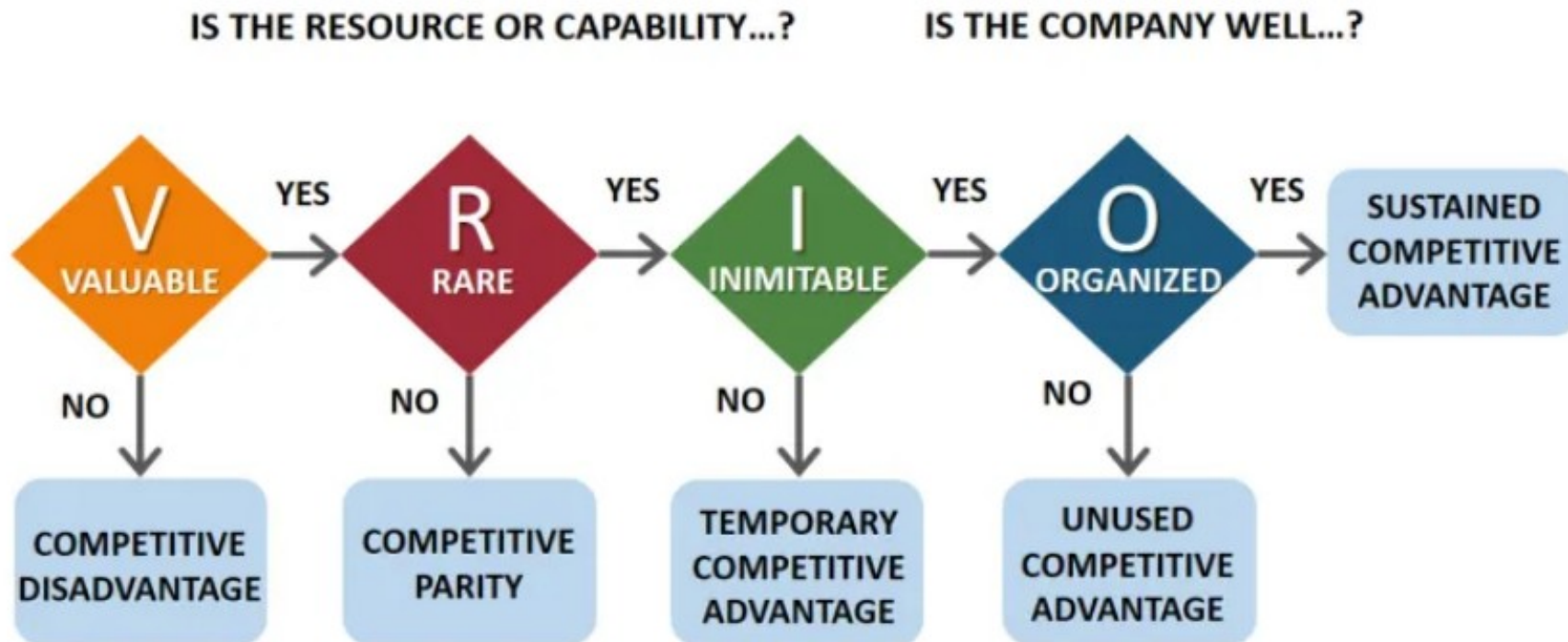
Grünig, R., & Kühn, R. (2015). Strategieplanungsprozess : Analysen, optionen, projekte : analyses, options, projects. Springer.

https://www.business-to-you.com/vrio-from-firm-resources-to-competitive-advantage/

VRIO analysis

Types of resources used in VRIO analysis:

❖ Tangible assets – plants, computer hardware, financial resources

❖ Intangible assets – information, legal rights (brands, patents, licences etc.), image of the company name and brand, company reputation

❖ Processes – production and development

❖ Individual human resources – knowledge and skills of managers and employees

❖ Collective human resources – features of corporate culture, quality competencies, procurement and marketing competencies.

Grünig, R., & Kühn, R. (2015). Strategieplanungsprozess : Analysen, optionen, projekte : analyses, options, projects. Springer.

https://www.business-to-you.com/vrio-from-firm-resources-to-competitive-advantage/

VRIO analysis

IS THE RESOURCE OR CAPABILITY...?   IS THE COMPANY WELL...?

V VALUABLE — YES → R RARE — YES → I INIMITABLE — YES → O ORGANIZED — YES → SUSTAINED COMPETITIVE ADVANTAGE

V NO → COMPETITIVE DISADVANTAGE

R NO → COMPETITIVE PARITY

I NO → TEMPORARY COMPETITIVE ADVANTAGE

O NO → UNUSED COMPETITIVE ADVANTAGE

McKinsey 7s framework

❖ Developed by McKinsey consultancy company as an indicator of the health of the company

❖ The model is useful to carry out an audit of the company to find out where its weaknesses and strengths lie.

❖ It points to where the focus of attention should lie and it is considered as a step beyond SWOT analysis.

❖ It consists of 3 hard elements, that are easier to define or identify and management can directly influence them – strategy, structure and systems, and

❖ 4 soft elements, these can be more difficult to describe, because are less tangible and more influenced by culture – skills, style, staff and shared values.

Hague, P. (2019). The business models handbook : Templates, theory and case studies. Kogan Page, Limited.

McKinsey 7s Model

Designed by soniasparkles.com

Strategy
Building a competitive advantage

- What is our strategy?
- How do we achieve our objectives?
- How do we deal with competitive pressures?
- How do we meet our populations needs?

Structure
Creating dynamic + powerful teams

- How are teams and departments set up in the organisation?
- What is the hierarchy set up?
- How do departments co-ordinate?
- Is decision making centralised?
- Are lines of communication explicit?

Style
Developing leadership across all levels

- How participative is management/ the leadership style?
- How effective is this leadership?
- Are staff competitive or cooperative?
- Are there real teams functioning or are they just nominal groups?

Skills
Utilising and enhancing competencies

KNOWLEDGE   TRAINING
ABILITY   EXPERIENCE
TALENT   LEARNING

- Where are the strongest skills in teams + the organisation?
- Are there any skill gaps?
- What are the strengths of teams?
- Are the right abilities + competencies present + how are skills monitored?

staff
Investing in our workforce
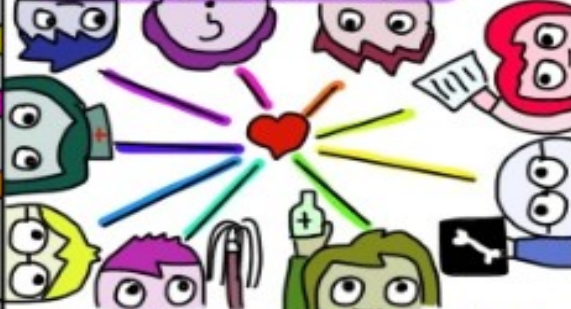
- What positions or specialisations are represented within teams?
- What positions need filling or reviewing?
- What are staff capabilities?
- How are staff recruited, retained, motivated and rewarded?

System
Driving the most efficient systems

- How are different systems (eg - finance, H.R., Divisions) working together to achieve organisation aims?
- Where are controls and how are they monitored + evaluated?
- How are rules + processes used in teams?

Shared values

- What are the core values that run through everything?
- What is our culture?
- Do we live + breathe our values?
- What are the norms+ standards that guide behaviours + influence actions?

Stakeholders analysis

❖ Stakeholder
➢ is any individual or a group of individuals that is affected by a business decision. Stakeholders have the capacity to affect business performance through their decisions and behaviour.

❖ **Internal stakeholders**
➢ are all internal members of a organization: Employees; Directors; Shareholders.

❖ **External stakeholders**
• Customers; Suppliers; Competitors; Politicians; Policy-makers; Community; General public

Stakeholders analysis

- In terms of environmental analysis, organizations need to have an understanding of steps in analysis:

- Who are stakeholders of the organization;
- Nature and level of their interest in the organization;
- Consider whether there are any conflicts between the interests of different stakeholders;
- Power of stakeholders to exert influence – consider in what way and to what extent, each stakeholder exercises power of influence.

Portfolio analysis

Definitions:

- Portfolio analysis could be defined as a set of techniques that help to make strategic decisions with regard to individual products or business in a organization´s portfolio.

- Portfolio analysis is a major activity in strategic planning whereby management evaluates the products and businesses that make up the company

Portfolio analysis

Objective:

- The objective of the analysis is to determine how to allocate resources to each of the product or business in the organization´s portfolio.

- It is primarily used for competitive analysis and corporate strategic planning in multiproduct and multi-business organizations.

The analysis of products or business can be performed by using following **methods:**

1. Boston Consulting Group Matrix - **BCG matrix**;

Portfolio analysis

The analysis of products or business can be performed by using following **methods:**

1. Boston Consulting Group Matrix - **BCG matrix**;

2. General Electric Matrix - **GE matrix**.
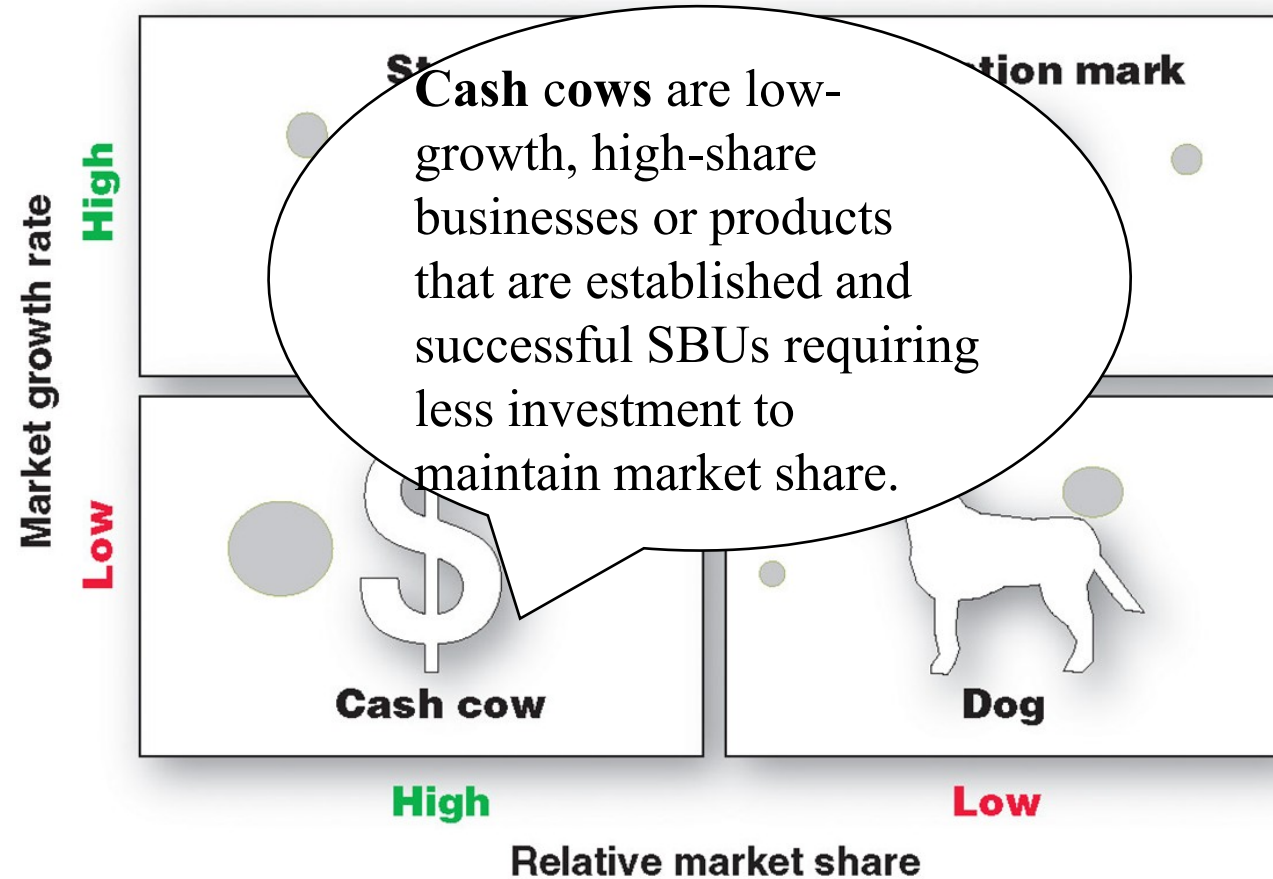
Boston Consulting Group Matrix - **BCG matrix**

- Back in 1968 a clever chap from Boston Consulting Group (BCG), Bruce Henderson, created this chart to help organisations with the task of analysing their product line or portfolio.
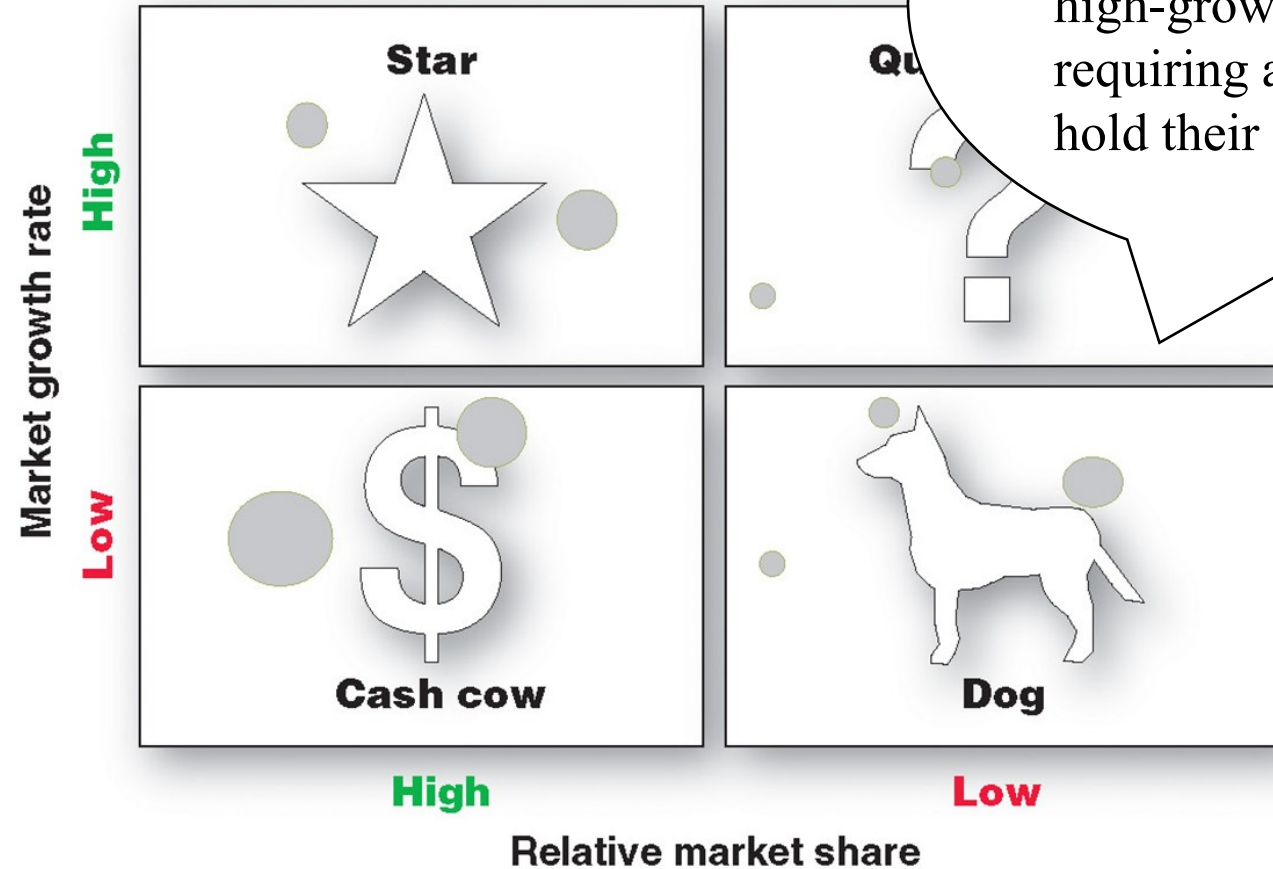
Boston Consulting Group Matrix - **BCG matrix**

Stars are high-growth, high-share businesses or products requiring heavy investment to finance rapid growth. They will eventually turn into cash cows.

Market growth rate

High

Low

Sta...

Cash cow

Dog

High

Low

Relative market share
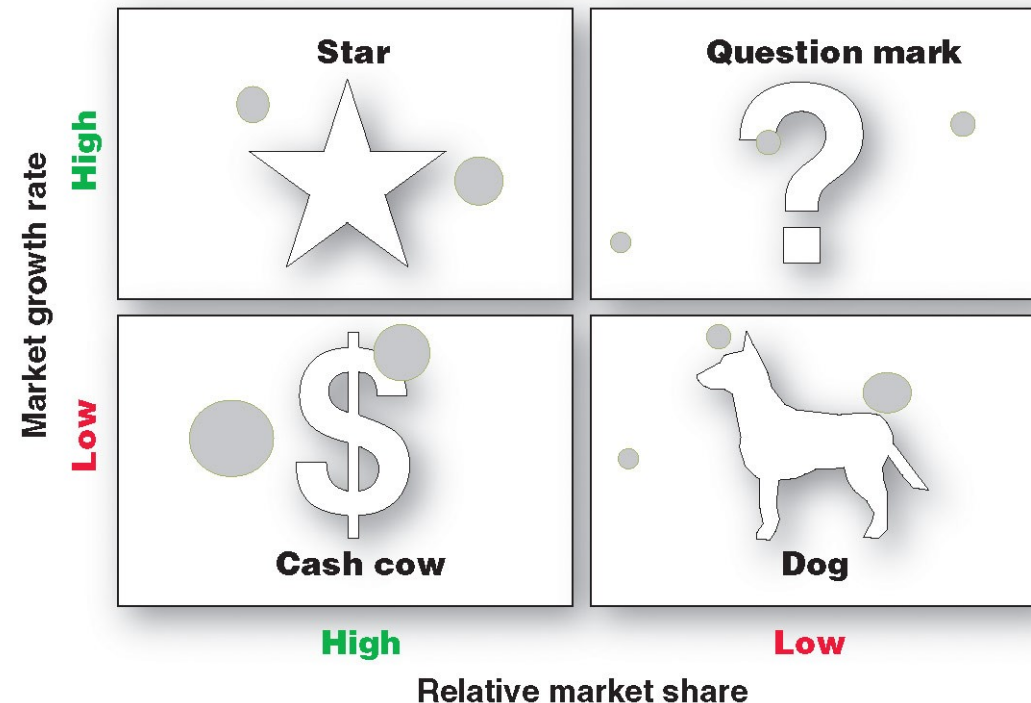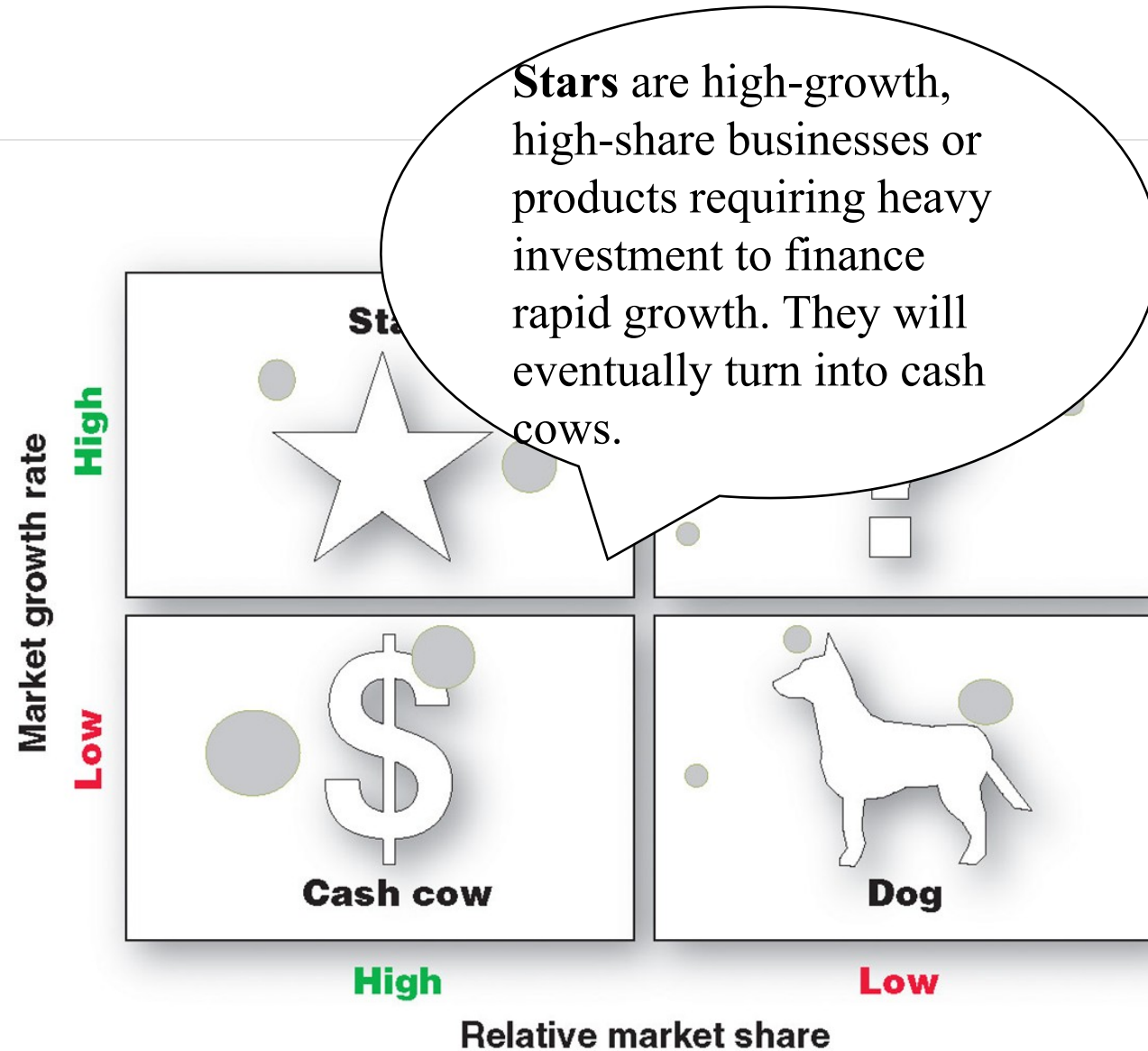
Boston Consulting Group Matrix - **BCG matrix**

# Boston Consulting Group Matrix - **BCG matrix**

Question marks are low-share business units in high-growth markets requiring a lot of cash to hold their share.

Boston Consulting Group Matrix - **BCG matrix**

Dogs are low-growth, low-share businesses and products that may generate enough cash to maintain themselves but do not promise to be large sources of cash.
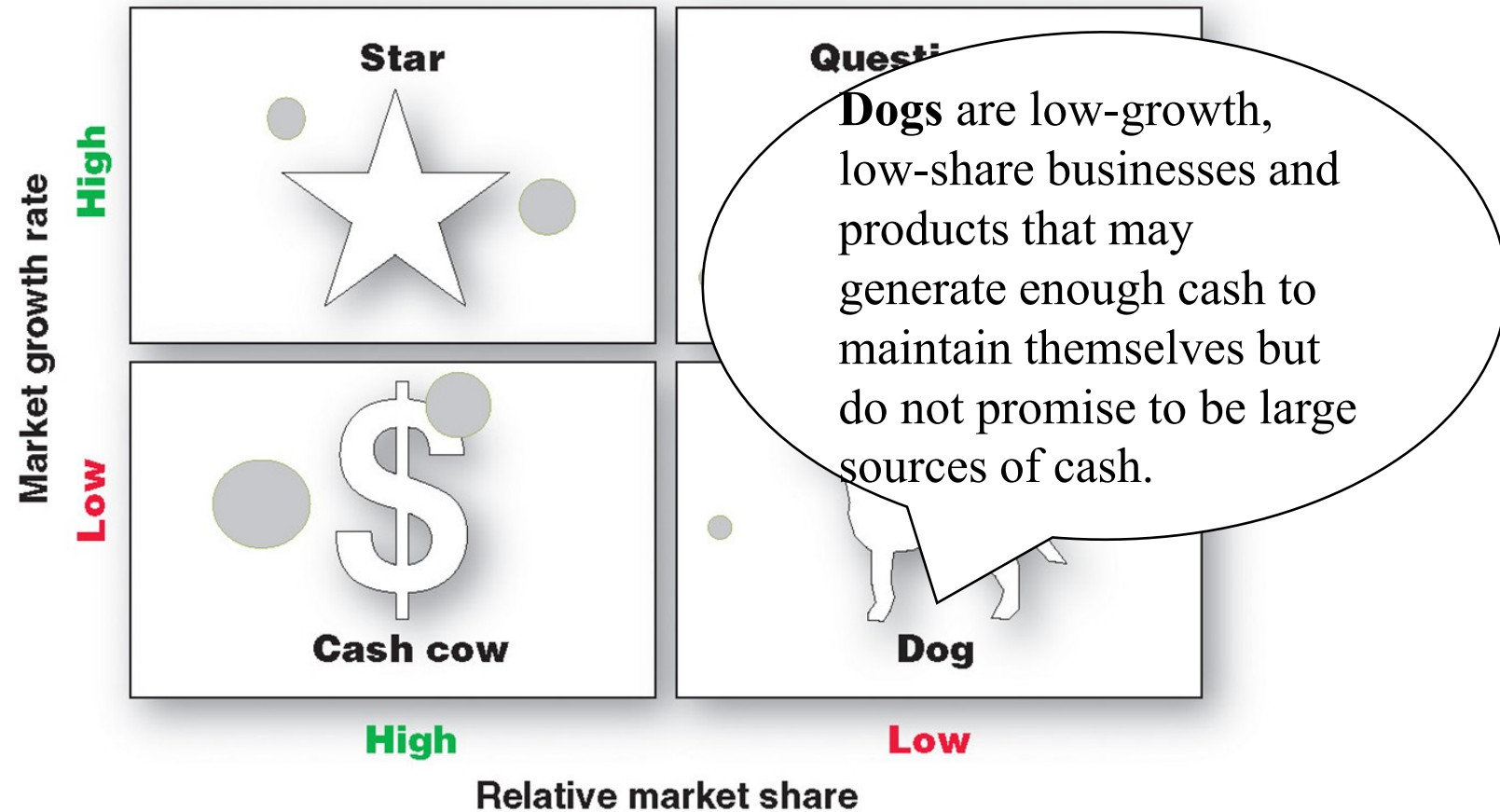
Boston Consulting Group Matrix - **BCG matrix**

Exercise – conduct a portfolio analysis of Apple using BCG matrix
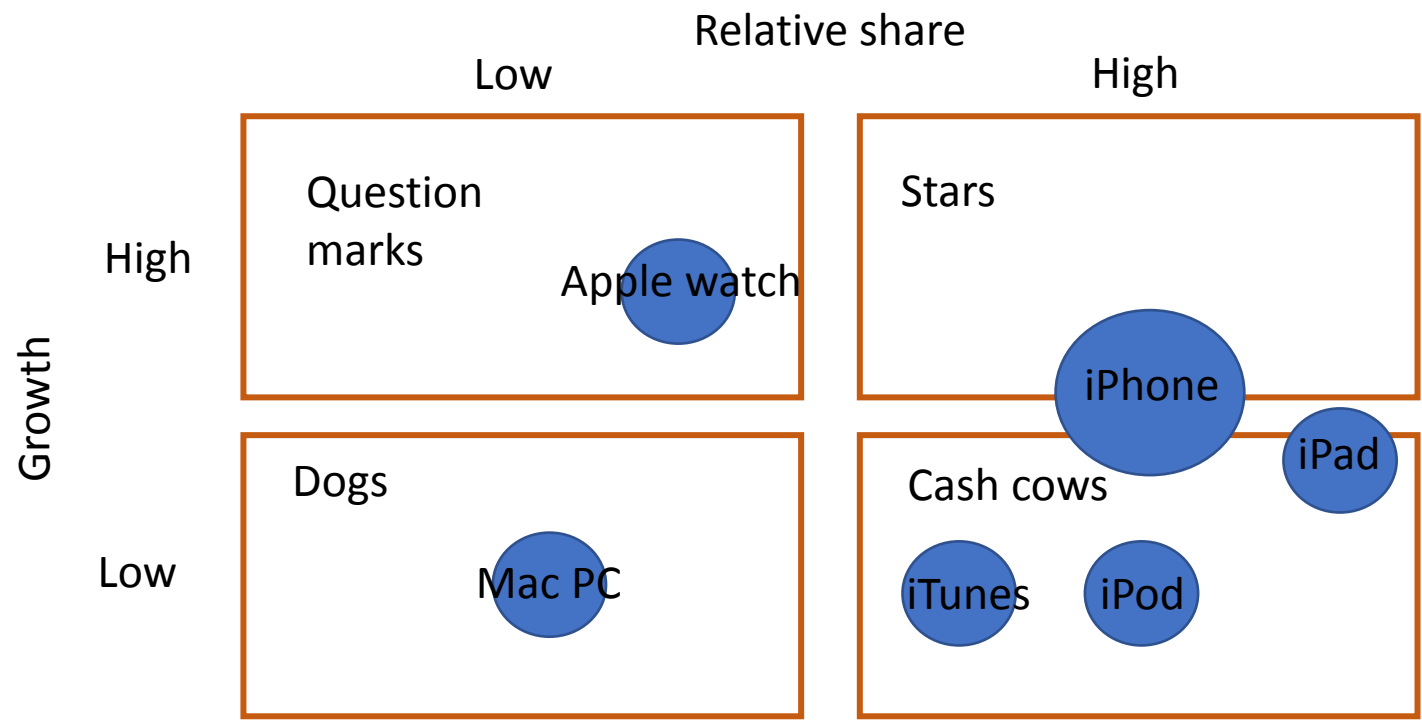
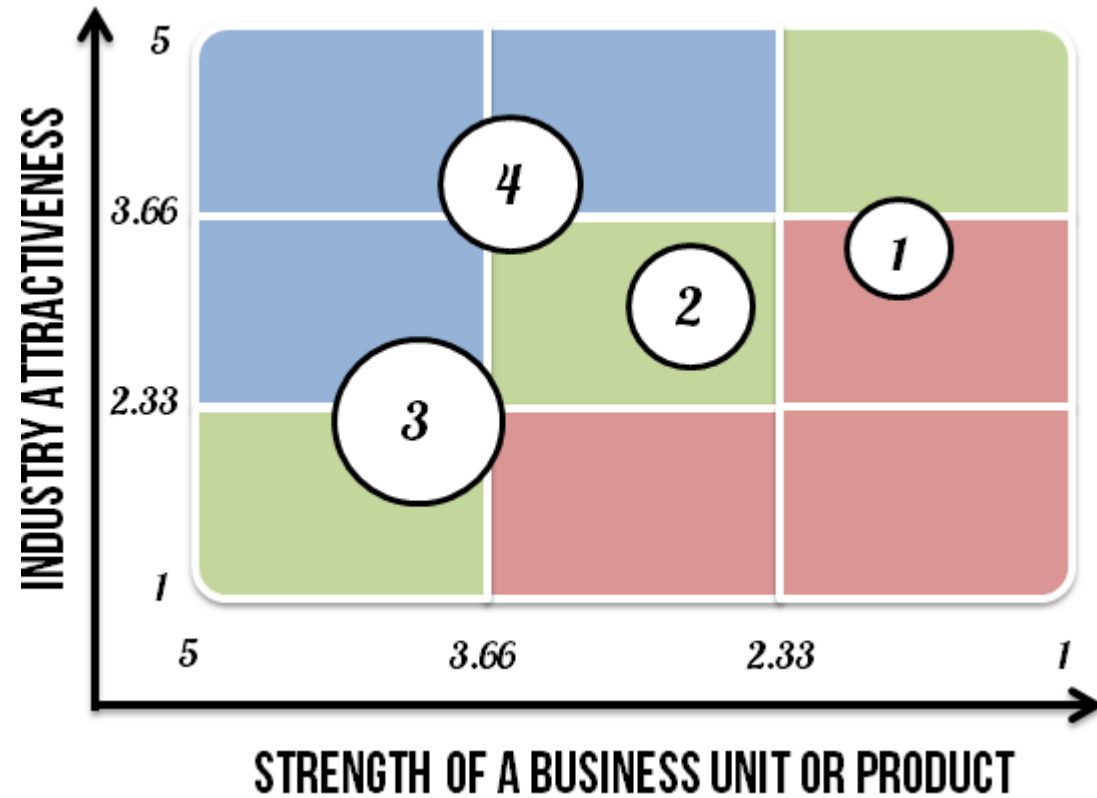# General Electric McKinsey matrix – GE McKinsey matrix

- GE McKinsey matrix is very similar to BCG matrix and as a strategy tool it is used to evaluate business unit portfolio and helps to prioritise the investment needed for each business unit.

- GE matrix is a nine cell matrix and is more sophisticated the BCG matrix – the matrix has multicriterial character.

- The organization´s products or business units are evaluated on two axes: Industry attractiveness and Competitive strength.

- There are three groups of boxes (three fields) in GE matrix:

- Investment/growth;

- Selectivity/earnings;

- Harvest/divest boxes.

https://strategicmanagementinsight.com/tools/ge-mckinsey-matrix/

General Electric McKinsey matrix – GE McKinsey matrix

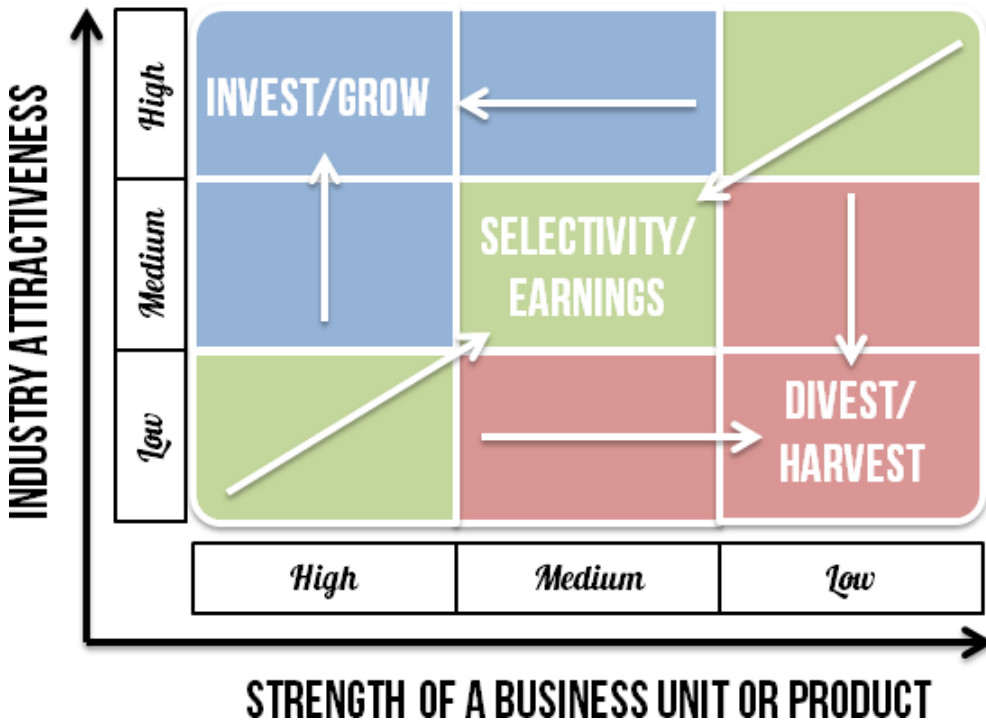Difference between BCG and GE McKinsey matrixes
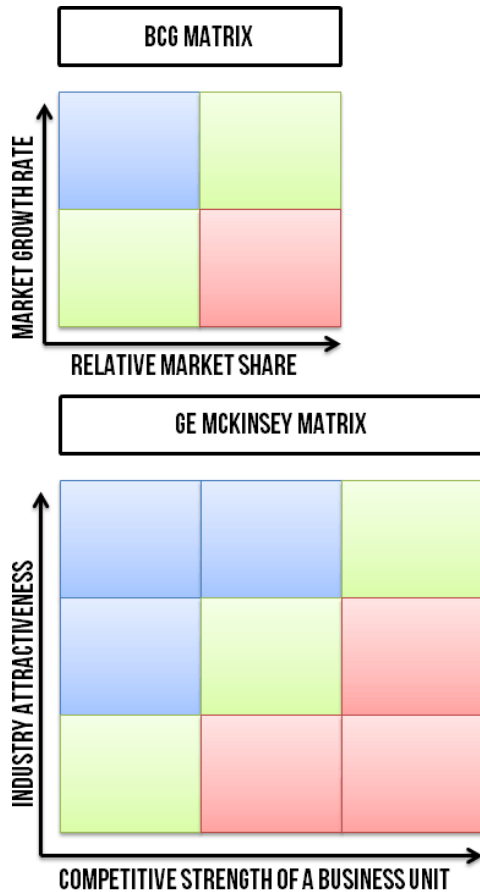
Business unites plotted on the matrix

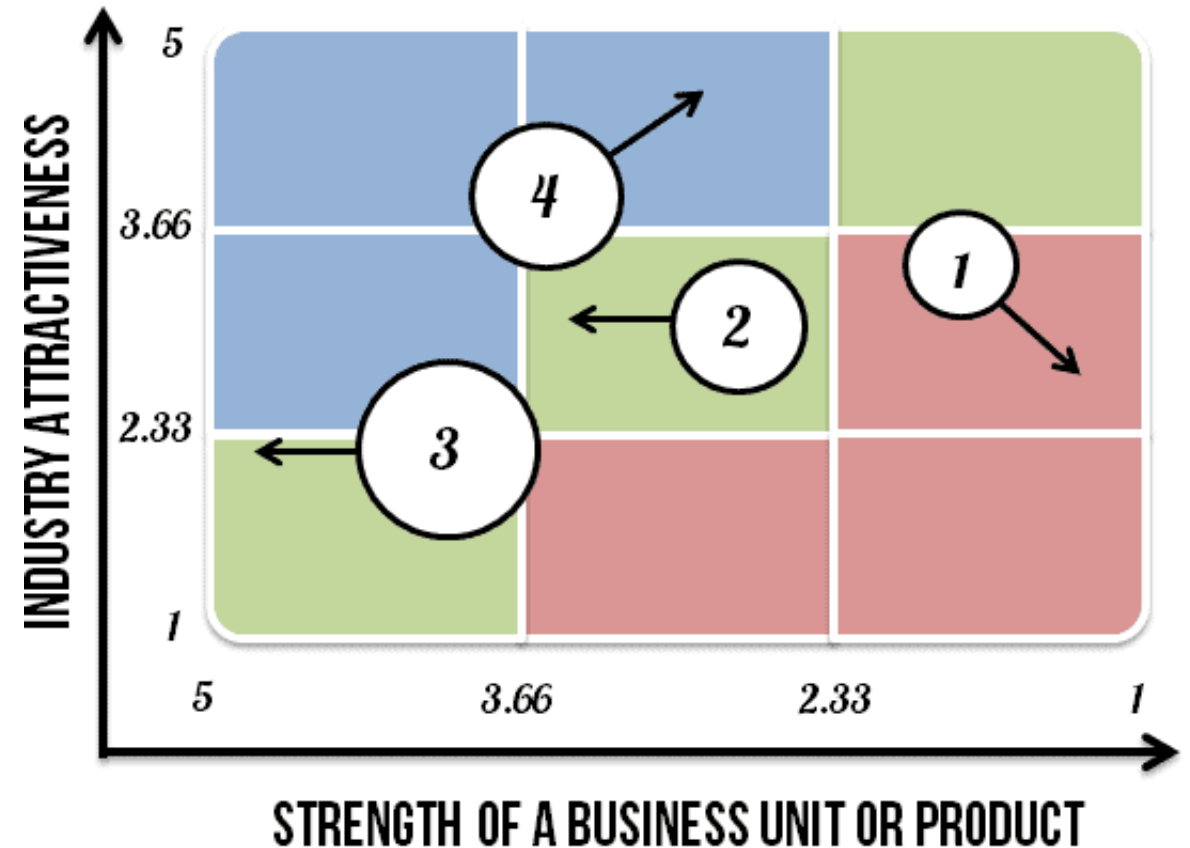# General Electric McKinsey matrix – GE McKinsey matrix

Analysing the information

Prioritise the investments

GE-MCKINSEY MATRIX INVESTMENT IMPLICATIONS

https://strategicmanagementinsight.com/tools/ge-mckinsey-matrix/

General Electric McKinsey matrix – GE McKinsey matrix

- Industry attractiveness indicates how hard or easy it will be for an organization to compete in the market and earn profit.
- Industry attractiveness consists of many factors that collectively determine the competition level in it.
- There´s no definite list of which factors should be included to determine industry attractiveness.

General Electric McKinsey matrix – GE McKinsey matrix

The following are the most common factors inluded in the analysis:

- Long run growth rate;
- Industry size;
- Industry profitability (entry barriers, exit barriers etc.);
- Industry structure;
- Product life cycle changes;
- Changes in demand;
- Trend of prices;
- Macro environment factors;
- Seasonality;
- Availability of labour;
- Market segmentation.

https://strategicmanagementinsight.com/tools/ge-mckinsey-matrix/

General Electric McKinsey matrix – GE McKinsey matrix

- Competitive strength measures how strong, in terms of competition, a particular business unit (or product) is against its rivals. Managers try to determine whether a business unit has a sustainable competitive advantage.

The **following factors** determine the competitive strength of a business unit:

- Total market share;
- Market share growth compared to rivals;
- Brand strength;
- Profitability of the organization;
- Customer loyalty;
- Resources or capabilities;
- Business unit strength in meeting industry´s critical success factors;
- Strength of a value chain;
- Level of product differentiation;
- Production flexibility.

General Electric McKinsey matrix – GE McKinsey matrix

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https://strategicmanagementinsight.com/tools/ge-mckinsey-matrix/

Steps for performing of GE matrix

1. Determine industry attractiveness of each business unit

- Make a list of factors, assign weights, rate the factors, calculate the total scores.

2. Determine the competitive strength of each business unit

- Make a list of factors, assign weights, rate the factors, calculate the total scores.

3. Plot the business units on a matrix

Steps for performing of GE matrix

4. Analyse the information

- Invest/grow box – organizations should invest into the business units that fall into these boxes.

- Selectivity/earning box – manager should invest into these business units only if manager has the money left over the investments in invest/grow business units group.

- Harvest/divest box – business unit that are operating in unattractive industries.

5. Identify the future direction of each business unit

6. Prioritize investments

Advantages and disadvantages of GE matrix

Advantages

- Helps to prioritize the limited resources in order to achieve the best returns.
- Managers become more aware of how their products or business units perform.
- Identifies the strategic steps the organization needs to make to improve the performance of its business portfolio.

Disadvantages

- Requires a consultant or a highly experienced person to determine industry´s attractiveness and business unit strength as accurately as possible.
- It is costly to conduct.
- It doesn´t take into account the synergies that could exist between two or more business units.

https://strategicmanagementinsight.com/tools/ge-mckinsey-matrix/

SWOT analysis

SWOT analysis combines internal and external analyses of the Strengths and Weaknesses of the organizations coupled with the Opportunities and Threats in the external business environment.
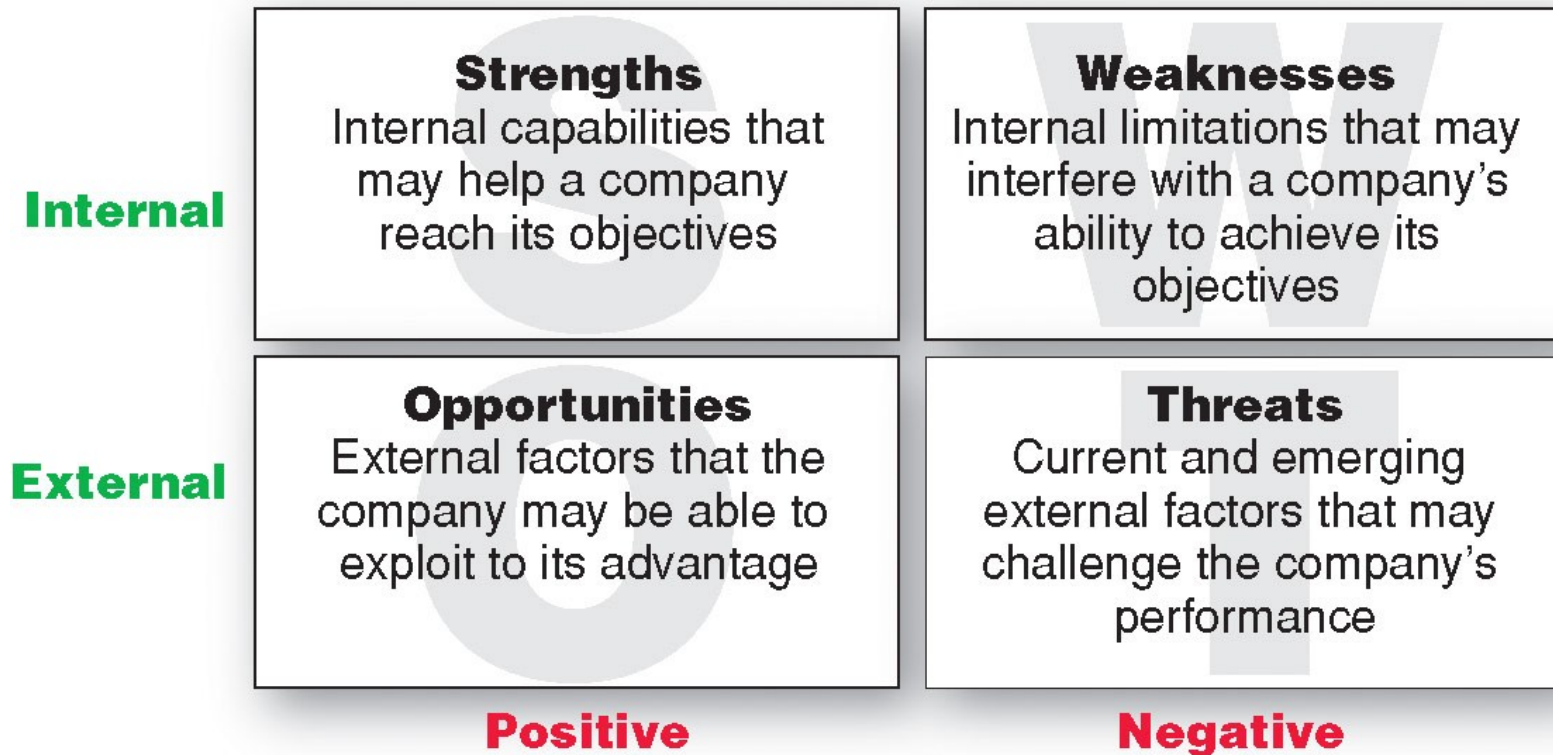
Benefits of SWOT analysis:

- Simplicity;

- Lower costs;

- Flexibility;

- Integration and synthesis;

- Collaboration.

Criticisms against SWOT analysis:

- It allows companies to create lists without serious consideration of the issues;

- It often becomes a sterile academic exercise of classifying data and information.

SWOT Analysis

	Positive	Negative
Internal	**Strengths** Internal capabilities that may help a company reach its objectives	**Weaknesses** Internal limitations that may interfere with a company's ability to achieve its objectives
External	**Opportunities** External factors that the company may be able to exploit to its advantage	**Threats** Current and emerging external factors that may challenge the company's performance

Exercise

❖ Develop a business model canvas for the company of your assignment

➤ identify your customers – you have already done customer segmentation in previous lecture

➤ what is your value proposition

➤ what channels are used for communication?

Etc. use the lecture to continue with the parts of the business model canvas

References

❖ Brooks, I. (2010) The international business environment.: challenges and changes. Pearson Prentice Hall.

❖ Arshed, N., McFarlane, J., & MacIntosh, R. (Eds.). (2016). Enterprise and its business environment. Goodfellow Publishers, Limited.

❖ Worthington, I., Britton, C., & Thompson, E. (2018). The business environment : A global perspective. Pearson Education, Limited.