gap analysis

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The first step in strategic analysis is the establishment of the corporate mission, which can then be translated into a series of quantifiable objectives, both long-term and short-term. These will normally be at least partially financial, but a number is likely to be strategic. The corporate objectives can then be compared with an extrapolated performance for the corporation, generated from the sum of the expectations of the business units. Ansoff (1968) has one of the first worked examples of how to conduct a gap analysis.

A comparison of the objectives and the expected business outcomes will usually lead to a performance gap between the two. Gap analysis is concerned with why the gap occurs and the development of measures for reducing or eliminating it. This might be achieved by changing the objectives, or by changing strategy at the level of the businesses. The forecast is initially developed subject to four key assumptions:

1. corporation's portfolio of businesses remains unchanged;
2. competitive success strategies in the firm's products and markets will continue to evolve as in the past;
3. demand and profitability opportunities in the firm's marketplaces will follow historic trends;
4. corporation's own strategies in the respective businesses will follow their historic pattern of evolution.

The first step in gap analysis is to consider revising the corporate objectives. If expected outcomes from the businesses should exceed aspirations, the objectives can be revised upward. When aspirations substantially exceed possible performance, it may be necessary to revise the objectives downward.

When, after such adjustments, a significant gap still remains, new strategies need to be developed to eliminate the gap. To forecast sales increases likely to result from the introduction of alternative growth strategies for each business, managers can estimate the following measures of market structure:

- industry market potential (IMP)
- relevant industry sales (RIS)
- real market share (RMS)

When IMP is estimated it is assumed, first, that all customers who might reasonably use the product will do so, second, that the product will be used as often as possible and, third, that the product will be used to the fullest extent. The IMP therefore represents the maximum possible unit sales for a particular product. The difference between this value and current sales represents the growth opportunity for each product. The RIS equals the firm's current sales plus competitive gaps, and the RMS equals sales divided by the RIS.

Four components then contribute to the gap between the firm's sales potential and its actual performance, as follows:

- *Product line gap*. Closing this gap involves completing a product line, in either width or depth, and introducing new or improved products.
- *Distribution gap*. This gap can be closed by expanding distribution coverage, intensity, and exposure.
- *Change gap*. Using this strategy, the firm endeavors to encourage nonusers to try the product and to encourage existing users to consume more.
- *Competitive gap*. This gap can be closed by improving the firm's position through taking extra market share from existing competitors.

If the expected gap cannot be closed by decreasing IMP or gaining additional market share, attention may be shifted to assessing the firm's portfolio of businesses with a view to modifying it to add higher growth activities and/or divesting low-growth businesses.

See also *capabilities and capability analysis*; *competitor analysis*; *competitive strategy*; *product market diversification*; *profit impact of marketing strategies (PIMS)*; *strategic fit*; *SWOT analysis*

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