Chapter 12.
Strategic Gap Analysis:
What's The "Delta?"

Chance favors the prepared mind.
Louis Pasteur

The "Delta": The Disparity Between What Is And What Ought To Be

Reviewing the basic strategy formulation model presented in Figure 4-2, we can see that the next step after building the strategic success model is the Strategic Gap Analysis. Assuming we have crafted a valid vision statement, mission statement, and core values or philosophy in response to the Environmental Scan, Organizational Scan, and Opportunity Scan; that we have linked up with the Customer Value Model, that we have developed the business logic and strategy; and finally that we have now defined or redefined the customer value package that constitutes our competitive offering, it is time to ask "So what?"

We have to figure out whether the enterprise as it works now actually delivers value as it will need to. And if not, we have to figure out how to bring it into line with the ideal strategic success model we have developed.

The Greek letter "delta," represented in its capital form by a simple triangle sitting on its base, is a symbol engineers and mathematicians like to use as a shorthand reference for talking about the difference between two variables. Deep inside the workings of the computer on board the astronauts' space ship there is a delta – a signal that measures the difference between where the ship is supposed to be going and where it actually is going. The computer's job is to redirect the rockets so that the delta goes to zero.

Think about it carefully and you'll realize that a space ship spends more time off-course than on course. It is only perfectly on course for short periods, and the computer must constantly measure the delta and correct its course back toward the intended one. If it
doesn’t have a course to follow, or it doesn’t know whether it’s on the correct course, there is little chance it will arrive at the destination.

The leaders of any enterprise need to know about their own delta. In strategy thinking, the delta is the difference between what is and what ought to be. It should be the driving consciousness behind the choice of various strategic maneuvers, competitive actions, investments, new developments, organizational changes, and many other actions aimed at reorienting the enterprise toward its destination.

In quite a few organizations, the planning processes wander off course somewhere and don’t ever get to the gap analysis stage. They may start with flowery, grandiose strategy statements, and then plunge into specific action plans that have no apparent relationship to the supposed strategic success model. Acquisitions, investments, new product developments, and the like often become elements of the operational plan without ever being tested to see whether they are the best options for fulfilling the concept of the northbound train. If you don’t take your strategy thinking seriously, you end up with a bunch of nice words and a random collection of disconnected actions and projects that somebody thinks would be nice to do. The strategic concept must show up in the action planning, or else why go through all of that effort?

"Foreign" Strategy And "Domestic" Strategy

There is no standard recipe for thinking through the gap analysis, because each enterprise has its own unique strategic success model and current business situation, and consequently its own unique gaps. But as a minimum, its leaders need to consider gaps in both "foreign" and "domestic" dimensions, that is, what has to be done in coping with the outside environment and what has to be done to develop the internal environment, culture, and people.

In some cases the demands of the external environment may be so pressing that everyone has to give a great deal of attention to them. In some cases the two environments both require close attention. But in some cases, the internal environment may present the greater demands and opportunities. In no case should the domestic issues be treated as secondary, or as footnotes to the "real" business issues. They are just as real and just as entitled to attention as the more conventionally understood external issues. Both internal and external gaps can constrain the ability of the enterprise to create its intended value.

It is often helpful to divide the thinking process of gap analysis into two steps, with the first step as figuring out what the gaps are and coming to an agreement on the few critical ones that need primary attention, and the second step as identifying the kinds of action options to be considered for closing the gaps. This is the connecting point with the next stage of the strategy formulation model, which is Action Planning.

What, actually, is a gap? What does one look like? What does the delta mean in practical terms? The answer is: a strategic gap is a shortfall between the value-creation capability required for success in a certain area and the organization’s current capability
in that area. For example, if the strategic concept includes having customer access in a certain country and you don't currently have it, that's a gap. There may be various ways of achieving it, but until you recognize it as a gap and get to work on it, nothing will happen.

Another gap might be a significant hole in your product range, compared to what you believe is needed to play in a certain market. To close the gap, you might not necessarily have to develop those products with your own assets; it might be possible to acquire the rights to market someone else's products if they exist. Another gap might be market recognition; you need to have more customers aware of what you can do for them.

Internal gaps also deserve attention. Suppose your strategic success model calls for having a superior cost structure, that allows you to out-price most of your competitors. If your current cost structure is nothing special, you have an internal gap. You'll have to figure out how to change that cost structure significantly, maybe even redesign much the process behind it.

There may be an internal gap caused by a deficit in the skills of the people. If certain skills are required to make your strategic success model work and the people don't have those skills, then that area calls for action. A more challenging gap might arise from the strategic need to present a unified, "seamless" interface to customers who do business with you across the whole country or across national borders. If the organization works like a batch of regional tribes, and does not currently enable the customer to do business conveniently, that's an internal gap.

Some of the gaps you identify may be fairly simple and may invite straightforward action. Others may be much harder to close. In particular, gaps that arise from deeply-rooted aspects of your organizational culture may present tougher challenges than you anticipate. In any case, it is important to take an organized approach to gap analysis, and to make sure you are working on the gaps that have the greatest effect on the ability of the enterprise to implement its strategic success model.

**Closing The Gap With Strategic Initiatives**

Think of a strategic action initiative, whether directed externally or internally, as an effort mounted to close one or more strategic gaps. This might be a somewhat different use of terminology than you will find in other approaches to strategy thinking. Most people tend to think of the term "strategic" as applying only to the external environment. However, in this discussion it applies to actions that have a payoff in the external environment, regardless whether the focus of those actions in external or internal.

Externally directed strategic initiatives might include forming alliances or co-ventures with other compatible enterprises, launching a large-scale advertising or promotion campaign, withdrawing from certain areas of the competitive field, opening up physical offices to establish psychological presence in a business environment, introducing a "continuity" product that gives you long-term access to certain customers, and acquiring
a firm that operates in a sector you need to gain access to.

Internally directed strategic initiatives might include shifting certain costly activities to an out-sourcing basis, restructuring geographic territories to improve coordination and customer access, reengineering your organizational systems to simplify them, changing your product development process to radically shorten time-to-market, and re-arranging certain customer-contact processes to make them more customer-friendly.

The range of creative strategic initiatives is virtually limitless. Scan through any business magazine and notice the kinds of changes firms are making in their attempts to improve their success possibilities. Pick any one news account and try to visualize the discussion that must have taken place among the leaders of the firm that led to the selection of this particular action. How would you describe the gap they seem to be trying to close? Are there other initiatives they might take, similar to this one or supportive to this one? How valid do you think their chosen initiative is with regard to the apparent gap?

In the next chapter we will deal with the Action Planning process that enables you to choose the few critical gap-closing initiatives that will make the most sense for your enterprise.