

Contents Tool 5

Firm Analysis	76
Purpose	76
Overview	76
People Involved	76
Background Reading	76
Useful Input	77
Introduction	77
What is Firm Analysis	77
Why is Firm Analysis Important to Improving your business	77
How will Firm Analysis Help to Improve Your Business	77
Important Ideas	78
What does our firm look like and how does it behave?	78
Strategic Models for Australian Print Business Orientation	79
The Value Chain – the factory	80
The Value Shop – the problem solver	82
The Value Network – the networker	84
Analysis	85
Which value strategy should I model my business on?	85
Step 1 Outline your activity system	85
Step 2 Identify activities	85
Step 3 Identify values created	86
Step 4 Identify associated costs Diagnostics	86
Step 5 Assess profitability	87
Step 6 Identify key success factors (KSFs)	87
Step 7 Define key performance indicators (KPIs)	88
Step 8 SWOT analysis	89
Step 9 Determine feasible opportunities.	89
Step 10 Determine capabilities.	89
Step 11 Strategic Windows and Contingency Plans	90
Step 12 Identify priorities.	90
Step 13 Draft action plans.	91

Firm Analysis

Purpose

The purpose of this Tool is to assist in the study and understanding of your company.

Overview

After working through this Tool you should understand

- what gives you a competitive advantage
- how value is currently created in your business
- how to determine the approach to creating value which best suits your firm
- how to identify emerging value-creating opportunities.

People Involved

Members of your management team who have clear responsibilities for the allocation of resources especially those people who play finance roles. Your company's accountant may also be able to provide valuable direction.

Background Reading

PRINT21 Background Paper 2 Sections 2.1 and 2.3

The main conclusions from the SWOT analysis are summarised in Attachment 4 of the PRINT21 Background Paper 2.

Useful Input

- Any company reports that deal with strategic issues
- Industry statistics to benchmark internal costs against
- Any cost information
- Industry reports
- Research carried out by government bodies
- Research carried out by industry associations.

Introduction

What is Firm Analysis?

This Tool is designed to assist you to:

- analyse the internal operations and production activities of your business
- develop strategies to create more value from production activities.

Why is Firm Analysis important to improving your business?

The power of firm analysis is that it enables you to conduct a critical assessment of the real costs of undertaking various production activities.

How will Firm Analysis Help to Improve Your Business?

Key Points

- Firm analysis is fundamental in understanding value creation and competitive advantage.
- Value creation and competitive advantage are important issues to consider when attempting to understand why some printing companies consistently perform better than other companies over time.
- Competitive advantage is always relative.

This means that all printing companies are either at a competitive advantage or competitive disadvantage relative to other companies that serve the same market. Your relative position of strength revolves around satisfying certain customer groups with products or services in ways that are better than those adopted by your competitors.

- Firm analysis will enable you to identify the major types of value-creating systems and determine which of these systems is most applicable to your business. In doing so, you and your colleagues will be able to better understand why you perform certain activities, the value associated with doing so and the likelihood of being able to combine existing activities or develop new ones. At every stage of firm analysis you should encourage your colleagues to keep fundamental customer needs in mind.

Important Ideas

What does our firm look like and how does it behave?

The importance of business orientation and competitive position.

Your printing company is unique. It consists of various stocks of physical and intellectual capital items that are combined and utilised in discrete ways and your company is shaped by the flows of capital between each of these items.

Your internal environment and your external environment have always played a part in shaping the stocks of capital and the flows between them and your environments will always have these impacts on your business.

A valuable perspective from which to judge the look of your company and its behaviour is in terms of its orientation and its competitive position.

Business orientation refers to the market segments serviced by your firm.

Orientation and competitive position are important starting points to assess value creation.

In order to understand competitive advantage -

..... it is important that you understand how value is created both within your own company and within current and future competitors. It is clear that different ways exist to create and measure value.

From a standard accounting point of view, company performance is assessed in terms of the relationship between incomes and expenses and between assets and liabilities.

Although valuable in guiding your thinking about the performance of your business over time, a standard accounting framework is limited and does not place emphasis on strategic imperatives.

This means that you must be able to measure and control the incomes and costs of your printing business. However, in order to have an impact on your competitive position you must be able to understand the orientation of your business, the drivers behind the activities of your business and the significance of these activities.

In all cases, your thinking should be guided by an understanding of what your customers perceive to be the value of the products and services you provide and other products or services they desire.

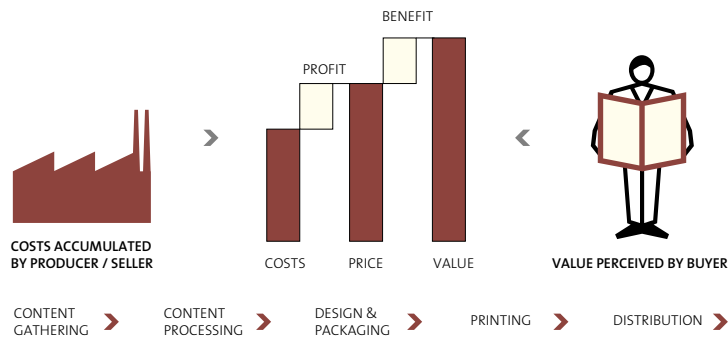
In simple terms -

...total value creation is the difference between value perceived by customers and the costs your business accumulates in producing the product or service.

It follows that -

...the starting point for setting the price of your products or services should be guided by the benefit the customer perceives and not by what it costs you to produce your outputs!

The following picture serves as an illustration -



Strategic Models for Australian Print Business Orientation

There are three types of strategic models for orienting Australian printing businesses to create value from business activities. These are:

- The Value Chain - the factory
- The Value Shop - the problem solver
- The Value Network - the networker.

The following discussion of the attributes of each model is designed to assist you in determining how best to create value from key business activities.

The Value Chain – The factory

The Australian printing industry is typically characterised as a linear chain of interrelated value-creating activities.

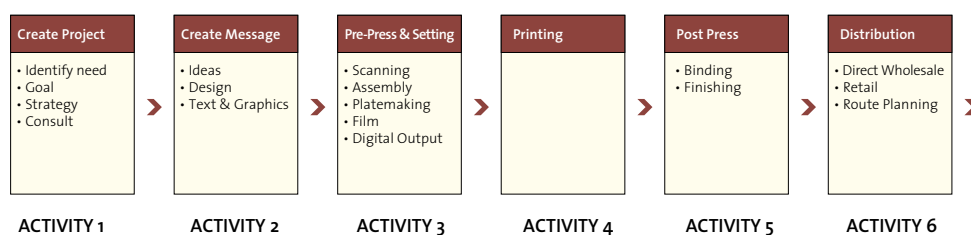
Each activity in the value chain exists to increase the perceived value of a product or service along the chain. Within this model, value is associated with the benefits that customers perceive the product or service imparts.

For example, a value chain associated with the creation of a 16-page commercial four-colour brochure by three or four interdependent companies may involve the following main activities:

- development of the market communication strategy and a creative solution
- design and layout of the brochure including the digitalisation of pictures, illustrations and text
- creation of film
- burning of printing plates
- printing
- finishing
- distribution.

Clearly, these activities follow a linear pattern. Each activity has an output that forms the main input for the next activity in the chain. A description of the traditional value chain for a commercial offset printing company is shown in Figure 5.1 below.

FIGURE 5.1



Except for modifications that come about as a result of market development or technological refinement, the future production of many printing products is likely to follow the same pattern.

The logic underpinning the value chain model is that -

...the product itself is the value transfer medium and that activity involves the transformation of inputs into outputs in a sequential manner.

The key drivers of costs include -

...economies of scale, capacity utilisation and incremental improvement where marginal returns decrease.

Economies of scale essentially means that unit costs can decline as a result of an increase in production volumes – the bigger the production run the cheaper it is to produce each unit. Operations typically expand in size in order to handle increasing volumes of production.

Capacity utilisation basically means that unit costs can decline as a result of an increase in the proportion of capacity that is employed – the more that machine time is used, the cheaper it is to produce each unit.

Incremental improvement refers to the increase in efficiency that comes about as a result of experience – the more that an activity is done, the more that is learned about the activity and the less likely that resources will be wasted.

The key drivers of value, in order, are:

- 1 price
- 2 functionality
- 3 distinctiveness
- 4 mental proximity.

Now here's an important idea to consider -

...because customers are being offered fairly standard products, often from many suppliers there is very little, if anything, that differentiates one offering from another, as a consequence, customers will generally base their decision on price.

Large Australian printing companies have used the value chain model to great effect and are likely to continue to do so.

When adopting a value chain model within your business it is important to recognise that -

...the framework is inherently cost-based and, accordingly, other players know what typical costs to expect. As a result, customers will limit the price that your business can charge and competitors will challenge you to lower your prices.

The Value Shop - The problem solver

There are many valuable customer-focussed products and services, recently developed and offered by the Australian printing industry, which are neither physical nor the results of assembly line thinking.

This is what is known as the value shop model. This strategic model is in line with approaches adopted in the global media and printing industries.

The value-creating logic that underpins the value shop is very different to that underpinning the value chain.

While the value chain is cost-based in its orientation, the value shop is based on -

...value as perceived by the customer.

A business that displays a value shop profile is still engaged in performing a range of activities. However, each activity is clearly performed around the specific needs of the customer.

The focus of the value shop is -

...the understanding of the customer's problem and the solving of that problem to the satisfaction of the customer.

Given that problem solving is essentially an exercise in creativity, a business styled on the value shop model generates and delivers tailored solutions through people.

Print21 - The Printing Industries Action Agenda showed that print customers are increasingly looking for total solutions to their communications needs and are prepared to enter into meaningful relationships with businesses that are able to demonstrate an ability to understand and deliver on those needs.

The mode of technology harnessed to address a customer's communication needs is undoubtedly an important factor, but above all else is the requirement for a customer-focused problem-solving partner.

To run your business as a value shop, you will rely on a mindset and a method of thinking that are far removed from those used to run efficient assembly line operations -

...you will develop a better understanding of your valuable customers, be prepared to explore potential solutions laterally and have the discipline to generate workable outcomes.

By being a problem solver you are less likely to be subject to competitive encounters -

...if your customer is presented with a valuable solution to one of its significant problems it is likely to be willing to pay you well for the development and implementation of that solution.

Given that any solution is tailored and highly specific, your customer will have less incentive to seek alternatives.

It is important however that you monitor and control costs of developing and implementing solutions on behalf of your customers.

The key drivers of costs include economies of scope where marginal returns are increasing.

- Economies of scope essentially means that synergies can be extracted as a result of an increase in product and service types offered – the broader the range of offerings the more valuable is each of the offerings. Operations typically diversify in order to handle increasing products and services.

The key drivers of value, in order, are:

- 1 distinctiveness
- 2 mental proximity
- 3 functionality
- 4 price

Because customers are being offered very different solutions to their problems and, indeed, are typically being offered these solutions from a limited number of suppliers, one offering is likely to be very different from another and, hence, customers will generally base their decision on how distinctive a given solution is.

Obviously, printing companies that dominate niche markets with very distinctive offerings have used the value shop model to great effect to date and are likely to do so in the future.

The Value Network - The networker

The third and final value-creating alternative to consider is the value network.

The networker creates and captures value by linking different types of players together and facilitating an exchange relationship between them.

Being a member of a network makes it possible for any player to influence and be influenced by other members of the network.

The value of any network (and hence the value accruing to its members) is governed by the number and calibre of consumers who buy products and services from the network.

The logic underpinning the value network model is that value resides in the ability to link customers and other players that are interdependent or that wish to be interdependent. These exchange relationships may be distributed across space and over time.

The key driver of costs is network economics.

Network economics basically refers to the ability of a player to identify and facilitate the exchange of value across a network of interdependent players - the better the fit between the players in the network the greater their value individually and collectively. Operations typically specialise and seek complementary offerings to diversify in order to work within a network.

The key drivers of value, in order, are:

- 1 mental proximity
- 2 functionality
- 3 price
- 4 distinctiveness.

Mental proximity: Players need to develop mutual trust and respect with other players within a network in order for the network to operate effectively. Mental proximity, or the ability to relate to another party, is critical in shaping the nature of these relationships.

Functionality is important in determining the extent to which the offerings meet well-defined functional needs.

Distinctiveness: A print broker is an obvious example of a networker that operates within the Australian printing industry. However, printing companies are also able to adopt a networking orientation in identifying and facilitating the exchange of value in the form of products and services.

Analysis

Which value strategy should I model my business on?

The three alternative strategies for value creation require very different things from your company, from those organisations with which you have relationships and from those organisations with which you want to have relationships in the future.

The three strategies also present very different possibilities for the positioning of your business and, hence, the achievement of competitive advantage.

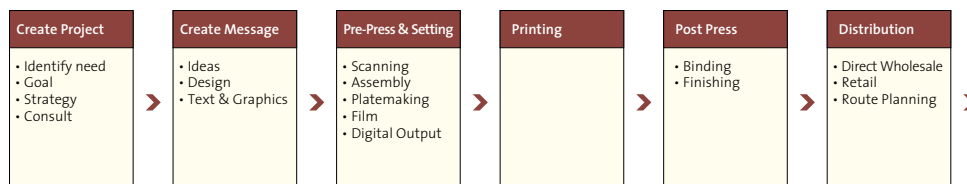
The steps in firm analysis are as follows:

Step 1

Outline your activity system

(What actions do you execute when you carry out your business and how are they interlinked)

FIGURE 5.2



Step 2

Identify activities

Using Figure 5.2 as a guide describe each activity in the activity system.

Activity 1:	
Activity 2:	
Activity 3:	
Activity 4:	
Etc:	

Step 3

Identify values created

Look at each activity in detail and describe the value created in each activity from the different customer segments' point of view.

Activity 1:	
Activity 2:	
Activity 3:	
Activity 4:	
Etc:	

Summarise these values in tabular form in a table similar to Table 5.1 below.

Step 4

Identify associated costs

One highly regarded application of firm analysis is a method of management accounting called Activity Based Costing (ABC). Under this accounting method any printing company is able to carefully dissect its business into discrete, well-defined activities. In this way the company can be described as a series of interdependent activities.

By applying ABC to your business you and your colleagues will be able to effectively determine the true costs involved in performing each activity. ABC enables you to determine the costs associated with servicing particular clients, manufacturing discrete products, offering particular services and running certain departments.

It is recommend that you explore the potential of adopting this accounting method if you are interested in understanding the costs associated with each of your most important tasks.

Look at each activity in detail and describe the costs associated with each activity (fixed, variable, direct and indirect) and summarise in tabular form in a table similar to Table 5.1 below:

TABLE 5.1

Activity	Value to Customer	Associated Cost
Activity 1:	■.....■.....■.....	■.....■.....■.....
Activity 2:	■.....■.....	■.....■.....
Activity 3:	■.....■.....	■.....■.....
Activity 4:	■.....■.....	■.....■.....
Activity x:	■.....■.....	■.....■.....

Step 5

Assess profitability

Profitability associated with each activity is simply revenues less the costs. This is even easier if you use activity based costing. Fill out the box below:

Identify the Values/revenues	Identify Costs of Activities	Access Profitability

Step 6

Identify the key success factors (KSFs) associated with business activities.

The objective of this process is to identify the handful of most meaningful KSFs that are able to lead the respective activities of your business. To be useful these factors must be linked to your strategy and business mission.

Which KSFs?

It is important to recognise that a strategy aimed at reducing delivered cost will have a completely different set of KSFs than a strategy designed to achieve higher perceived value.

Get the best out of KSFs

To derive useful KSFs -

...focus on business activities that have the greatest impact on your delivered costs and/or those activities that have the greatest impact on your customers' perceived value.

TABLE 5.2

Activity	Key Success Factor
Activity 1:	■ ■ ■
Activity 2:	■ ■
Activity 3:	■ ■
Activity x:	■ ■

Step 7

Define the key performance indicators (KPIs) of your business for the elements of your activity chain. KPIs capture desired changes resulting from carrying out an identified action.

These indicators will form part of your measurement system, and will give you an indication of whether or not particular elements of your printing business are generating desirable results.

Translating KSFs into measurable key performance indicators (KPIs) can be fairly simple. However, it is important that you and your colleagues have a clear understanding of what should be measured in order gauge whether your company is on the right track.

The best way to determine meaningful KPIs is to assess the activities that must be carried out in order to achieve your desired goals. In this way you can be sure that your goals and your measurement system are in alignment.

Fill out Table 5.3 below:

TABLE 5.3

Key success factor	Action to be taken	Key performance indicators (captures the desired changes happening as a consequence of carrying out the identified action)
■ KSF 1	■ ■	■ KPI 1 ■ KPI 2
■ KSF 1	■ ■	■ KPI 1 ■ KPI 2
■ KSF 1	■	■ KPI 1 ■ KPI 2

Step 8

SWOT analysis

Use Print21 Background Paper 2

Identify your company's opportunities and threats in Table 5.4 below.

TABLE 5.4

Opportunities	Threats
■	■
■	■
■	■
■	■

Step 9

Determine feasible opportunities

After you have identified the opportunities and threats, screen your list and identify the opportunities that might be worth pursuing and the threats that you have to overcome. You will identify some threats in the external analysis you will carry out in Diagnostic Tool 6.

Step 10

Determine capabilities

After you have identified the opportunities and threats, the next step is to look at your company and see if you have the capabilities (strengths) needed to exploit the opportunity, or if any of the identified threats are undermined by weaknesses.

TABLE 5.5

Strengths	Weaknesses
■	■
■	■
■	■
■	■

Step 11

Strategic windows and contingency plans

Use the framework below to match the opportunities with strengths, and the threats with weaknesses

TABLE 5.6

Opportunity		Strengths
	STRATEGIC WINDOWS	
Threats		Weaknesses
	CONTINGENCY PLANS	

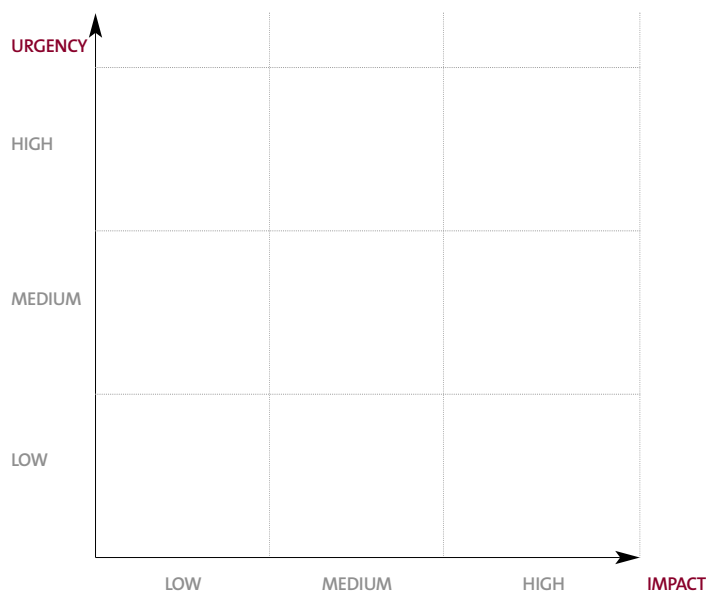
In Attachment 6 in the **PRINT21** Background Paper 2, you can see the Strategic Windows and Contingency Plans identified for the industry.

Step 12

Identify priorities

After you have identified the strategic windows and contingency plans, these need to be prioritized. The framework (Figure 5.3) below, can be used for assessing the impact of each opportunity and the realistic timeframe for acting on each opportunity. A similar process can be undertaken for weaknesses and threats. In the **PRINT21** background paper, the industry's strategic windows and contingency plans are identified and prioritized.

FIGURE 5.3



Step 13

Draft action plans

Action plans and time frames should then be developed for the prioritized areas. For an example of completed action plans, see "sell total business solution" action plan in the Print21 Background Paper 3.

ACTION 4

SITUATION	•	COST	BENEFITS	NET BENEFITS
	•			
	•			
	•			
MISSION	▶			
	▶			
	▶			
	▶			
ASSESSMENT		NET BENEFITS FOR ACTIONS ARISING FROM THIS TOOL		\$0.00
RESOURCES				
TIME				