

## **ANALYZE YOUR BUSINESS –**

### **WHERE ARE YOU NOW AND WHERE DO YOU WANT TO BE**

Once your business is established and running well, you may be inclined to let things continue to run as they are.

However, it's actually time to plan again. After the crucial early stages, you should regularly review your progress, identify how you can make the most of the market position you've established and decide where to take your business next. You will need to revisit and update your business plan with your new strategy in mind and make sure you introduce the developments you've noted.

This guide takes you through this essential process, detailing the stages you should go through to assess how well your business is performing, highlighting your strengths and areas that could be improved and suggesting the actions you need to take to implement the improvements that you've identified.

- **Why it's vital to review the progress of your business**
- **Assess your core activities**
- **Assess your business efficiency**
- **Review your financial position**
- **Conduct a competitor analysis**
- **Conduct a customer and market analysis**
- **Use your review to redefine your business goals**
- **Models for your strategic analysis**
- **Breaking down your strategic review**

#### **Why it's vital to review the progress of your business**

It's easy to focus only on the day-to-day running of your business, especially in the early stages. But once you're up and running, it can pay dividends to think about longer-term and more strategic planning. This is especially true as you take on more staff, create departments within the business, appoint managers or directors and become distanced from the everyday running of the business.

Reviewing your progress will be particularly useful if you feel:

- uncertain about how well the business is performing
- unsure if you're getting the most out of the business or making the most of market opportunities
- your business plan may be out of date, e.g. you haven't updated it since you started trading
- your business is moving in a direction different to the one you had planned
- the business may be becoming unwieldy or unresponsive to market demands

It is also useful if you have decided that your company is ready to move on to another level.

#### **Setting the direction**

A clear business strategy will help to answer any concerns and show practical ways forward.

### **Questions you might want to ask include:**

- What's my direction? To answer this you need to look at where you are now, where you want to go over the next three to five years and how you intend to get there.
- What are my markets - now and in the future? Which markets should I compete in, how will they change and what does the business need in order to be involved in these sectors?
- How do I gain market advantage? How can the business perform better than the competition in my chosen markets?
- What resources do I require to succeed? What skills, assets, finance, relationships, technical competence and facilities do I need to compete? Have these changed since I started?
- What business environment am I competing in? What external factors may affect the business' ability to compete?
- How am I measuring success? Remember, measures of performance may change as your business matures.

It's doubtful whether you will be able to answer these questions on your own - involving your professional advisers, your fellow directors and your senior staff will all help to make your review more effective.

### **Assess your core activities**

A good starting point for your review is to evaluate what you actually do - your core activities, the products that you make, or services that you provide. Ask yourself what makes them successful, how they could be improved and whether you could launch new or complementary products or services.

### **Key questions about your products or services**

#### **It's useful to address these questions:**

- How effectively are you matching your goods and services to your customers' needs? If you're not quite sure what those needs are, you could carry out further market or customer analysis. See the page in this guide on how to conduct a customer and market analysis.
- Which of your products and services are succeeding? Which aren't performing as planned? Decide which products and services offer both a high percentage of sales and high profit margins.
- What's really behind the problems of a product or service? Consider areas such as pricing, marketing, sales and after-sales service, design, packaging and systems during your review. Look for "quick wins" that give you the breathing space to make more fundamental improvements.
- Are you reviewing costs frequently? Are you keeping a close enough eye on your direct costs, your overheads and your assets? Are there different ways of doing things or new materials you could use that would lower your costs? Consider ways in which you can negotiate better deals with your suppliers.

Answering these questions will give you the basis on which to improve performance and profitability.

## **Assess your business efficiency**

Many new businesses work in a short-term, reactive way. This offers flexibility - but can cost time and money as you move from getting the business going to concentrating on growing and developing it.

The best option is to balance your ability to respond rapidly with a clear overall strategy. This will help you decide whether the actions you take are appropriate or not.

At this stage you should ask yourself if there are any internal factors holding the business back, and if so, what can you do about them?

Consider the various aspects of your business in turn.

### **Premises**

- What are your long-term commitments to the property?
- What are the advantages and disadvantages of your current location?
- Do you have room to grow, or the flexibility to cut back if necessary?
- If you move premises, what will be the cost? Will there be long-term cost savings and improvements in efficiency?

### **Facilities**

- If you manufacture products, how modern is your equipment?
- What is the capacity of your current facility compared to existing and forecast demand?
- How will you fund any improvements?
- How do you compare with your competition?

#### Information technology

- What management information and other IT systems do you have in place?
- Will these systems cater for any proposed expansion?
- Will they really make a difference to the quality of product or service your business provides? If they don't, can you change them to make sure they do?
- Do you make best use of technology such as wireless networking and mobile telephony to allow for more flexible working?

### **People and skills**

- Do you have the right people to achieve your objectives?
- Do they know what is expected of them?
- Do you operate a training and development plan?
- Do you pay as well as the competition?
- Do you suffer from high staff turnover? Are staff motivated and satisfied?

### **Professional skills**

- Do you have the right management team in place for growth?
- Do you have the skills available that you need in areas such as human resources, sales and IT?
- Do your staff need new or improved skills or to be retrained?

## Review your financial position

Businesses often fail because of poor financial management or a lack of planning. Often the business plan that was used to help raise finance is put on a shelf to gather dust.

When it comes to your business' success, therefore, developing and implementing sound financial and management systems (or paying someone to do it for you) is vital.

Updating your original business plan is a good place to start.

When reviewing your finances, you might want to consider the following:

- **Cash flow** - this is the balance of all of the money flowing in and out of your business. Make sure that your forecast is regularly reviewed and updated.
- **Working capital** - have your requirements changed? If so, explain the reasons for any movement. Compare this to the industry norm. If necessary, take steps to source additional capital.
- **Cost base** - keep your costs under constant review. Make sure that your costs are covered in your sale price - but don't expect your customers to pay for any business inefficiencies.
- **Borrowing** - what is the position of any lines of credit or loans? Are there more appropriate or cheaper forms of finance you could use?
- **Growth** - do you have plans in place to adapt your financing to accommodate your business' changing needs and growth?

## Conduct a competitor analysis

Now that you have been running your business for a while, you will probably have a clearer idea of your competitors. Gathering more information may cost time, money and effort, but there are many benefits to knowing more about what your competition is doing.

### What you need to know

The type of competitor information that will be really useful to you depends on the type of business you are and the market you're operating in. Questions to ask about your competitors include:

- who they are
- what they offer
- how they price their products
- what the profile and numbers of their customers are compared to yours
- what their competitive advantages and disadvantages are compared to yours
- what their reaction to your entry into the market or any product or price changes might be

You will probably find it useful to do a SWOT (strengths, weaknesses, opportunities, threats) analysis. This will show you how you are doing in relation to the market in general and specifically your closest competitors. See the page in this guide on models for your strategic analysis.

## How to find out more

There are three main ways to find out more about your competitors:

- **What they say about themselves** - sales literature, advertisements, press releases, shared suppliers, exhibitions, websites, competitor visits, company accounts.
- **What other people say about them** - your sales people, customers, local directories, the Internet, newspapers, analysts' reports, market research companies.
- **Commissioned market research** - if you need more detailed information, you might want to commission specific market research.

## Conduct a customer and market analysis

When you started your business, you probably devised a marketing plan as part of your overall business plan. This would have defined the market in which you intended to sell and targeted the nature and geographical distribution of your customers.

From that strategy you would have been able to produce a marketing plan to help you meet your objectives. When you're reviewing your business' performance, you'll need to assess your customer base and market positioning as a key part of the process. You should update your marketing plan at least as often as your business plan.

## Revisiting your markets

A business review offers you the opportunity to stand back from the activity outlined in your plan and look again at factors such as:

- changes in your market
- new and emerging services
- changes in your customers' needs
- external factors such as the economy, imports and new technology
- changes in competitive activity

Asking your customers for feedback on your business' performance will help to identify where improvements can be made to your products or services, your staffing levels or your business procedures.

At the same time, it is important to remember that while reviews of this kind can be very effective - they can give your business the flexibility it needs to beat off stiff competition at short notice - it is important to think through the implications of any changes. In the new phase of your business you'll need to plan your finances and resourcing carefully at all times.

## Use your review to redefine your business goals

To remain successful it's vital that you regularly set time aside to ask the following key strategic questions:

- Where is the business now?
- Where is it going?
- How is it going to get there?

Often businesses are able to work out where they want to go but don't draw up a roadmap of how to get there. If this happens, a business will lack the direction needed to turn even carefully laid plans into reality.

At the end of any review process, therefore, it's vital that **work plans** are prepared to put the new ideas into place and that a **timetable** is set. Regularly reviewing how the new plan is working and allowing for any teething problems or necessary adjustments is important too. Today's business environment is exceptionally dynamic and it is likely that you will need regular reviews, updates and revisions to your business plan in order to maintain business success.

Continuous improvement

In addition, a **simple planning cycle** can greatly enhance your ability to make changes in your business routine if necessary. Good planning helps you anticipate problems and adapt to change more easily.

Expert input

You may find at this stage in your business' development that you need external skills to help you with the changes you have to make. In this case you might consider:

- employing skilled consultants in areas where you cannot afford to develop in-house skills
- appointing an experienced non-executive director who can provide a regular, impartial assessment of what you are doing
- using a management consultant to help you identify how you can strengthen or change your management structure to grow the business

## Models for your strategic analysis

There are a number of useful business-analysis models that may help you think more strategically about your business.

The **SWOT analysis** (strengths, weaknesses, opportunities, threats) is one of the most popular. This involves looking at the strengths and weaknesses of your business' capabilities, and any opportunities and threats to your business. Once you've identified all of these, you can assess how to capitalise on your strengths, minimise the effects of your weaknesses, make the most of any opportunities and reduce the impact of any threats.

Opportunities and threats in the external environment

It's important to remember that opportunities can also be threats - for example, new markets could be dominated by competitors, undermining your position. Equally, threats can also be opportunities -for example, a competitor growing quickly and opening a new market for your product or service could mean that your market expands too.

A SWOT analysis can provide a clear basis for examining your business performance and prospects. It can be used as part of a regular review process or in preparation for raising finance or bringing in consultants for a review.

Once you have collected information on your organisation's internal strengths and weaknesses, and external opportunities and threats, enter this data into a simple table.

|                 |                 |                 |
|-----------------|-----------------|-----------------|
|                 | <b>Positive</b> | <b>Negative</b> |
| <b>Internal</b> | Strengths       | Weaknesses      |
| <b>External</b> | Opportunities   | Threats         |

## **Other tools include:**

**STEEPLE analysis** - a technique for understanding the various external influences on a business – Social, Technological, Economic, Environmental, Political, Legal and Ethical.

**Scenario planning** - a technique that builds various plausible views of possible futures for a business.

**Critical success factor analysis** - a technique to identify the areas in which a business must succeed in order to achieve its objectives.

**The Five Forces** - the theory that there are five defined factors that influence the development of markets and businesses - potential entrants, existing competitors, buyers, suppliers and alternative products/services. Using this model you build a strategy to keep ahead of these influences.

## **Breaking down your strategic review**

As owner-manager of your business or as a member of its management team, you should stand back once in a while and review your business' performance.

### **The areas you need to look at are:**

- **Your market performance and direction** - how well you are performing through your sales results, which markets to aim for next and how to improve your performance.
- **Your products and services** - how long your existing products will meet your customers' needs and any plans for renewal.
- **Operational matters** - your premises, your methods, technologies used, your processes, IT and quality. Are there any internal issues that are holding your business back?
- **Financial matters** - how your business is financed, levels of retained profit, the sales income generated and your cash flow.
- **Your organisation and your people** - your structures, people planning issues, training and development.

### **Next steps**

The five steps above will give you a clear indication of any issues that you need to address quickly in order to maintain your business in its early stages.

If you feel all of the areas above are strong, you can start to plan for the next phase and build a cohesive strategy to develop your business. However, if there are areas that need attention, deal with them now so that you can move forward. There are a variety of growth options for every business - it's important that you settle on the right one for you.

Also, once you've isolated your best route for developing your business, you can boost your chances of success by planning it carefully and monitoring your progress against an updated business plan.