

## Unit 10 Internal Analysis

Concept of internal analysis: It is the process of identifying the resource strength and its capabilities to determine organizational strength and competency to be in better position in market. In other word, internal analysis is examination of organizational value chain and its effectiveness on developing competitiveness in the market.

### Area of Internal Analysis:

- a. Production and operation
- b. Marketing resources
- c. Financial resources
- d. Human resources
- e. Research and development resources.

### Process of internal analysis

- a. Define vision ,mission ,goals and strategies
- b. Organizational strength and weakness analysis
- c. Identification of unique resources.
- d. Identifying core competency
- e. Locating strategic advantage.

### Methods of Internal Analysis

1. **Value chain analysis:** Value chain is a set of inter-linked value creating activities performed by an organization. These activities begin with inputs, go through processing and continue up to outputs marketed to customers.

“Value chain analysis refers to the process whereby a firm determines the costs associated with organizational activities from purchasing raw materials to manufacturing products to marketing those products.”(F.R .DAVID)

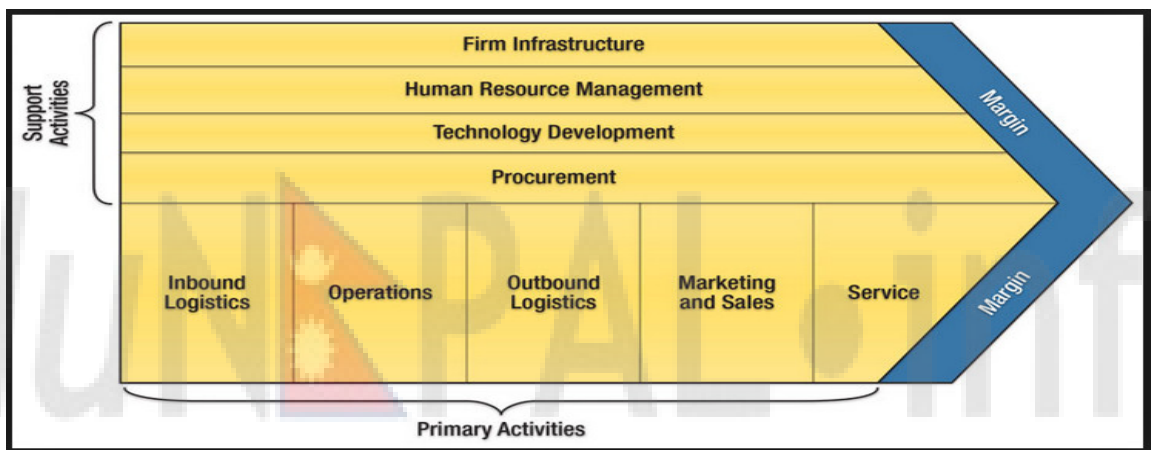
#### a. **Primary Activities:**

- i. Inbound logistic ( Raw materials handling, stock control , materials transportation )
- ii. Operation (manufacturing, packaging, assembling, testing)
- iii. Outbound logistic (Collect, store and distribute products to customer)
- iv. Marketing and sales ( Pricing, promotion, selling products to satisfy customer needs)

- v. Service (Instillation, repairs, spares(additional) and training)

**b. Support Activities:**

- i. Procurement (Activities related to purchasing inputs)
- ii. Technology development ( acquiring new technology and R&D for innovation)
- iii. HRM (acquisition, development, utilization, maintenance of HR)
- iv. Firm Infrastructure ( related to general management; strategic planning, quality control, accounting, finance, information management, organizational design)



Value-chain analysis involves identifying those internal and external linkages that result in a firm achieving either a cost leadership or differentiation strategy. Managing organizational and operational cost drivers to create long-term cost reductions is a key element in the analysis. Value-chain analysis is a form of strategic cost management. It shares the same goal of creating a long-term competitive advantage by using cost information.

An industrial value chain is the linked set of value-creating activities from basic raw materials to end-use customers. Knowing an activity’s relative position in the value chain is vital for strategic analysis. For example, knowing the relative economic position in the industrial chain may reveal a need to backward or forward integrate in the chain. A total quality control strategy also reveals the importance of external linkages. Suppliers, for example, create parts that are used in products downstream in the value chain. Producing defect-free parts depends strongly on the quality of parts provided by suppliers.

2. **Cost Efficiency Analysis:** Under this method, organization tries to identify the minimal cost requirement to compete successfully in the market. It identifies the possible alternatives that can be helpful in maintaining higher productivity in organization. Different methods to minimize the cost are:
  - i. Economics of scale: producing large quantity.
  - ii. Supply cost: searching for low cost suppliers.
  - iii. Product process and design: focus on simplifying product design and operation.
  - iv. Experience.
3. **Effectiveness Analysis:** Under this, different features of product and their contribution in customer satisfaction are analyzed and evaluated. The main objective is to enhance product effectiveness by matching customer requirements and product features.
4. **Comparative analysis:** It involves the comparison of capability of an organization with the competitors. It also involves the comparison of the present performance of an organization with its past performance. Different techniques for comparative analysis are:
  - i. Historical analysis : comparing with past
  - ii. Industry standard: comparing with industry standards
  - iii. Benchmarking: comparing with the leader organization.