Strategy Toolkit

Tools and Frameworks Pocket Guide

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Contents

Introduction

How you should use this guide

This pocket guide is designed to be a quick guide, memory jogger, or interview prop for consultants working on Strategy engagements.

It assumes that the user has a good working knowledge of all the tools and techniques. For this reason, the descriptions are brief and try to be useful reminders rather than detailed explanations.

It contains brief overviews of the most commonly used tools and techniques. However, it is not in any way meant to be a comprehensive list.

This guide contains confidential and proprietary material. It is intended solely for the use of Accenture personnel.

More information on the tools and techniques found in this guide can be found within Accenture's KX and in specific learning programs.

To find out more about Accenture's Strategy Learning programs go to: https://mylearning.accenture.com

To see a list of the "cool tools" used by your Strategy peers, visit the Strategy Connection site.

If you have a suggestion for content to be included in a future version of this guide, please contact **Strategy.Learning@accenture.com**

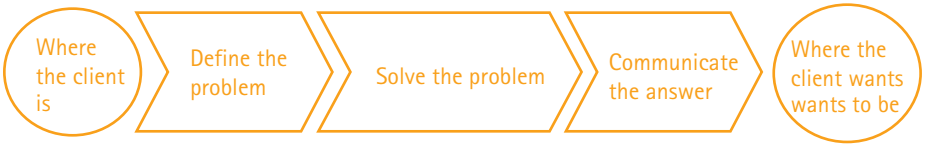
Introduction

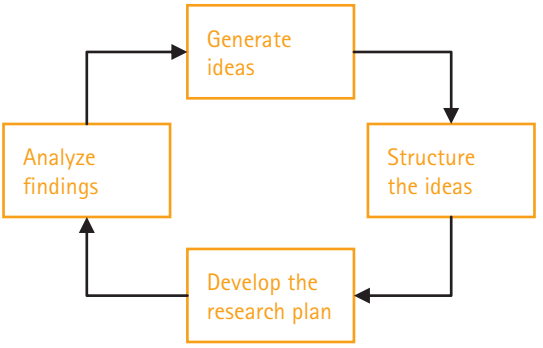
Despite variations, interpretations and nuances, strategy consulting is about developing a plan of action to achieve a particular desirable goal. Good strategy requires assessing a situation, determining root causes for these situations, then figuring out solutions.

Developing accurate assessments and thoughtful solutions requires us to gather data accurately and to draw valid inferences from them. If not, how is one to discern between fact and fiction; between good judgment and bad?

Developing valid inferences and conclusions from data is a skill that can be honed using a variety of systematic approaches, frameworks and tools. We hope this guide summarizes some of these for you.

Basic Structure for Analysis





Issue Identification

Issue Analysis
Overview

Accenture's Issue Based Problem-Solving (IBPS) methodology includes four supporting tools.

Tool	Purpose
Problem definition worksheet	• Captures important information about the work effort • Completed at the outset of an engagement or during pre-proposal planning
Issue tree	• Provides structure for decomposition of key question into its sub-issues • Used to structure analysis, organize work efforts, and communicate key issues to client
Issue analysis worksheet	• Forces hypothesis generation and planning of required analysis to prove /disprove hypotheses • Ensures thorough planning of research effort
Workplan	• Organizes work effort into workstreams and ensures timely completion of deliverables • Provides a visual picture of timing and relationships among work activities

Problem Definition Worksheet

Client: _____

Context

Key Facts (situation): Relevant information about the client's situation
Need for Change (complication): Why the client needs to change now

Key Question: The business question to answer

Buyers

Sponsors: Who brought Accenture in	**Criteria for Quality:** The client's criteria for a quality result
Key Decision Makers: Who will resolve critical issues	

Scope

Desired Outcomes: What the client would like to have at the end of the project	**Criteria for Quality:** The client's criteria for a quality result
In Scope: Deliverables, target dates, and issues	

Best Practices:
Getting the key question right is critical to all that follows. Unless everyone on the team shares the same understanding of the key question, people are actually working on different, but related efforts.

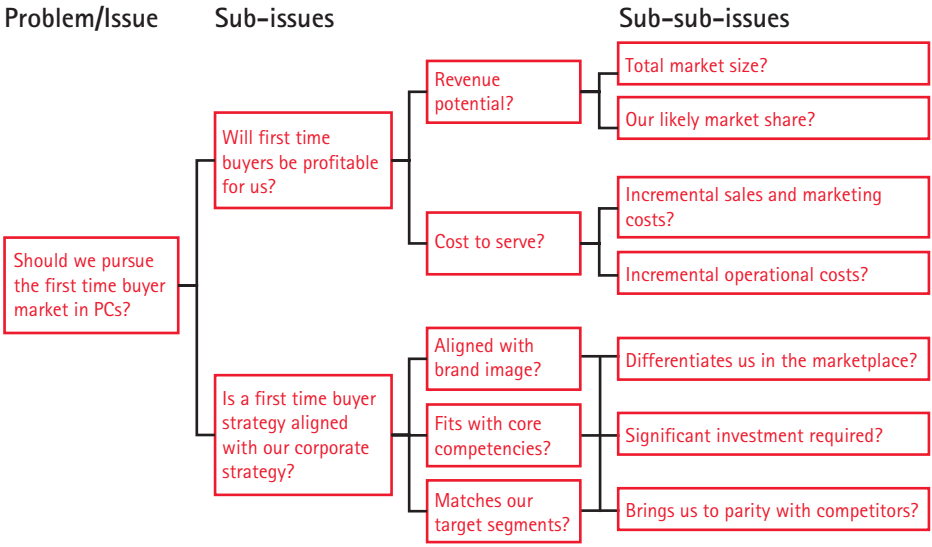
Common pitfalls of key question formulation:
- Too vague or broad
- Too narrow
- Assumption-driven
- Compound question

Issue Analysis

Issue Tree

The Issue Tree is a framework that helps logically decompose a larger problem into smaller issues that can be analyzed and solved.

Graphical Representation



Best Practices

Ensure that the list of issues is mutually exclusive and collectively exhaustive (MECE) with all the elements in a group representing the complete components of the element to their left; no element should appear in more than one branching.

Use a meaningful decomposition of the issues - the decomposition should help the team understand the full complexity of the issue.

Use specific language and write complete sentences to make the logic clear.

Make the required effort clear - by the end of the branching, the required analyses, research, skills, timing, etc. should be clear.

Issue Analysis

Issue Analysis Worksheet

Issue Analysis Worksheet

	Issue/Sub-issue	Hypothesis	Analysis Required	Data Required/ Sources
Guidelines	• Issue: key question • Sub-issue: one branch of issue tree	• "Best guess" on how to solve problem • Issue may have multiple hypotheses	• Tools/techniques team will use to prove or disprove each hypothesis	• Likely location or means of obtaining data for analysis • Primary and secondary sources
Example	Are competitors winning market share on price?	Yes, products comparable to XYZ's are being sold less expensively by competitors	Trend of average product prices and comparison of XYZ prices to those of key competitors	Government, association, and/or company statistics; industry literature

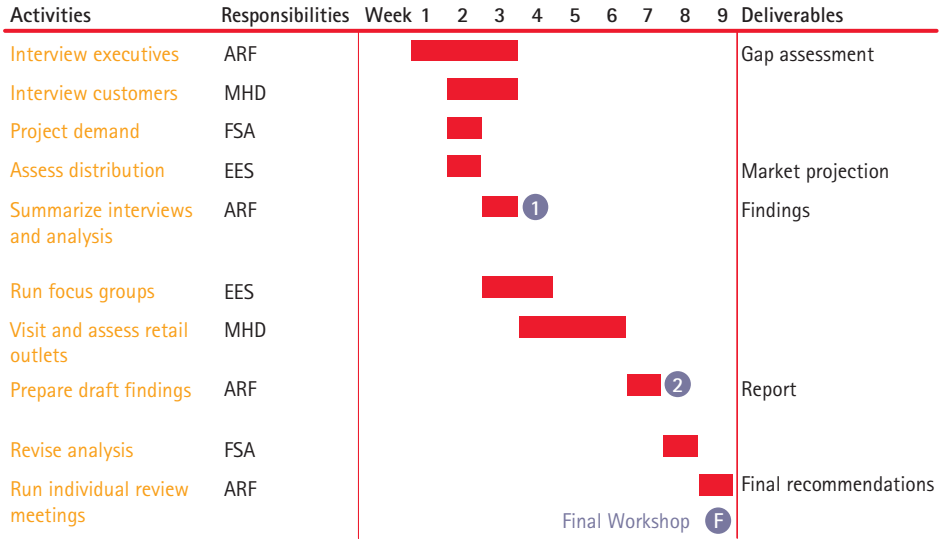
Best Practices

- Formulate reasonable hypotheses
- Pay attention to disproving, not just proving, hypotheses
- Make appropriate trade-offs between time, resources, quality, and level of certainty required

Issue Analysis
Workplan

The workplan is a list of key activities, who will be responsible for each activity, timing/due dates for completion, and key deliverables, Workplans are often organized into a Gantt chart, a graphical representation of the duration of tasks against the progression of time.

Workplan Example



Best Practices

- Ensure appropriate level of detail
- Make appropriate allocation of resources
- Be realistic about timing
- Develop clear deliverables
- Plan for contingencies

Project Questionnaire

Questionnaires can be useful tools to help understand and define the client's potential problem.

Description

Industry

1. How is the industry structured? Is it changing?
2. What are the major trends in the industry?
3. How is the client addressing the industry trends?
4. How is this industry impacted by other factors and/or the economy?

Customers

1. Who are the most profitable customers?
2. How are their needs evolving?
3. Is the client positioned to address these needs?
4. Who are other potential customers, how can they be served?
5. What are the most critical customer values?
6. Who are the least profitable customers?

Competition

1. Who are the current and emerging competitors?
2. On what basis do they compete?
3. How do client customers perceive competition?
4. How are competitors addressing customer needs?
5. What strategies are competitors using?
6. How is the client responding to its competitors?

Client

1. What is the client's mission and what is its existing strategy?
2. How is the client currently performing?
3. What differentiates the client?
4. What is the organizational structure of the client (business, products, markets, territories)?
5. What are the business objectives of the department/division/unit/region with which we are working?

Project

1. What is the reason for the project?
2. What is in/out of scope for project?
3. What are the major benefits and risks of the project for the client?
4. Who are key decision makers?
5. What topics are potentially sensitive?
6. Why did the client choose Accenture to conduct the project?
7. What constitutes 'success'?

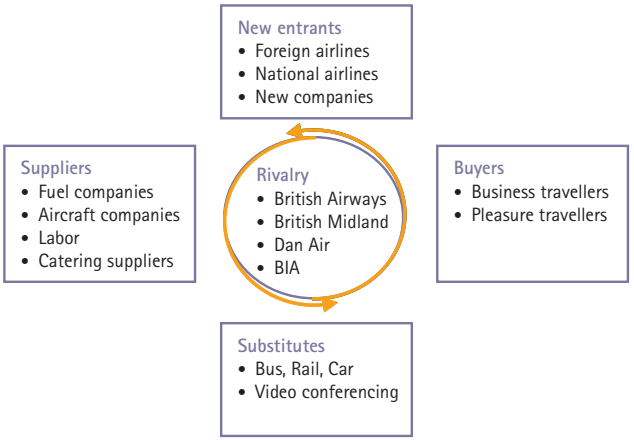
Frameworks

Porter's Five Forces Model

Assess the attractiveness and profit potential of an industry or firm by analyzing the forces acting upon it.

Graphical Representation

Industry drivers for an international airline



Description

Industry attractiveness depends on the interaction of the forces. The key concern is the relative strength of each force.

Determinants of each force:

- **Rivalry –** Industry growth, fixed costs/value added, product differences, brand identity, switching costs, diversity of competitors, exit barriers
- **New entrants –** Economics of scale, proprietary product differences, brand identity, switching costs, capital requirements, access to distribution, absolute cost advantages, learning curve, access to necessary inputs, government policy, expected retaliation
- **Buyers –** Bargaining leverage, buyer purchase volume, buyer switching costs, buyer information, substitute products, price sensitivity, product differences, brand identity, impact on quality/ performance, decision makers' incentives
- **Suppliers –** Differentiation of inputs, switching costs of suppliers and firms in the industry, presence of substitute inputs, supplier concentration, importance of volume to supplier, cost relative to total purchases in the industry, impact of inputs on costs or differentiation
- **Substitutes –** Relative price performance of substitutes, switching costs, buyer propensity to substitute

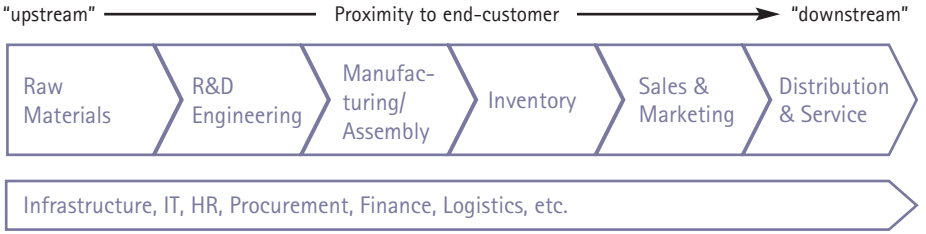
Source: Michael Porter

Value Chain

General Structure

A value chain is a sequential map of all activities within a business or industry. The framework disaggregates a business into its 'value' activities. It can be used to compare industries and firms or to determine and analyze costs.

Generic Value Chain



Main Steps in Performing Value Chain Analysis:

1. Identify
- Construct value chain for customers and competitors

2. Analyze
- Identify sources of differentiation
- Analyze cost drivers
- Breakdown activity into % and $

3. Determine
- Compare these to competitors and identify source of differentiation
- Identify outsourcing or integration opportunities
- Identify "sleepers"

4. Consider
- Which stages are key for differentiated competitive advantage

Example of Services Value Chain

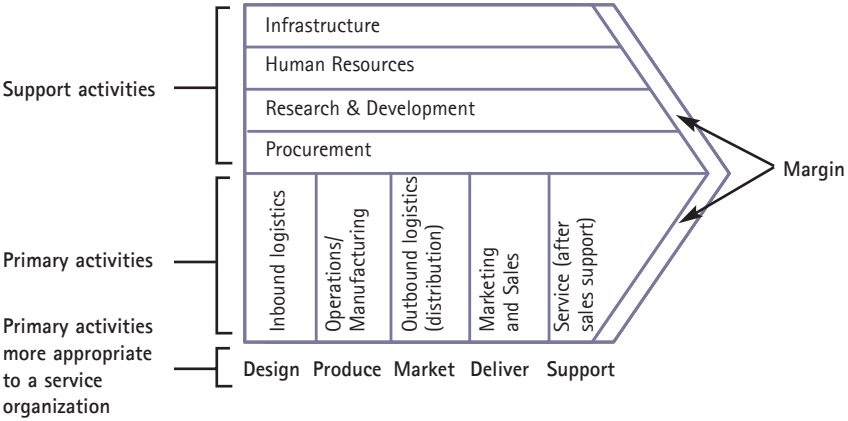
Source: Michael Porter

Value Chain

Internal Organization Analysis

Since Value Chain analysis disaggregates value activities within an industry or firm, it can also be used effectively to identify and measure costs.

Graphical Representation



Description

The main steps in performing a value chain analysis are as follows:

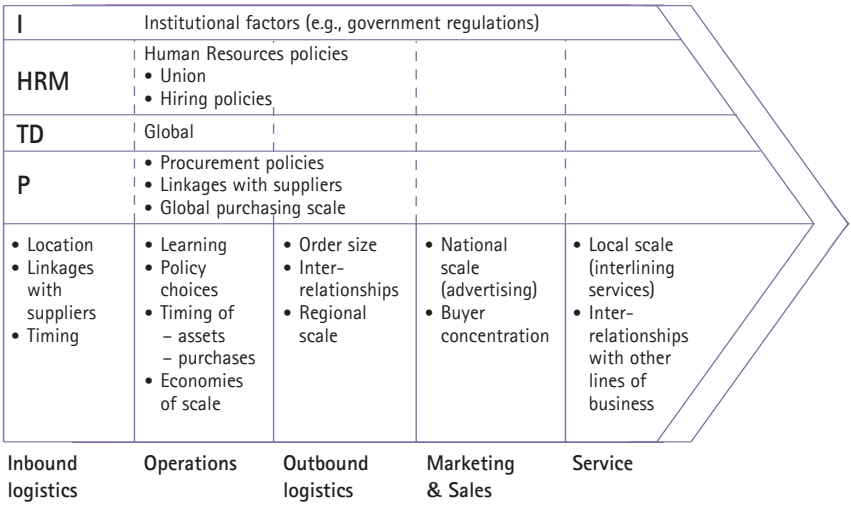
- **Identify** main value activities (as shown in the diagram above) and the linkages between value activities (between primary and support; primary and primary)
- **Analyze** the value chain
  - **Actual execution of value activities –** How is the value activity executed? Is this in line with management's stated strategy?
  - **Linkages between activities –** linkages between value activities are often used to create competitive advantage. This advantage can be realized by either **optimization** or **coordination.** Optimization: matching the level of quality or similar measure between value activities. Coordination: on time delivery to reduce inventories, etc.
  - Margin of the organization - margin is equal to the value of the product or service less the cost of production. An organization's margin is the result of implementing strategy
- **Determine** the strengths and weaknesses in each value activity relative to the competition.
- **Consider** which stages are **key** to competitive advantage - low cost, differentiation or focus?

Value Chain
Mapping Cost Drivers

Cost drivers differ by relative position in the value chain.

Graphical Representation

Cost drivers for an international airline
I = Infrastructure
HRM = Human Resources Management
TD = Technology and development
P = Procurement



Description

Each of the following factors may affect the cost of one or more of the activities in the value chain:

- **Scale –** The cost of activities are often subject to different efficiencies at different volumes
- **Learning –** The cost of an activity can decline over time due to learning that increases efficiency
- **Capacities –** Fixed costs create a penalty for under-utilization
- **Linkages –** The cost of an activity is frequently affected by how other activities are performed
- **Inter-relationships –** Cost can be affected by inter-relationships with other SBUs within a company
- **Integration –** The level of vertical integration in an activity may influence its costs
- **Timing –** When an activity is performed can affect its costs
- **Discretionary policies –** The policy choice that a firm makes will affect the cost of activities
- **Location –** The geographical location of an activity can affect its cost
- **Institutional factors –** This cost driver can influence the cost of an activity very heavily but it is usually outside of the business' control

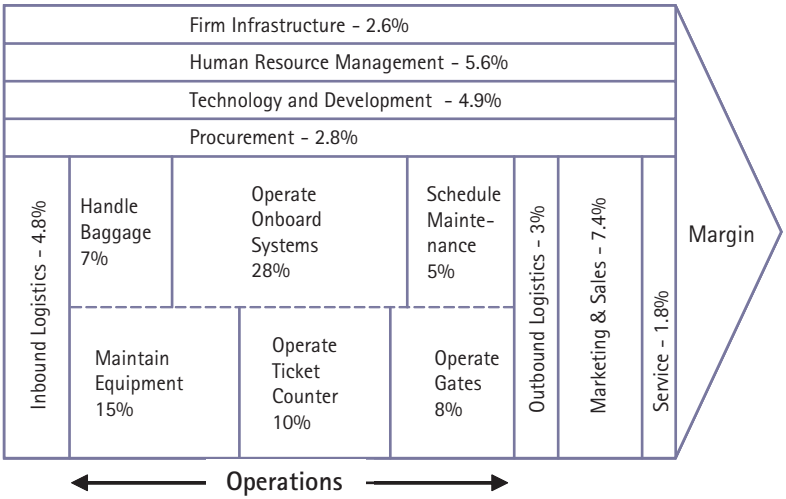
Value Chain

Mapping Cost Drivers (cont'd.)

Cost maps help quantify location and magnitude of costs and can be very useful in comparing costs vs. competitors and identifying strategic advantage.

Graphical Representation

Cost map for an international airline



Description

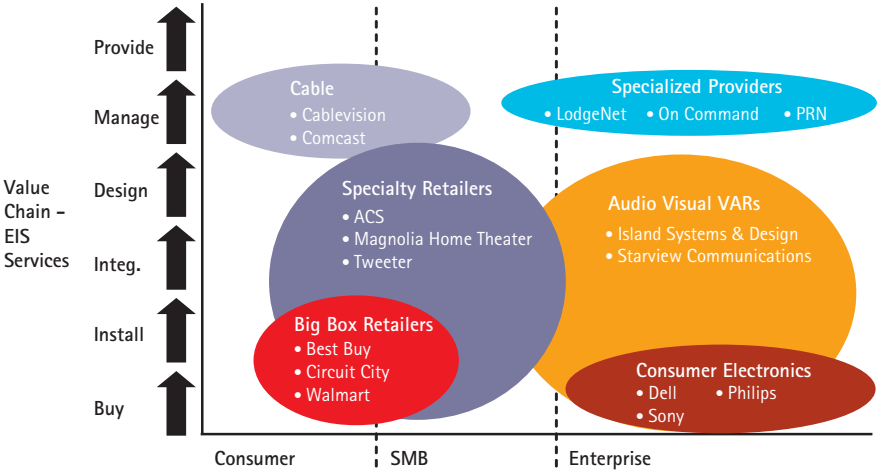
The starting point for cost analysis is to define a firm's value chain and to assign costs to each of the value activities. This process of analyzing costs by activity is different from traditional cost analysis that analyzes a business costs by type, e.g., labor, materials, overheads, payroll.

The main steps are:

- **Identify** major activities from the value chain
- **Disaggregate** or **separate** activities that represent a significant or rapidly growing percentage of cost
- **Aggregate** activities that represent a small or stagnant percentage of cost
- **Assign** raw materials and labor costs to appropriate activities
- **Calculate** percentage of total cost associated with each activity

Industry Analysis

Example of Industry Landscape



Overview

Clients often need to understand the industry environment in which they are operating or hope to operate. Constructing an industry landscape helps provide the big picture of current market dynamics.

You can select any number of characteristics for the vertical and horizontal axes. A few commonly used terms include: industry value chain, customer segments served, profitability/financial performance, and growth expectations.

In the above example, the industry is segmented based on the industry value chain and customer segments. An industry value chain is generally ordered by the sophistication of products/services provided. In the example above for Entertainment Installation Services (EIS), the value chain extends from basic services (buy/install) to more complex services (manage/provide).

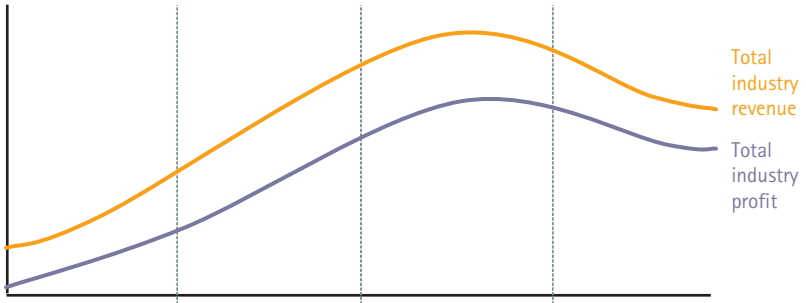
Clustering the competitors into distinct groups makes the analysis easier to digest. In the example above, the large circles show clusters of competitors by type—retailers, cable companies, etc.

Positioning competitors relative to each other can help generate meaningful insights. For example, scanning the picture for "white spaces" can show areas of potential market opportunity with little or no competition. In the example above, there is no competition in the Provide segment across all customer segments.

Industry/Product Lifecycle

The Industry Lifecycle is a theoretical behavioral model of a typical industry. Positioning an industry along the lifecycle can help forecast likely industry changes.

Graphical Representation



	Intro	Growth	Maturity	Decline
Marketing objective	Gain awareness	Stress differences	Maintain Brand	Harvest, exist
Competition	None	Growing	Many	Reduced
Product	One	More versions	Full portfolio	Best sellers
Price	Skim/penetrate	Gain share	Defend share	Stay profitable
Promotion	Inform/educate	Differentiate	Reminder oriented	Minimal
Place	Limited	More outlets	Multi-channel	Consolidate

Description

The classification of an industry is broadly a matter of judgment. The stages of maturity can be categorized roughly as follows:

- **Introduction –** Explosive growth; rapid changes in technology; emphasis on pursuing new customers; low barriers to entry; changing market shares
- **Growth –** Rapid growth; customers beginning to align with producers and fewer new customers; technology spreads more widely; market shares stabilizing, higher barriers to entry
- **Shakeout –** weaker competitors dropping out; fewer new entrants, customers; technology and market shares fairly stable
- **Maturity –** Customers aligned with producers; stable technology and market shares; high entry costs; broad product lines; very little growth in total market
- **Decline –** Falling demand; fewer competitors; narrowing product lines; substitute products. Incumbent firms often act aggressively to maintain market share

Entry/Exit Barriers

This framework helps determine the strength of competition in an industry; the size of barriers to entry and exit can help to estimate the likelihood of new entrants or of business leaving the industry.

Description

Barriers to Entry

The **threat of entry** into an industry depends on a combination of the barriers to entry and the expected incumbent reaction. Threat of entry is reduced if there are high barriers or likely aggressive incumbent retaliation.

There are seven major barriers to entry:

- Economics of scale
- Product differentiation
- Capital requirements
- Switching costs
- Access to distribution channels/property rights
- Cost disadvantages independent of scale, e.g.:
  - Favorable location
  - Proprietary technology
  - Access to raw materials
- Government policy, e.g.,
  - Licensing

Exit Barriers

Exit barriers keep companies in markets or businesses despite low or negative returns. There can be economic, strategic or emotional factors that keep companies competing in businesses even though they may be earning low or even negative returns on investment.

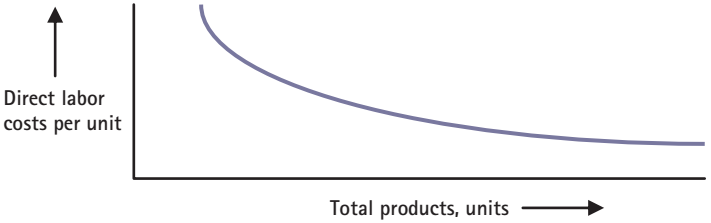
Exit barriers can broadly be categorized into five types:

- Specialized assets
  - Low liquidation values or high transfer/ conversion costs
- Fixed costs of exit
  - Labor agreements
  - Spare part capability
- Strategic inter-relationships
  - Image
  - Financial markets
  - Shared facilities, etc.
- Emotional barriers
- Government/social restrictions

Experience Curve

The Experience Curve helps predict the reduction in costs which accompanies increased experience. Although it has been developed from empirical evidence, behavior varies between industries and products. Therefore, great care should be taken before formulating strategy solely based on the experience curve.

Graphical Representation



Description

Curve gradients vary from product to product because:

- Cost reduction is not automatic - it is earned
- Activities with high labor content of the type used in manufacturing decline in cost faster than those used in purchasing or sales functions
- A shared experience base between products accelerates the downward trend of costs

There are three general sources of cost reduction.

- Exogenous progress (improvements in technical knowledge and inputs, and customer feedback)
- Economies of scale
- Improvements from cumulative outputs are the most sustainable route to cost advantage

A business should be examined to discover which of the above sources of cost reduction would be dominant (e.g., by examining competitor performance) to determine likely strategies for cost reduction.

Suggested strategies are as follows:

- Exogenous progress - maximize bargaining power with suppliers and buyers
- Economies of scale - to sustain advantage, greater market share needs to be pursued. However, there is danger of competitive deadlock in which each competitor suffers badly from overcapacity
- Improvements from cumulative outputs are the most sustainable route to cost advantage

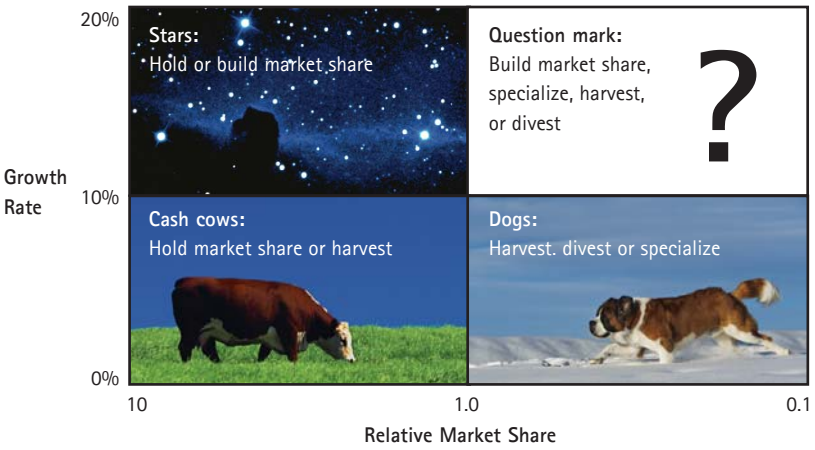
The experience curve has greatest impact on businesses early in the industry lifecycle, because output is rising most rapidly.

Equally, if demand is elastic, price advantage increases demand, therefore output increases; economies of scale push costs down further, leading to greater demand (e.g., the pocket calculator industry in the 1970s).

Growth-Share Matrix

The growth-share matrix is a tool for evaluating business performance. It maps the relative positions of a firm against its industry growth rate and relative market share. It is a very useful framework for analyzing the competitive performance.

Graphical Representation



Description

Growth rate - The annual inflation-adjusted growth rate of the industry in which the firm competes

Market share - The market share of the firm relative to that of the largest competitor in the industry (i.e., if the market share > 1 the firm is the market leader)

Assumption - That the experience curve and economies of scale are operating, hence the firm with the largest market share is the lowest cost producer; each quadrant indicates fundamentally different cash-flow positions, hence different strategic implications (see diagram)

Possible strategies

- Cash cow - high market share, low growth, good cash-flow can be used to fund developing businesses
- Dogs - low market share, low growth, usually cash trap
- Stars - high market share in high growth market requires plenty of cash to sustain growth, but strong market position yields high profits
- Question marks - low market share in high growth market needs large cash input to finance growth, but poor yields due to weak competitive position

Portfolio management - Cash cows finance Question marks to turn them into Stars. Stars grow to become Cash cows

Competitive Analysis

A structured approach for identifying competitors, understanding competitive positioning and framing potential areas for improving performance relative to competition.

Overview

Competitor Analysis is typically done in the earlier phases of strategy formulation—its findings inform further analyses. The most common goal of competitor analysis is to identify the basis of competition.

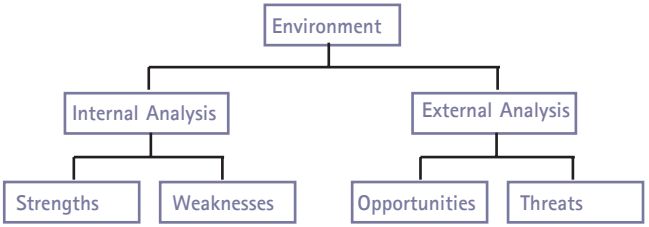
The key to constructing a useful competitor analysis is to summarize key findings and trends for the client rather than overwhelming them with an abundance of information.

General Approach to Competitor Analysis

Determine key questions	Identify competitor set	Profile competitors	Position competitors	Identify and communicate strategic insights
• Identify key questions competitor analysis should answer • Develop hypotheses and a research plan to prove/ disprove them	• Generate list of potential competitors considering new entrants and substitutes • Validate list with experts and client • Identify and communicate insights	• Research and summarize competitor performance and other relevant information • Consider financial, business, product, customer, and other relevant dimensions	• Identify relevant metrics for comparison • Determine bases of competition and sources of competitive advantage • Rank	• Assess competitive platform—determine the opportunities for competitive differentiation • Identify threats • Consider competitive reactions/ responses

SWOT Analysis

SWOT analysis involves analyzing a business or industry's internal strengths and weaknesses and external opportunities and threats.



Strategic Implications

Strengths Maintain, build, leverage	**Weaknesses** Remedy, exit
Opportunities Prioritize, optimize	**Threats** Counter

Key Questions to Ask

Strengths
Patents, brand, reputation, cost advantages, favorable distribution, strong customer base

Question: What are the key advantages? What do customers see as strengths? What are the unique resources?

Weaknesses
Weak brand, reputation, high cost structure, strong competition, weak distribution

Question: Where are the opportunities for improvement?

Opportunities
Unmet customer need, nascent disruptive technology, loose regulations, lowering of trade barriers

Question: What is changing in the market, with technology, or with customers?

Threats
Shift in customer preferences, substitute products, regulation

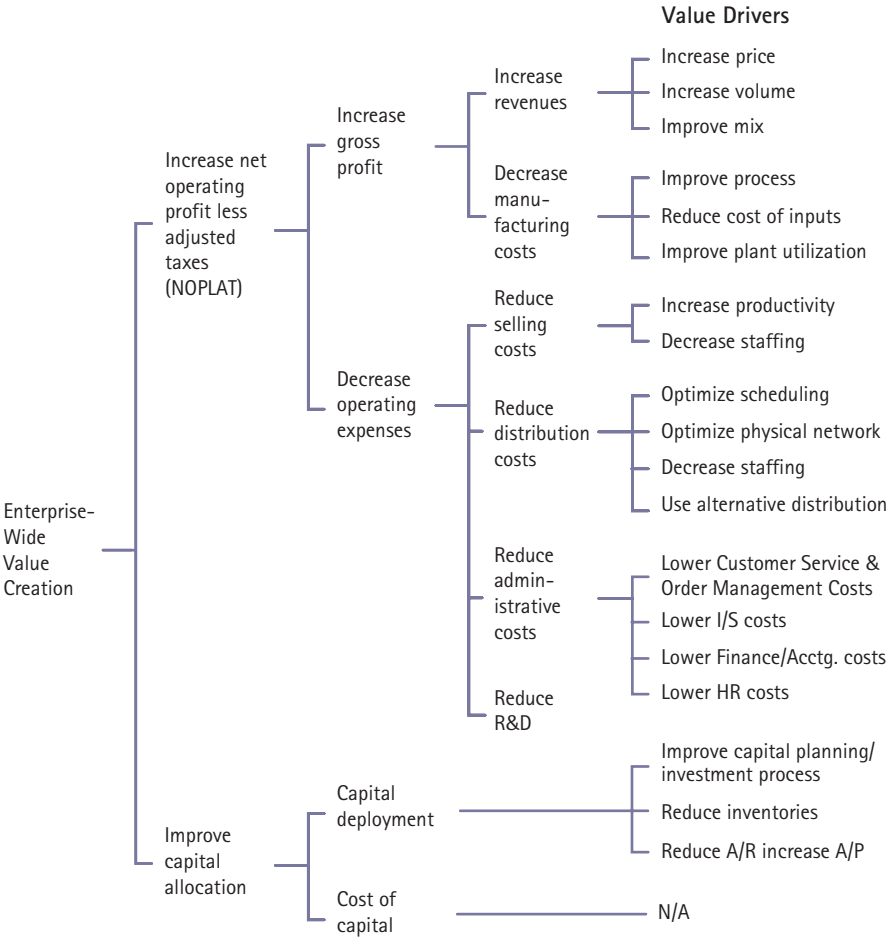
Question: What is the competition doing? Are there key obstacles for this organization? Are there financial considerations?

Value Drivers

Value drivers are the business activities or items that most directly impact a firm's or industry's cost structure or revenue base. Each industry is unique and has its own set of value drivers (e.g., patent expiration and product pipeline in pharmaceutical industry).

Graphical Representation

A profit tree is a useful tool to identify value drivers.



Firm/SBU Analysis

Maturity-Competitive Position Matrix

The Maturity-Competitive Position Matrix graphically displays the relative position of a firm or its Strategic Business Units (SBUs) and its available strategies with respect to industry maturity and competitive position. This simply illustrates available strategies open to SBUs.

Graphical Representation

Industry Maturity	Strong	Average	Weak
Introduction	Hold or build share	Selectively invest and build share	Selectively invest or divest
Growth	Hold or build share	Selectively invest and build share	Invest or divest
Shakeout	Hold share	Selectively invest	Invest or divest
Maturity	Hold position or grow with industry	Custodial or maintenance role Find niche and protect	Selectively invest or divest
Decline	Hold or harvest	Harvest or phased withdrawal	Divest

Competitive Position

Description

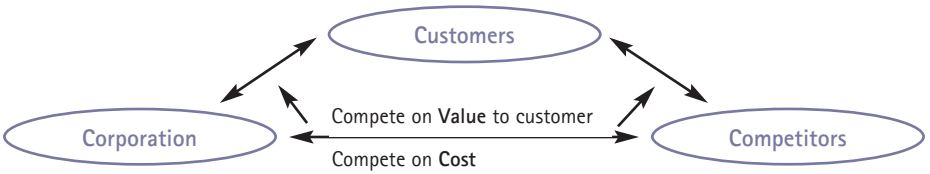
The maturity axis of the matrix represents the position of the SBU's industry in its lifecycle. This is determined by factors such as industry growth rate, level of technology, breadth of product line, costs of entry, etc. (For more details see the Industry Lifecycle entry).

Competitive position is determined by factors including market share, SBU growth, profitability, etc.

Strategic recommendations are illustrated in the diagram above.

Corporate Strategy
Functional Strategies

Graphical Representation



Description

This view of the market considers the corporation as competing with its competitors to give value to its customers. The following describes functional strategies for each segment of this market view.

Customer-based strategy

- To segment a market to identify one or more subsets of customers within the total market on which to concentrate efforts. A company must objectively view its customers' needs as competitors will be reviewing their needs continuously
- Two basic modes of segmenting the market:
  - By customer objectives/needs, i.e., use of the product
  - By customer coverage, i.e. warding distribution channels, geographic location, etc.

Corporate-based strategies

- Corporate based strategies are functional. They should concentrate on a functional area that includes critical success factors. The object is to maintain a competitive differentiation and optimize functional performance in the key functions
- Improving cost effectiveness - 3 basic ways:
  - Reducing costs (overhead analysis, zero-based budgets)
  - Rationalization of product lines and simplification of methods
  - Resource sharing by sharing costs between different parts of the organization
- Pursuing any of all of these basic methods must be done subject to an analysis of both disadvantages as well as advantages, e.g., sharing resources can reduce functional costs but may sacrifice advantages of concentrating on a particular business area or customer segment

Competitor-based strategies

- Look for possible sources of differentiation in functions, e.g., purchasing, sales, marketing, distribution, designs. Any difference must relate to one of the three basic elements that make up profit:

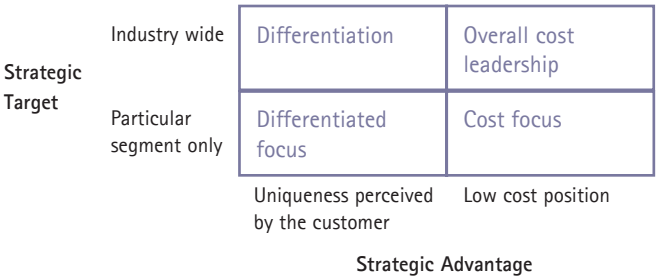
  Profit = (Price - Cost) X Volume

Corporate Strategy

Three Generic Strategies

The Three Generic Strategies are approaches to outperforming competitors in an industry and establishing a defendable long-term position.

Graphical Representation



Description

The Three Generic Strategies are:

- Low cost
- Differentiation
- Focus

The following table identifies essential elements in each of the generic strategies. If these elements are not available, it may prove difficult to pursue the generic strategy.

	Essential Elements	Opportunities
Low Cost	Buyer price elastic demand	• Sales increase as prices decrease
	Abundant cost reduction opportunities	• Experience curve shows reduction in costs over time • Productivity improvements • Improved links in value chain and SBUs
Differentiation	Buyer inelastic demand	• Price changes will not change consumption
	Buyers desire differentiated products	• Unique products can be offered • Changing needs of buyers can be addressed
Focus	Primary strategy	
	Focus on narrow target feasible	• Flank • Bypass
	Target can be service exclusively	
	Optimal focus approach	• Low cost • Differentiation

Mission Statement Analysis

Mission Statement

A Mission Statement expresses the organization's purpose and the scope of the business; its function is to provide a high level strategic direction which acts as a guide for all lower level decisions and actions.

Graphical Representation

- A **Mission Statement** should include **purpose, strategy, values and behaviors** that make up the organization's unique personality
- **Purpose –** A description of present activities. Why the company is in business
- **Strategy –** A description of the business or the activities that the organization wants to run and its positioning relative to other organizations in the same field
- **Set of values –** The beliefs that underpin the organization's management style, its relations to employees and shareholders and its ethics
- **Standards and behaviors –** A summary of some of the most important standards and behaviors in the organization

Description

Mission
- Defines the scope and purpose of the SBU
- Provides long-term direction
- Reflects SBU manager's beliefs, values, priorities, aspirations

Objectives
- State what must be done to accomplish mission
- Identify targets
- Serve as guide for goal setting
- Provide a basis for evaluating performance

Goals
- Restate objectives into operational terms
- Quantify what and when results will be achieved
- Guide strategy development

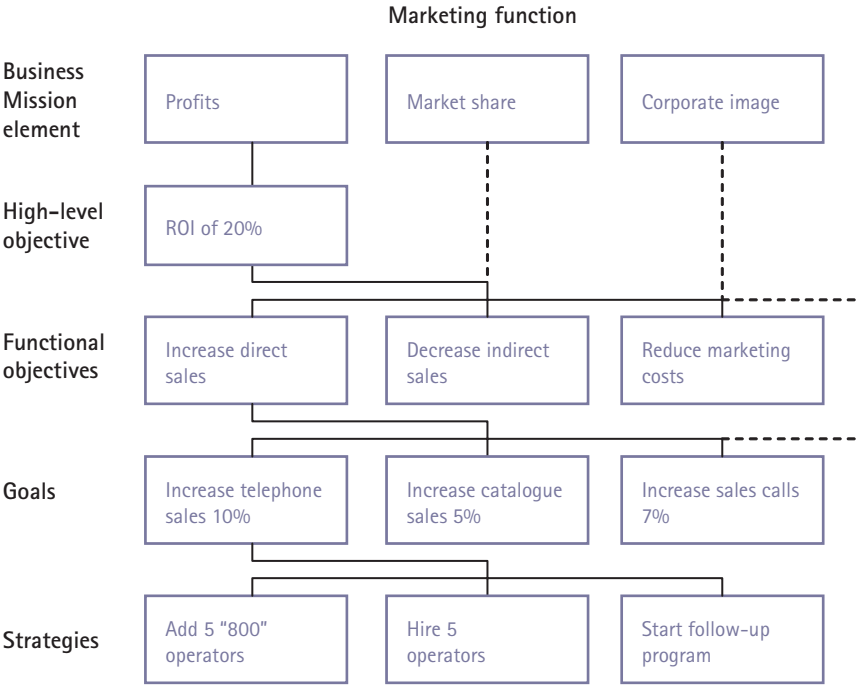
Strategy
- Express how results will be achieved
- Describe what actions will be taken to achieve results

Mission Statement Analysis

Mission Tree

In order to fulfill the Business Mission, elements of the mission statement can be broken down into specific, quantitative actions; these actions effectively contribute towards fulfilling the Business Mission.

Graphical Representation



Description

The above diagram represents just one branch of the tree. Each element of the Business Mission can be broken down in the same way to descending levels.

- High-level objectives quantify elements of the Business Mission
- Functional objectives outline areas in which the high-level objective can be achieved
- Goals quantify specific targets with the aim of fulfilling the functional objective
- Strategies are specific actions which are intended to achieve the goals set

Mission Statement Analysis

Key Performance Indicators

Objective: To motivate individuals and groups to achieve Critical Success Factors.

Graphical Representation

Examples for Key Performance Indicators (KPIs) to support Critical Success Factors (CSFs).

Critical Success Factor	Key Performance Indicator
Improved quality	• Performance data vs. specifications • Percentage of product returns • Number of customer complaints
Improved customer service	• Delivery cycle in days • Percentage of orders shipped complete • Field service delay
High employee morale	• Trends in employee attitude survey • Actual absenteeism vs. plan • Employee turnover

Description

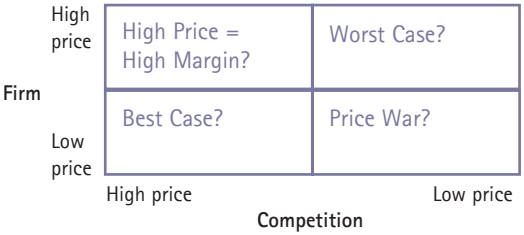
Characteristics – KPIs should be:

- Focused on an action
- Quantitative or qualitative?
- Appropriate (relevant to the person)
- Accurate
- Controllable and reasonable
- Permanent or temporary (management tools this year may change next year)
- At different levels

Areas of Caution

- Be aware of unintended consequences/ dysfunctional behavior resulting from measuring specific variables or outcomes
- Only collect data you intend to use
- If KPI is precise and accurate, but doesn't support a CSF, it is useless
- Consider the cost of collecting the data and make trade-offs
- Check the accuracy of the data – is it measurable and credible?
- Ensure data collection is timely to be useful

Pricing Models



Pricing Frameworks

There are three primary means of establishing simple prices for products and services where there is one price for all customers: Cost Plus, Market, and Value Based.

Cost Plus

- Base the price on the marginal cost, including appropriate overhead allocation of producing the product or service and add a percentage of cost as profit margin.
- For example, if the product costs $15 to make and the company wants to make 20% margins, then the final price of the product will be $15 + $3 = $18.

Market

- Base the price on what competitors producing the same product or service are currently charging in the market place.
- When there are no directly competing products in the market, use the market price of substitute products as a proxy. For example, the cost to the customer of having a service-person come out might be $200, which would be a market benchmark.

Value Based

- Base the price on the expected value the customer will derive from the product, understanding that customers buy both outcomes and benefits. This is the most difficult pricing method to follow, as it requires primary research to understand customer perceptions of benefits and the value they place on those benefits.
- A focus group could be used to assess the expected value to the customer. For example, in the focus group customers might indicate they are willing to pay a higher premium of $210 to avoid the inconvenience of having to schedule a service visit and wait at home.

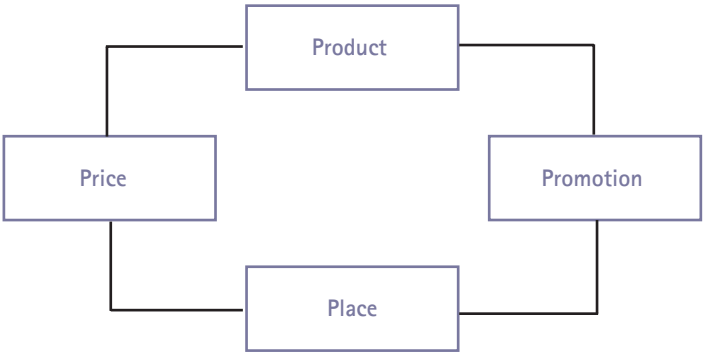
There is no one correct method to assign a price. It is often useful to assess potential prices from all three methods and devise a pricing strategy based on the ability to extract maximum value from specific markets and customer segments. Customer segmentation, branding, and distribution would be additional key variables to consider before setting a price.

Note: Companies often engage in dynamic pricing—where prices change in real-time based on market conditions (e.g., airline fare pricing).

Marketing Mix (4P's)

The Marketing Mix provides a framework for analyzing the strategic competitive position of a business unit in terms of its marketing strength.

Graphical Representation



Description

Activity	Customer Need	Decision Factors
Product	• Performance • Function	• Which product to market • How it should be designed
Promotion	• Information • Reassurance	• Brand names • Advertising • Personal selling • Public rotations
Place	• Convenience in purchase • After purchase service • Conveying quality	• How product/service should be distributed • Value of location vs. competition
Price	• Cost information • Quality dues	• Price • Skimming vs. penetration

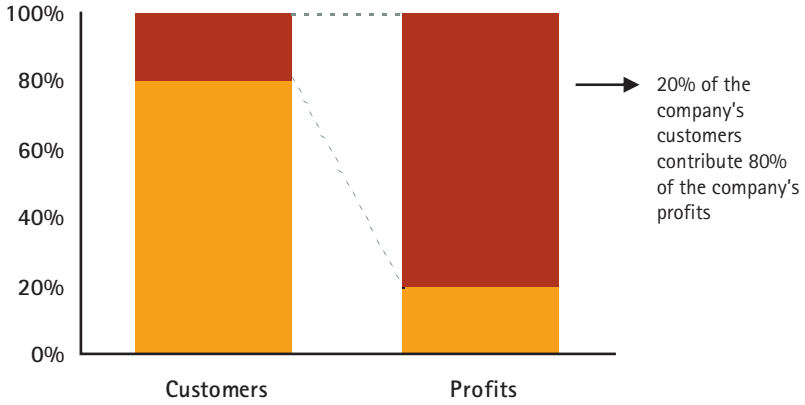
Tools

Pareto Principle

"The 80 – 20 Rule"

Objective: To provide an understanding of the appropriate definition and use of the Pareto Principle otherwise known as the 80 – 20 Rule.

The 80 – 20 Rule



Overview

A common rule of thumb in the consulting world is the "80 – 20 Rule," also known as the Pareto Principle. It is often used as an assumption in "back of the envelope" calculations of inputs and results. As the old saying goes, an advertiser once said that 20% of his advertising results in 80% of his incremental revenue. Unfortunately, he had a hard time figuring out which advertisements were the most effective and thus had to continue all of his traditional advertising.

Another common assumption that is made is that 20% of a company's clients result in 80% of the company's profits, as shown in the graphic above.

The Pareto Principle originated in 1906, when Italian economist Vilfredo Pareto created a mathematical formula to describe the unequal distribution of wealth in his country, observing that 20% of the people owned 80% of the wealth.

The Pareto Principle is useful as a "rule of thumb" but often can not be substantiated by hard data. Thus use it discriminately and always cite it as an assumption when it is used.

Data Gathering Techniques

Interviews

Interviews are designed to gather information around a set of questions to investigate opinions and knowledge base or gain in-depth insight. They also provide an opportunity to build or deepen relationships.

Description

While planning the interview, consider the following points:

Introduction
- Introduce the firm/yourself
- Explain the purpose and agenda
- Refer to prior contact/referrals
- Explain how information will be used (benefit statement)
- Refer to note-taking

Objective
- Articulate goals for the conversation
- Ask if they would like to get something out of the interview

Topics
- Discuss specific areas of data necessary to meet objectives

During an interview
- Use an interview log or template to record data and results
- Use the funnel technique (from general to detail) for asking questions to put interviewee at ease:
  - Initially broad: tell me about... describe...
  - More detail: who? what? when? where? how? (not why?)
  - Very detailed: yes/no to verify information
- Ask open-ended questions to encourage comprehensive explanation or to initiate broad discussion and closed questions to elicit specific information (e.g., frequency, yes/no, list, rank)
- Probe for more detail with responsive questions (e.g., "Which costs specifically?", "Can you explain how that is measured?")
- Ask interviewer to quantify answers where possible (e.g., "on a scale of 1-5, how would you rate...")
- Listen actively and carefully

Conclusion
- Gather documentation, collect additional information as appropriate
- Set the stage for potential future contact as necessary
- Send a thank you letter or email and summarize key discussion points, as appropriate

Synthesize findings
- Write up interview notes as soon as possible
- Group results into like issues/problems
- Use issue tree and interview guide as a starting point for analysis:
  - How does the data validate the issues?
  - Are there any new ideas?
- Keep deliverables/end products in mind

Documentation
- Document as soon as possible
- Capture verbatim responses when possible
- Review notes right away and follow-up for further clarification

Data Gathering Techniques
Focus Groups

The Focus Group Technique is used to gather qualitative insight from potential customers or other relevant groups.

Description

The focus group consists of a group of people who are interviewed together to provide opinions about a particular topic or issue or to generate ideas and agree on ways to achieve objectives.

The focus group usually relies on group discussion to generate information and ideas rather than direct questions.

Each participant submits ideas for consideration by the others.

Key participants are:
- **Manager –** who holds ultimate decision-making power
- **Facilitator –** from the project team who focuses the group discussion onto the required subjects
- **Recorder –** who writes down ideas on a flip chart

The roles and responsibilities for the group members should be clearly defined.

The scope of the work and the objectives of the meeting should be clear and well understood by the facilitator.

It is usefull to have hypotheses developed prior to meeting, if possible.

Basic steps:
- Articulate desired outcome
- Develop approach
- Develop criteria and screen participants
- Conduct pilot focus group and review
- Conduct focus groups
- Analyze results and develop preliminary hypotheses
- Prepare list of findings

Guidelines
- 6-10 members
- Clear understanding of each participant's role
- Semicircular layout form - all facing flip chart

Advantages
- Acquire nuanced perspectives on issue
- Direct unfiltered feedback from customer or interest group
- Gather information on a wide variety of topics
- Ability to probe users
- Stimulate new ideas for further testing
- Build consensus

Disadvantages
- Only qualitative information
- Not statistically valid
- Only as good as the facilitator and participants
- Often influenced by a few vocal participants

Tips
- Participant comfort and availability of refreshments enhance results

Data Gathering Techniques

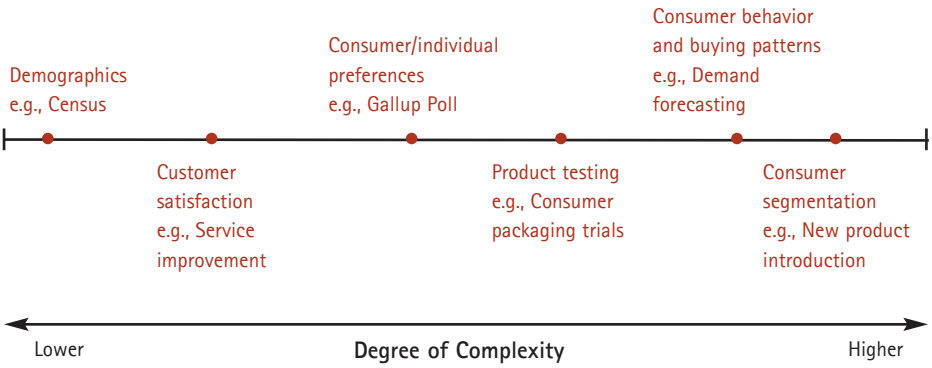
Surveys

A survey is a quantitative investigation of opinions, behavior and intentions of a population through a representative sample and is administered in the form of a questionnaire.

When to Use a Survey

Use Surveys when studying the whole population is impractical and only part of it, "the sample", can be studied; standardized questions can be pre-specified in clear, exact language; there is enough time to construct, conduct and collect and analyze results.

Potential Analyses for Survey Data



Data Gathering Techniques

Survey Design Process

Survey Design/Implementation Process

- Determine objective – what hypotheses will results test?
- Determine sample
  - Be aware of selection bias and non-response bias
  - Estimate sample size needed
- Determine method of data collection (e.g., internet, in-person, paper, etc.)
- Design survey(see hints for designing survey questions below)

- Inform internal and external stakeholders of plan
- Obtain buy-in
- Set expectations
- Provide clear value proposition (show how results will be used or provide incentives for completion)

- Perform a trial run to pretest survey
- Determine QA procedures
- Administer survey

- Prepare and analyze data
- Identify "so what?"
- Summarize and interpret results

When designing survey questions, consider the following:

How should each question be constructed or phrased to avoid bias?

Are questions concise, to the point, and unambiguous?

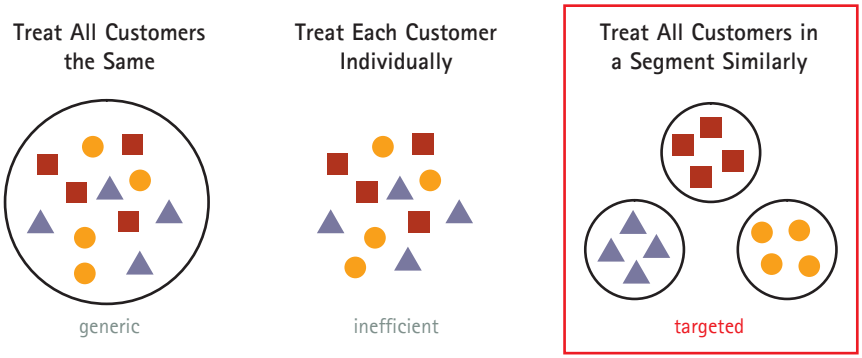
What is the most effective response option for each question? (e.g., open-ended, scale (strongly agree to strongly disagree), multiple choice, yes/no, rank a list of options, etc.)

What is the best sequence of questions?

Customer/Market Segmentation

Segmentation is an analytical approach that classifies customers into groups that perceive and respond similarly to specific marketing levers.

Graphical Representation



Description

Benefits

- Focuses on most profitable customer
- Generates competitive advantage via differentiated/targeted offerings
- Identifies unaddressed, latent or nascent customer needs/market opportunities

Challenges

- Customers rarely fit neatly into segments - iterations are required
- Time consuming and costly if not planned right
- Weak segmentation is difficult to operationalize

When to Use Market Segmentation

- Industry has changed significantly
  - New customer behavior/attitudes prevalent
  - New market entrants pose threat
- Firm showing declining financial performance
  - Sales or margins are flat or decreasing
- Firm has changed product line
  - New products introduced
  - Existing products re-vamped
- A potential change in corporate strategy

Customer/Market Segmentation (cont'd.)

Sample Segmentation Dimensions

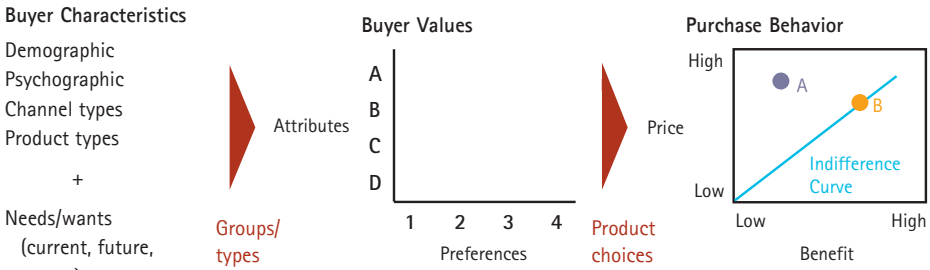
Combining some or many of these dimensions drives powerful segmentation hypotheses.

Constraints	Geography	Demographics/ Firmographics	Customer History	Attitudes/ Intentions
• Financial • Competitive	• Local vs. national • Competitor location	• Age/income • Industry	• Loyalty • Sales	• Psychographics • Purchase attitude

Behavior	Profitability	Needs	Occasions	Perceptions
• Purchase decision • Activities	• Lifetime value • Cost to serve	• Key buyer factors	• When, where, how? • Frequency	• Beliefs about service, brand

Value Based Segmentation

A superior and detailed understanding of buyer purchase behavior that facilitates innovative and accurate targeting and differentiation.



General Approach to Segmentation

Statistical Techniques

Descriptive Statistics

Statistics is concerned with collecting and processing data, summarizing information, estimating descriptive constraints (parameters), and testing hypotheses in such a way that valid inferences can be drawn from empirical evidence.

Descriptive Statistics

Descriptive statistics are numbers that concisely summarize the data.

Most basic
= First Priority

Most detailed
= Lower Priority

Types of descriptive statistics:

Univariate measures of:

- **Location (or centrality) –** What's typical? Where's the middle?
- **Spread –** How much dispersion is there around that middle?
- **Shape –** What does that spread look like, i.e., how are the observations distributed?

Multivariate measures of:

- **Association –** How are two (or more) of the variables related to each other?

Measures of Location

Measures of location help answer "What's typical?" "Where's the middle?"

Different senses of "typical" call for different summaries:

=AVERAGE(cells)

Mean: arithmetic average of all observations
- Uses all observations, so influenced by extreme ones!
- May be a value that never actually occurs!

=MEDIAN(cells)

Median: middle observation in list
- Ignores all observations but one in the middle of pack

=MODE(cells)

Mode: most commonly occurring value
- May be multiple modes, or no modes at all!

=TRIMMEAN(cells,c)

Trimmed mean
- Throw out highest & lowest c% of observations, e.g. 5% or 10%
- Result is more robust , i.e. not influenced by tails or outliers

=HARMEAN(cells)

Harmonic mean
- If appropriate scale is actually 1/x

=GEOMEAN(cells)

Geometric mean
- If appropriate scale is actually log(x)

Statistical Techniques
Descriptive Statistics (cont'd.)

Measures of Spread

Measures of spread help answer "How much dispersion is there?"

Different senses of "spread" call for different summaries:

Measures of "typical deviation"

=AVEDEV(cells)
- **Mean absolute deviation (MAD):** the average distance of each observation from the mean. (Note: absolute values are used, so positive deviations don't cancel out the negative ones)

=STDEV(cells) or
=STDEVP(cells)
=VAR(cells) or
=VARP(cells)
=STDEV(cells)/
AVERAGE(cells)
- **Standard deviation (s.d.):** the most common measure. Cancellation avoided by squaring the deviations before averaging them, taking square root at the end (to return to original units). The square of the s.d. is the **variance.** Different formulas for sample data vs. population data.
- **Coefficient of variation:** express s.d. as % of mean

Other useful measures include:
- **Range (= Max – Min):** the total amount of spread
- **Interquartile range (IQR):** range of middle 50% of observations, i.e., the 75th percentile observation minus the 25th percentile

Outliers (extreme values)
- Require special attention, sometimes special treatment

Measures of Shape

Measures of shape help answer "How are the observations distributed?"

Shape measures provide even more detail:

=SKEW(cells)

Skewness, i.e. how symmetrically or asymmetrically are the observations distributed around their mean?
- If roughly symmetrical, skew @ 0, mean @ median
- If skew < 0 (long **left** tail), mean < median
- If skew > 0 (long **right** rail), mean > median

Unimodal, bimodal (or multi-modal) distributions
- How many peaks are there?

=PERCENTILE(cells,p)
=QUARTILE(cells,p)
=PERCENTRANK(cells,
rank,significance)

Percentiles, deciles, quartiles, etc.
- The median is the 50th percentile, i.e., 50% of the observations fall at or below that value. What observation is at the 10th percentile? the 90th? the 25th? the pth, etc.

=KURT(cells)

Kurtosis, i.e., peakedness or flatness c/w bell curve
- If kurtosis > 0, peaked; kurtosis < 0, flat

Statistical Techniques
Descriptive Statistics (cont'd.)

Measures of Association

Measures of association help answer "How are two or more variables related?"

These summarize the amount and type of relationship between two (or more) variables:

=**CORREL**(cells1, cells2)
=**COVAR**(cells1, cells2)
=**PEARSON**(cells1, cells2)

Correlation coefficient (related ideas: Covariance, Pearson r)

- An index of the degree of **linear** relationship between 2 variables
- Values range from -1 to +1
  - -1 = perfect negative (inverse) relationship
  - 0 = no linear relationship
  - +1 = perfect positive relationship

=**RSQ**(ycells,xcells)

- **R-squared** measures how well a linear relationship fits two variables. In this context, it is merely the square of the correlation coefficient.

=**INTERCEPT**(ycells, xcells)
=**SLOPE**(ycells,xcells)

The **trend line** gives the formula for the best-fitting line (or curve) that describes how two (or more) variables relate

- e.g., y = intercept + slope*x
- e.g., Sales = 15.5 + 2.1*AdExpenses
- e.g., log(income) = 3.7 + 6.2*log(population)

Statistical Techniques

Sampling and Distribution - Normal Distribution

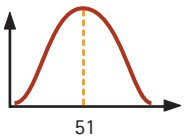
A normal distribution (or "bell curve") is the symmetrical clustering of values around a central location. Note, a significant number of events in nature tend to be normally distributed.

Sampling is the process of selecting units (e.g., people, organizations, etc.) from a population of interest so that by studying the sample, we may generalize our results back to the population from which they are chosen.

The Sampling Distribution is the distribution of a statistic across an infinite number of samples. A common distribution of a sample is a Normal Distribution, or classic bell curve.

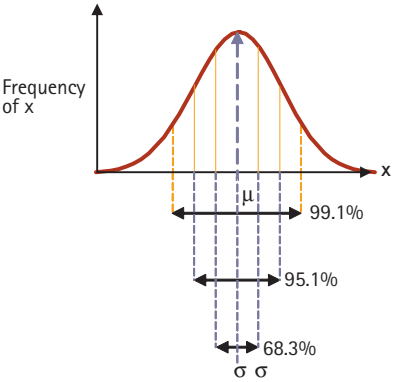
Typical Use

A common use of Normal Distribution is to make predictions about the frequency of specific occurrences. Consider the distribution of test scores on a math exam. Test scores are generally assumed to follow a normal distribution because they derive from people's intelligence levels, which are normally distributed since they are a "natural occurrence." Below is the data from the last math exam. The average score was 51, with a standard deviation of 8 points.



$\mu = 51$
$\sigma = 8.0$

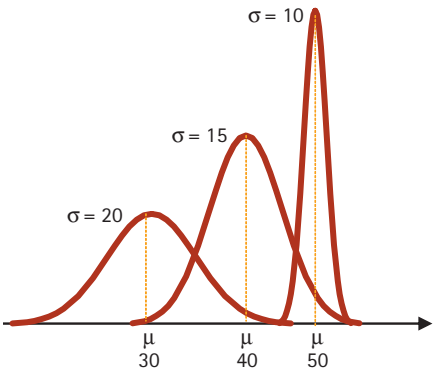
So, in the case of the math tests, we can say that about 68% of the students got scores between 43 and 59. We can also say that about 95% of the students got scores between 35 and 67. Additionally, we can say that very, very few people (less than 1%) got a score either below 27 or above 75—three standard deviations away from the mean.



Rules for Normal Distribution:
A Normal distribution is completely defined by just two parameters: if we know its mean μ and its standard deviation σ, we know everything about it!

99.1 % of sample falls within +/- 3 standard deviations
95.1 % of sample falls within +/- 2 standard deviations
68.3 % of sample falls within +/- 1 standard deviation

The smaller the standard deviation, the less variation around the mean, the steeper the bell curve:



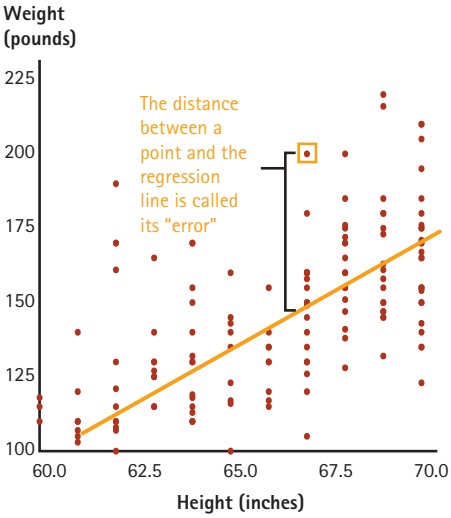
Statistical Techniques

Regression Analysis

Statistical regression helps determine if a relationship exists between two or more variables.

Linear Regression

Regression programs automatically compute the best line, i.e. the one that has the least total error.



Overview

Regression analysis is typically used to make predictions/statements about a variable y, based on values of one or more other variables x1, x2, etc.

- y is called the **dependent** or **response** variable
- the x's are called the **independent** or **predictor** variables

Assuming the relationship between variables can be described by a line:

y = intercept + slope1 x1 + slope2 x2 + ... + some random variation

or, in shorthand

y = b0 + b1x1 + b2x2 + ... + bnxn + e

If we have values for the x's, we can plug them into the line equation and calculate our best guess for y.

Note:
Association does not necessarily imply causality! Other reasons for association include variables sharing a common cause, a causal relationship in the opposite direction than assumed, no causal relationship at all (e.g., two unrelated variables that have consistent trends, either up or down, will be closely correlated).

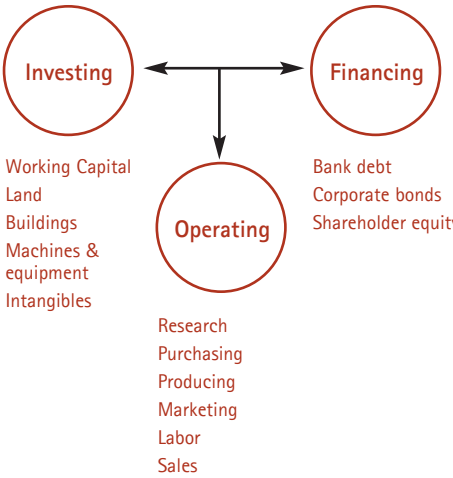
Regression is usually used on sample data. Be careful about drawing inferences about the population as the regression line is simply one possible sample outcome, randomly given to us from the many others we could have gotten if our sample were different

Financial Analysis

Overview

Financial analysis, based on financial statements, is the foundation for determining the financial health of a company.

Financial statements capture key business activities:

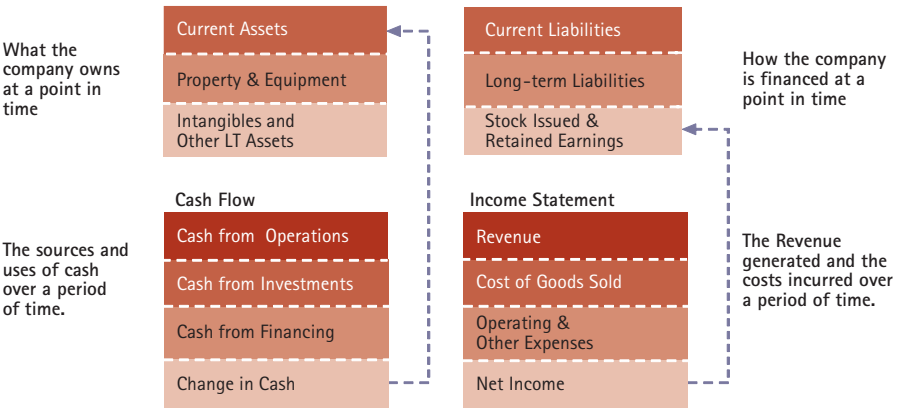


Core Financial Statements

There are three primary financial statements and each is tied to the others:

- Balance Sheet
- Income Statement
- Cash Flow Statement

Graphical Representation



Notes: _____

Financial Analysis

Balance Sheet

The Balance Sheet provides a statement of financial position at a specific date (for instance the company's year end). It is "snapshot" of a company's financial position, indicating its worth. The fundamental equation for the Balance Sheet is: Assets = Liabilities + Shareholder's Equity

Assets		=	Liabilities		+	Shareholders' Equity
Current Assets	• Cash and marketable securities • Short-term investments • Inventory • Accounts Receivable • Prepaid expenses		Current Liabilities	• Short-term Debt • Deferred Revenue • Accounts Payable • Accrued compensation and benefits • Income Tax Payable		Capital Stock, Additional Paid-In Capital, Retained Earnings
Long-term Investment	• Investment in long-term notes, common stock • Long-term receivables • Investment in non-consolidated subsidiaries		Long Term Liabilities	• Long-term Debt* • Deferred Income taxes • Under-funded pensions • Provisions		
Fixed Assets	• Machines & Equipment • Plant • Furniture and fixtures • Land					
Intangible Assets	• Goodwill • Patents/trademarks • Software development costs • Franchises			Off-balance Sheet Liabilities		or "Net Worth" or "Book Value" or "Net Assets"
Other Assets	• Deferred tax asset					

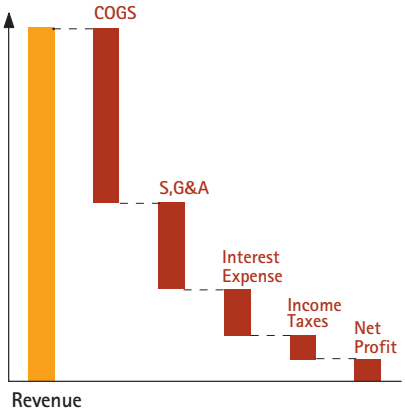
*May include obligations under capital leases

Financial Analysis

Income Statement

The Income Statement is used to show the revenue generated and the costs incurred over one financial year.

Graphical Representation



All revenue and cost items are treated using the accrual basis of accounting, i.e., a revenue or cost is recorded when it is incurred, not when the actual cash transaction takes place.

Components of Income Statement

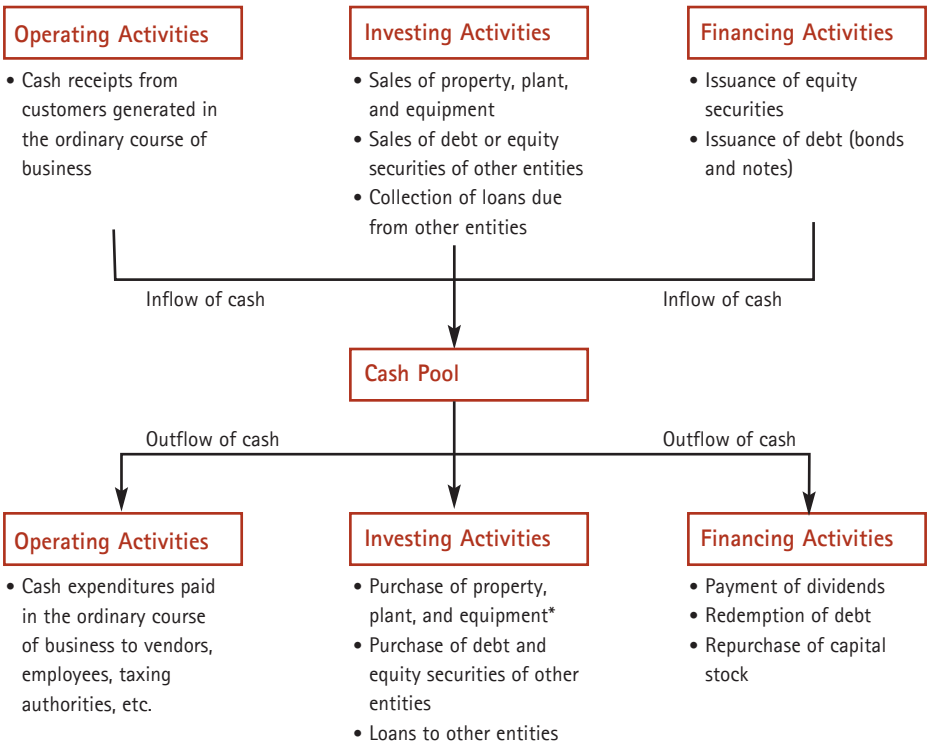
Sales	Cash sales
	Credit sales
Cost of Goods Sold (COGS)	Raw materials
	Direct labor
	Factory overhead (including production depreciation)
	Freight-in
Selling, General, & Administrative Expenses (S,G&A)	Non-production salaries (marketing, sales, accounting, etc.)
	Amortization
	Freight-out
	Advertising/marketing expenses
	Non-production depreciation
Non-operating Income/Expense	Gain/loss associated with sale of assets other than inventory
	Gains/losses associated with non-operating activities
Interest Expense	Interest on debt payable
	Interest on capital lease obligations
Income Tax Expense	Deferred tax expense
	Income tax expense

Financial Analysis

Cash Flow Statement

The Statement of Cash Flows identifies a company's sources and uses of cash during the period.

Graphical Representation



**Including M&A activities*

Financial Analysis

Ratio Analysis

Ratios derived from the financial statements can provide insight about the relative health of a company and are most useful when used in comparison of performance over time or performance vis-à-vis competitors.

Ratio Type	Insight
Liquidity	Measure of company's ability to meet its short-term obligations
Efficiency	Measure of how effectively the company is utilizing its assets
Profitability	Measure of a company's ability to generate returns and/or link returns to capital employed
Leverage/coverage	Measure of a company's ability to cover debt and balance the benefits and costs of debt financing

Type	Name	Formula
Liquidity	Current Ratio	$= \frac{\text{Current Assets}}{\text{Current Liabilities}}$
	Quick Ratio (Acid Test)	$= \frac{\text{Cash + Marketable Securities + Net Receivables}}{\text{Current Liabilities}}$
Efficiency	Receivable Turnover	$= \frac{\text{Net Sales}}{\text{Avg. Accounts Receivable}}$
	Inventory Turnover	$= \frac{\text{Cost of Goods Sold}}{\text{Average Inventory}}$
	Asset Turnover	$= \frac{\text{Net Sales}}{\text{Avg. Accounts Receivable}}$
Profitability	Profit Margin	$= \frac{\text{Net Income}}{\text{Net Sales}}$
	Return on Assets (ROA)	$= \frac{\text{Net Income}}{\text{Average Total Assets}}$
	Return on Equity (ROE)	$= \frac{\text{Net Income}}{\text{Average Common Equity}}$
	Earnings per Share (EPS)	$= \frac{\text{Net Income}}{\text{Outstanding Common Shares}}$

Financial Analysis

Ratio Analysis (cont'd.)

Type	Name	Formula
Profitability	Price Earnings Ratio (P/E)	$= \frac{\text{Market Price of Stock}}{\text{Earnings per Share}}$
	Operating Margin	$= \frac{\text{Operating Profit}}{\text{Net Sales}}$
	Dividend Yield	$= \frac{\text{Dividend per Share for One Year}}{\text{Share Price at Start of Year}}$
	Dividend Cover	$= \frac{\text{Earnings per Share}}{\text{Dividend per Share for One Year}}$
	Market to Book	$= \frac{\text{Price per Share x \# Shares Outstanding}}{\text{Book Value of Equity}}$
	Enterprise Value	= Market Capitalization – Cash + Preferred Stock + Debt
Leverage/ coverage	Debt to Equity	$= \frac{\text{Total Debt}}{\text{Shareholder's Equity}}$
	Interest Coverage	$= \frac{\text{EBIT}}{\text{Interest Expense}}$

Return on Invested Capital

Return on Invested Capital (ROIC) helps assess the return on the investment to provide a framework assessing the return on the investment provided by a company's debt and equity investors.

ROIC

It is often difficult to make meaningful comparisons of companies when using traditional metrics like Return on Assets and Equity because of GAAP limitations and international differences.

ROIC helps assess the return on the investment and correctly captures contributions of debt and equity investors in the denominator and avoids the pitfalls of accounting manipulations from depreciation and amortization of goodwill in the numerator

ROIC is equal to Net Operating Profit Less Adjusted Taxes (NOPLAT) divided by Invested Capital

$$\text{ROIC} = \frac{\text{NOPLAT}}{\text{Invested Capital}}$$

NOPLAT

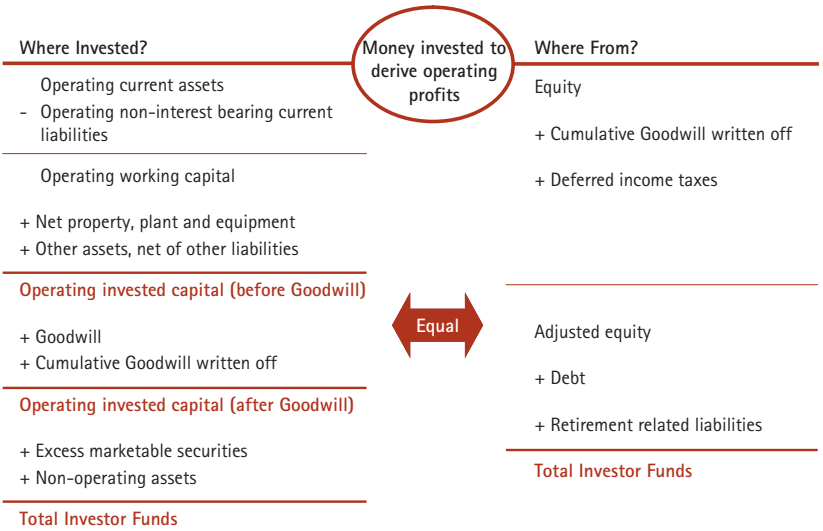
There are two ways to calculate NOPLAT (Net Operating Profit Less Adjusted Taxes) – top down and bottom up:

Top Down		Bottom Up
	Profit derived from operations	
Total revenues - Cost of goods sold - Selling, general and administration expenses - Depreciation expense - Other operating expenses		Net Income + Increase in deferred taxes + Goodwill amortization + Extraordinary items + Minority interest income
Reported EBITA		Adjusted Net Income
- Taxes on EBITA	Equal	+ Interest expense after tax
+ Increase in deferred taxes		Total Income Available to Investors
		- Interest income after-tax - Non-operating income
NOPLAT		NOPLAT

Return on Invested Capital
(cont'd.)

Invested Capital

There are two ways to calculate Invested Capital– based on where money is invested or where the capital is coming from:



Things to Consider When Using ROIC

Financial analysis can be limited unless customized to address more complicated issues within an industry.

ROIC is not appropriate for **Financial Services clients** because liability management is a part of their operations. Additionally, there is difficulty in separating debt for operating purposes versus financing purposes. To address this, separate banking and insurance models have been developed by Accenture to analyze ROE decomposition, with industry specific adjustments incorporated.

ROIC is not appropriate for **Government clients** since the mission of government is to optimize social outcomes at the best price, not just economic return. To address this, evaluate a government agency based on a combination of the outcomes achieved and the associated costs (Public Service Value – PSV).

Net Present Value

Net Present Value (NPV) is the net current value of future cash flows over a period of time.

NPV Analysis

Net Present Value (NPV) is the net current value of future cash flows over a period of time. Because money today could be earning interest, a dollar received now is worth more than a dollar received in the future.

Sum of all net cash flows (cash inflows minus cash outflows) discounted to present values; used to compare the financial impact of two or more options or appraise a single option against a desired standard.

Year 1 ($M)

	2006	2007	2008	2009	2010
Revenue	0	1	4	7	12
Cost	(4)	(3)	(4)	(3)	(4)
Investments	(10)	(1)	(0)	(1)	(1)
Cash Flow	(14)	(3)	0	3	7

Calculating NPV

Step 1: Prepare cash flow forecast including investments required (cash outflow) and expected cash inflows

- Most cash flow forecasts are done on an annual basis, but you can construct quarterly or monthly cash flows if more detail is desired
- Often, cash flows for the first 1-2 years are negative as cash must be invested into starting up
- While you should discuss with the client how many years to estimate the cash flows, generally a 3-5 year period is standard practice
- Please note that in this example, Year 0 (present day) is 2005. Year 1 is 2006. This is important because cash flows derived in 2006 must be discounted back to 2005 to find the present value. Cash flows are generally assumed to occur at the end of the period or midway through the period

Step 2: Define Discount Rate - the rate used to discount net cash flows to present value.)

- Clients often use standard assumed discount rates primarily based on weighted average cost of capital (WACC) or an internal "hurdle rate" based on the required rate of return
- Note that different projects may use different discount rates to reflect the relative risk of the project

R= Company defined WACC: 9.5%

Net Present Value
(cont'd.)

NPV Analysis (cont'd.)

Step 3: Calculate the continuing value (also called terminal value.). The continuing value is used to show the remaining value of the project in the years beyond the last year shown in the estimated cash flows. In this example, the continuing value would be the remaining value in the project after 2010.

- To calculate the continuing value, find the average of the final two or three years of cash flow (the goal is to get close to a steady state of growth). This number becomes the numerator (CF^{Future}) in the continuing value equation.

$$\text{Continuing Value} = \frac{CF^{Future}}{R - G}$$

- Define an assumption for the growth rate of cash flow for the foreseeable future. This assumption can be derived from analyst reports or from industry historical data. Often, the long-term rate of inflation is used. This number becomes the G in the denominator in the continuing value equation. In this case, let's assume a growth rate of 5%.

Example

$$\text{Continuing Value} = \frac{5}{0.095 - 0.05} = 111.11$$

- Use the same R used in Step 2
- The result is the remaining value of the project in Year 2010. That means that you still have to discount the continuing value figure back into present day dollars.
- As you can see, the continuing value makes up a substantial portion of the future value of the project making the assumptions you use in the calculation particularly important. Run sensitivity analysis on your continuing value assumption to understand its impact on your results.

Step 4: Discount all future cash flows back to present day (Year 0 = 2005). This step is usually done in Excel but is illustrated in the table below.

Year 1 ($M)

	'06	'07	'08	'09	'10	CV '10
Cash Flow	(14)	(3)	0	3	7	111.11
x						
Discount factor	$\frac{1}{1.095}$	$\frac{1)}{1.095^2}$	$\frac{1}{1.095^3}$	$\frac{1}{1.095^4}$	$\frac{1}{1.095^5}$	$\frac{1}{1.095^5}$
NPV	(12.7)	(2.5)	0	2.1	4.4	70.6

Step 5: Add all of the present values of the individual year cash flows together to arrive at overall project net present value.

($M)

Total NPV = (12.7) + (2.5) + 0 + 2.1 + 4.4 + 70.6

Total NPV = 61.9

Shareholder Value Analysis

Shareholder Value Analysis (SVA) is a collection of discrete but related analyses that links company performance to value creation. SVA is a systematic way to identify deficiencies and opportunities in a company's operations.

Analysis	Description	Use/Benefit
TRS Analysis (Total Return to Shareholders)	Measures cumulative return to shareholders over a given time period versus competitors	Identifies value creators and value destroyers within an industry
ROIC Trees (Return on Invested Capital)	Dissects ROIC into sub-components – operating margin, capital utilization, and tax rate	Identifies potential value-creation opportunities and related value drivers (e.g., back office expenses versus competitors)
WACC (Weighted Average Cost of Capital)	Cost of Capital – the minimum rate of return on invested capital necessary to satisfy investor expectations	Enables team to determine if the company is generating positive or negative spread (ROIC – WACC)
Future Value Analysis	Decomposes a company's market value in terms of the value driven by current cash flow and the value driven by future cash flow growth expectations	Demonstrates the required growth in cash flow necessary to sustain current market value
Strategic Control Map	Plots competitors along three axes – Book Value, Market Value, and Market-to-Book Ratio	Illustrates how M&A activity has affected industry structure and shows the relative position of peers

How to Use with Clients

1. Identify industry trends and value drivers that should concern the CEO
2. Analyze how the company is creating value or falling short
3. Determine the company's imperatives and opportunities
4. Match opportunities to Accenture offerings (and show value impact)
5. Pinpoint action steps that the CEO should take (with Accenture)

SVA: Financial Services

Financial Services companies require a different approach to Shareholder Value Analysis. Accenture follows a four step approach to identifying value in Financial Services organizations.

Graphical Representation

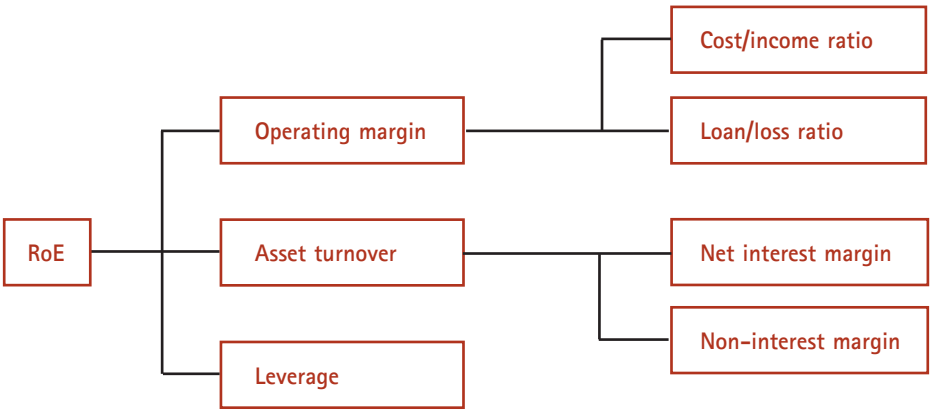
Plots economic performance against market performance in the form of Residual Income (ROE - COE) on the X-axis and Market-to-book on the Y-axis

Uses an ROE tree rather than an ROIC tree due to the nature of the banking business where liability management is part of the operation

Plots the client's capabilities in 12 areas to see where the business model may be misaligned and require attention

Brings together the operational and financial data to identify priority opportunities, determine how Accenture can help, and estimate potential value for the client and Accenture

Sample ROE Tree



SVA: Public Service Value

The Government sector uses Public Service Value which leverages many of the key concepts of standard Shareholder Value Analysis and measures a public service organization's ability to deliver outcomes cost-effectively over time.

Overview

Instead of focusing on Spread (ROIC-WACC) and growth, or focusing only on measuring inputs (e.g., the number of police officers employed) and outputs (e.g., the number of people arrested) , PSV is focused on outcomes (e.g., crime levels and overall public safety) and cost effectiveness.

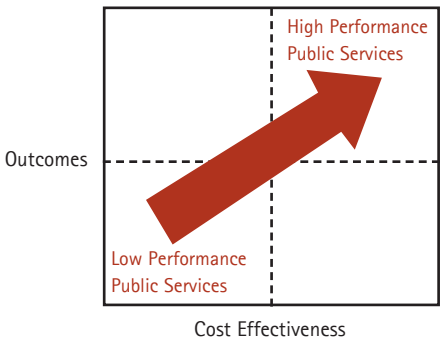
Social Outcomes are defined as a weighted basket of social achievements, changes or benefits aligned to citizen expectations. Outcomes can range in complexity and can sometimes compete with each other.

Cost Effectiveness is a return on investment calculation that refers to the total budget required to achieve outcomes plus capital charges.

Assessing Public Value

To create public value, outcomes to the public must be increased without increasing the cost of delivery.

The Accenture Public Service Value Model



Output

Effective Communication

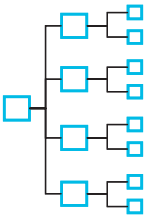
Myth: People read sequentially
Fact: People read for their main point

Myth: Format doesn't matter
Fact: Thought structure, and therefore format, is key to buy-in

Reader	Detail	How They Read	What They Read
Executive	Little	Skim/Scan Inductive	• Executive Summary • Selective Sections • The Solution, Numbers
Management	Detail in key areas only	Skim Mostly Inductive	• Executive Summary • Selected Details • The Activities leading to solution
Technical	Mostly Detail	Sequential Deductive	• Sections • Appendix • The "How" behind the Activities

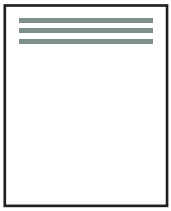
Recommended Communication Structure

1. Do the Research and Analysis



2. Structure the Story Line

3. Tell the Story in Topic Sentences (= Story Board)



4. Show the Story by Supporting the Topic Sentences

Action Words

To provide useful vocabulary words and phrases—to be used sparingly!

Start

Accelerate
Begin
Commence
Enter
Establish
Found
Inaugurate
Initiate
Institute
Jump-start
Launch
Move forward
Open
Prepare
Prompt
Ramp-up
Roll-out
Start
Undertake

Stop

Close
Complete
Conclude
Discontinue
End
Exit
Halt
Leave
Pause
Postpone
Prevent
Ramp-down
Retire
Stop
Suspend
Terminate
Vacate
Wait

Speed Up/ Down

Accelerate
Catalyze
Catapult
Escalate
Expedite
Fast-forward
Fuel
Hasten
Propel
Speed

Decelerate
Delay
Extend
Lengthen
Limit
Pace
Scale back
Slow
Slowdown

Adjust

Adjust
Amend
Calibrate
Fine-tune
Hone
Level
Limit
Mitigate
Modify
Refine
Refocus
Revamp
Revise
Scale
Stabilize
Steady
Tune

Up/More

Add
Advance
Amplify
Augment
Broaden
Elevate
Enlarge
Enrich
Exceed
Expand
Heighten
Improve
Increase
Invigorate
Launch
Lift
Maximize
Propagate
Raise
Reinvigorate
Scale up
Strengthen
Upgrade

Action Words
(cont'd.)

Down/Less

Attenuate
Condense
Consolidate
Constrict
Curtail
Cut (back)
Decrease
Eliminate
Limit
Lower
Minimize
Narrow
Prune
Reduce
Remove
Restrict
Scale down
Shrink
Tighten
Trim
Weaken

Manage

Address
Administer
Balance
Control
Direct
Drive
Focus
Govern
Guide
Inspire
Lead
Manage
Organize
Oversee
Persuade
Plan
Position
Preside
Recommend
Regulate
Require
Sponsor
Steer
Supervise

Communicate

Announce
Articulate
Broadcast
Comment
Communicate
Contact
Convey
Convince
Describe
Disclose
Discuss
Engage
Highlight
Inform
Listen
Make Aware
Mandate
Negotiate
Notify
Persuade
Position
Present
Publicize
Reinforce
Respond
Share
State
Target
Tell

Assess

Analyze
Ascertain
Assess
Audit
Authenticate
Clarify
Compare
Compute
Consider
Contrast
Delve into
Discuss
Evaluate
Examine
Explore
Focus
Hypothesize
Interpret
Investigate
Juxtapose
Model
Qualify
Reconsider
Review
Screen
Scrutinize
Separate
Study
Target
Test
Translate
Uncover
Weigh

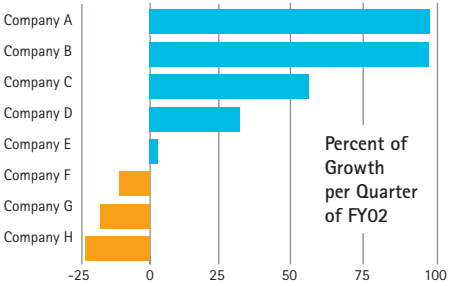
Decide

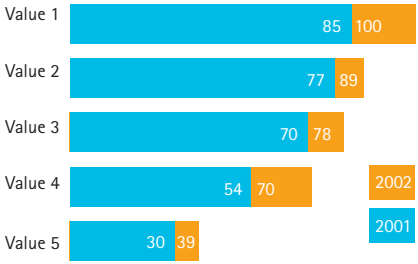
Accept
Advocate
Agree
Approve
Choose
Conclude
Contract
Decide
Elect
Endorse
Finalize
Formalize
Formulate
Judge
Prioritize
Recommend
Reject
Sanction
Select

Commonly Used Charts & Graphs

Bar charts

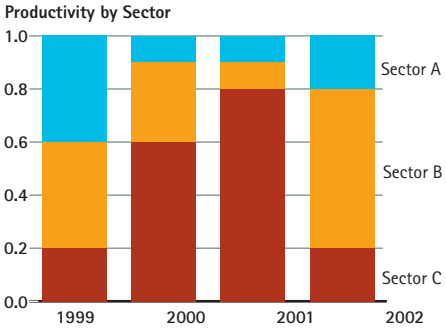
For simple comparisons, multiple comparisons, rankings, trends and frequencies

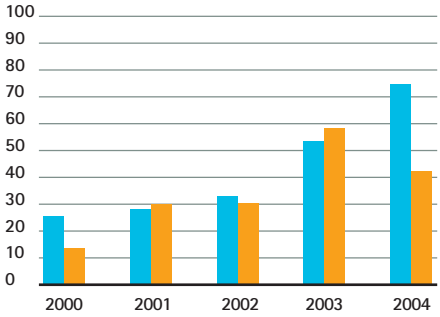




Column charts

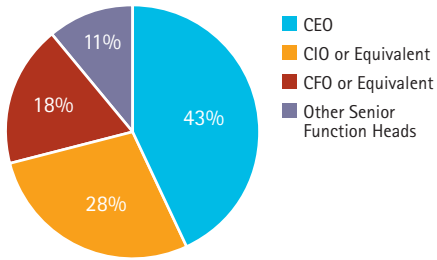
For simple comparisons, multiple comparisons, trends, rankings and frequencies





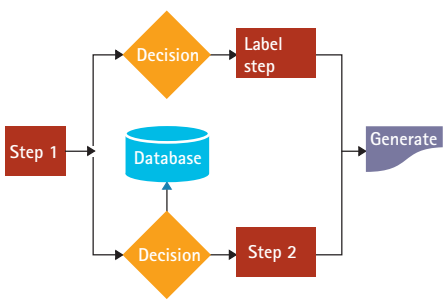
Pie charts

For showing a whole and its parts, percentages or fractions



Flow charts

For processes and sequences



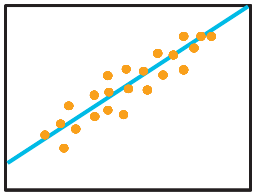
Commonly Used Charts & Graphs
(cont'd.)

Correlation

Between variables

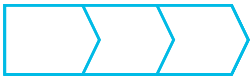
Tornado Chart

or

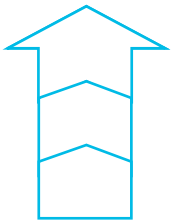


Correlation Chart

Flow



Linear



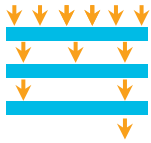
Vertical

Circular

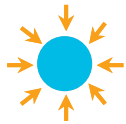
Interaction

Penetration

Balance

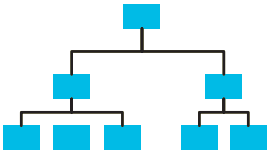


Screens

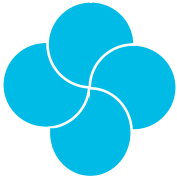


Forces at Work

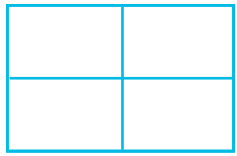
Structure



Organization



Parts of Whole

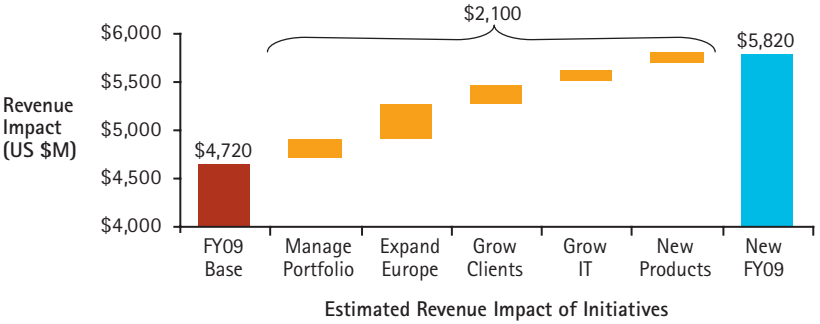


Segmentation

Commonly Used Charts & Graphs
(cont'd.)

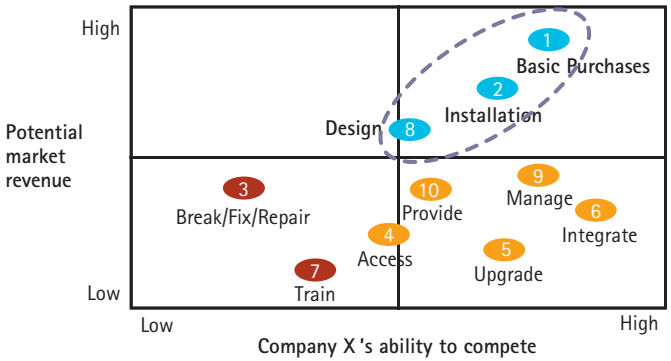
Waterfall Chart

Useful to demonstrate the change from one position to another



Prioritization Chart

Useful to demonstrate higher and lower value options given the client's chosen criteria

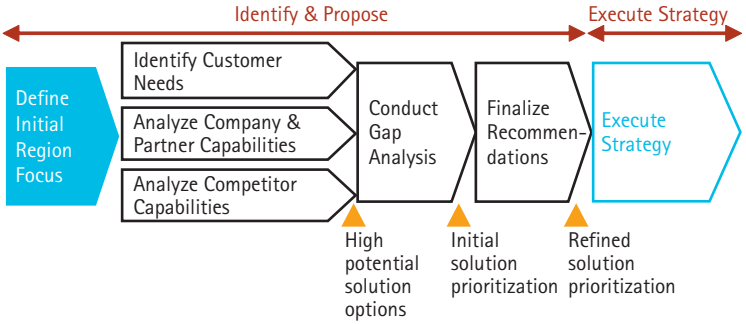


Commonly Used Charts & Graphs

Project-specific Visuals

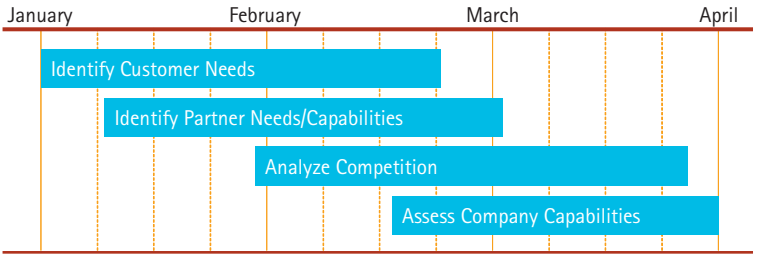
Chevron Chart

Useful for high-level project plans, shows events in sequence



Gantt Chart

Useful for high-level project plans with timeline



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Accenture is a global management consulting, technology services and outsourcing company. Committed to delivering innovation, Accenture collaborates with its clients to help them become high-performance businesses and governments. With deep industry and business process expertise, broad global resources and a proven track record, Accenture can mobilize the right people, skills and technologies to help clients improve their performance. With more than 133,000 people in 48 countries, the company generated net revenues of US$15.55 billion for the fiscal year ended Aug. 31, 2005. Its home page is www.accenture.com.