

Chapter 29

Linchpin Analysis





Ch29. Linchpin Analysis

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Ch29. Linchpin Analysis

Short Description

- Linchpin analysis a highly adaptable, logic structuring technique.
- Intended to minimize mistakes and promote clarity even with complex arguments containing variables about which there is a high degree of uncertainty.





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Background

- Longstanding part of military and public intelligence practice.
- Heuer Jr. (1999) says analysts need to question their assumptions-- failures occur when faulty assumptions go unchallenged.
- Linchpins are the pieces on which an argument balances.
- Linchpin analysis helps analysts to identify the key assumptions that could make or break their view of a focal situation.
- Until the early 1990s the CIA had predominantly used 'post-mortem' analysis to review deficiently foreseen events.
- It was born of the need for a more pro-active approach.
- It is not frequently used by business analysts – but should be.



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Strategic Rationale and Implications

- Assumptions are an important source of uncertainty and risk for businesses.
- A competitor's or your decision maker's assumptions may be based on a number of factors, including any of the following:
 - Beliefs about competitive position.
 - Past experience with products, customers, suppliers or rivals.
 - Geographic factors.
 - Market and industry trends.
 - Heuristics or rules of thumb.



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Strategic Rationale and Implications

- 2 key forms of assumptions —
 - (1) explicit (stated, transparent and subject to challenges)
 - (2) implicit (made subconsciously and not open to challenge or scrutiny)-riskier.
- False assumptions can lead to problems.
- People tend to assume that things will go the way they expect and prefer.
- Analyses of developments are based on assessments of factors that logically bring about a future without uncertainty.
- These factors are the drivers or linchpins of the analysis.
- If they should change, be reversed, removed, or turn out to be wrong, the basis for the prediction would no longer be supported.



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Strengths and Advantages

- Linchpin analysis is :
 - A technique that requires the analyst to think through and assess their assumptions, ensuring that alternative possibilities are considered.
 - Valuable in challenging conventional wisdom.
 - Beneficial when executives are operating on false, out of date, or overly optimistic or pessimistic perceptions of the competitive situation.



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Weaknesses and Limitations

- Identifying key assumptions is difficult to do.
- Linchpin analysis does not lend itself well to situations that require a very timely turn-around.
- Linchpin analysis does not generate forecasts or predictions.
- Many analysts do not conduct linchpin analysis and many decision makers will not ask for it because they are apprehensive of having their analysis shown to be deficient.



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Process for Applying the Technique

- The linchpin analysis requires a lot of experience and insight to perform effectively.
- The basic process for how the process works consists of the following five steps (Sawka, 1997).
 1. **List** all the **underlying assumptions** that were accumulated about a competitor or competitive situation.
 - List them via a worksheet.
 - See “Analyzing Assumptions Worksheet” on next slide.



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LINCHPINS	REASON/DATA	UNSTATED ASSUMPTIONS
<p>Sony Corporation's next generation version of its PlayStation game player will be a multi-media, internet-ready, Blu-Ray capable, HDTV, game player.</p>	<ul style="list-style-type: none"> ➤ Patents filed in 2005 for each of these capabilities. ➤ Preview versions showed several capabilities. ➤ They are betting on PlayStation as the center of tomorrow's living room. 	<ul style="list-style-type: none"> ➤ The unstated assumption for this claim is the belief that Sony's CEO cannot afford to lose another format war or he will be let go. ➤ Sony is unwilling to relinquish this market to Microsoft.



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Process for Applying the Technique

2. **Develop** judgments and **hypotheses** about a recent competitor decision or their marketplace action against those assumptions.
3. **Take** one key assumption (that is, **a linchpin**) and, for the sake of argument, either **eliminate it or reverse it**.
4. **Re-evaluate the evidence** in light of this changed or deleted assumption and generate a new set of hypotheses and judgments.
5. **Re-insert the assumption** that was eliminated or reversed and determine whether the new judgments still hold accurate.



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Process for Applying the Technique

- Linchpin Assumption Sensitivity Analyses (LASA)
 - LASA is another related linchpin-based approach.
 - The analyst varies the assumptions against several pre-established threshold values.
 - Use software to test sensitivity of assumptions.
 - Example: Linchpin assumption is that:
 - Rival will:
 - (1) *Introduce* the new product on February 15,
 - (2) Set introductory *price* at €500, and
 - (3) Support introduction by €100,000 worth of local *advertising*.



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Process for Applying the Technique

- **Linchpin Assumption Sensitivity Analyses (LASA)**
 - Example Cont'd: The following assumptions could be considered:
 - The *introductory date* will be 30 January. The other two variables remain the same.
 - The *introductory date* will be 30 March. The other two variables remain unchanged.
 - The introductory *price* will be €420. The other two variables remain unchanged from the original.
 - The introductory *price* will be €580, while the other two variables remain unchanged.
 - There will be only *minimal advertising support* of €10,000, the other variables remain the same.
 - There will be *extremely heavy advertising support* of €200,000 in advance of the introduction, while leaving the other two variables unchanged from the original values.



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Process for Applying the Technique

- Process for using linchpin analysis in assessing risk:
 - A simple '*if ... then*' statement can be written for each of the analyst's linchpin assumptions in the following form —
 - '*If* this assumption is proved to be false, *then* the effect on the matter will be ...'
 - The *if* statement reflects *probability*.
 - The *then* statement is about *impact*.
 - Probability and impact are two essential dimensions in most determinations of risk.
 - Where an assumption is assessed as likely to be false and/or it could have a significant effect on recommendations, that assumption should be considered a major risk that will require the analyst to provide alternatives or contingencies to the decision maker.



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Process for Applying the Technique

- Process for using linchpin analysis in assessing risk:
- 2 dangers with this technique:
 1. This approach can only consider assumptions which have been consciously made. There are hidden assumptions which people make every day, some of which can turn out to be highly risky.
 2. This approach tends only to identify so-called 'downside' risks — threats that an assumption may prove false and become a problem for the project-- not good at identifying opportunities.
- For opportunity identification, this method can be extended to address and challenge constraints .



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- **FAROUT Summary**

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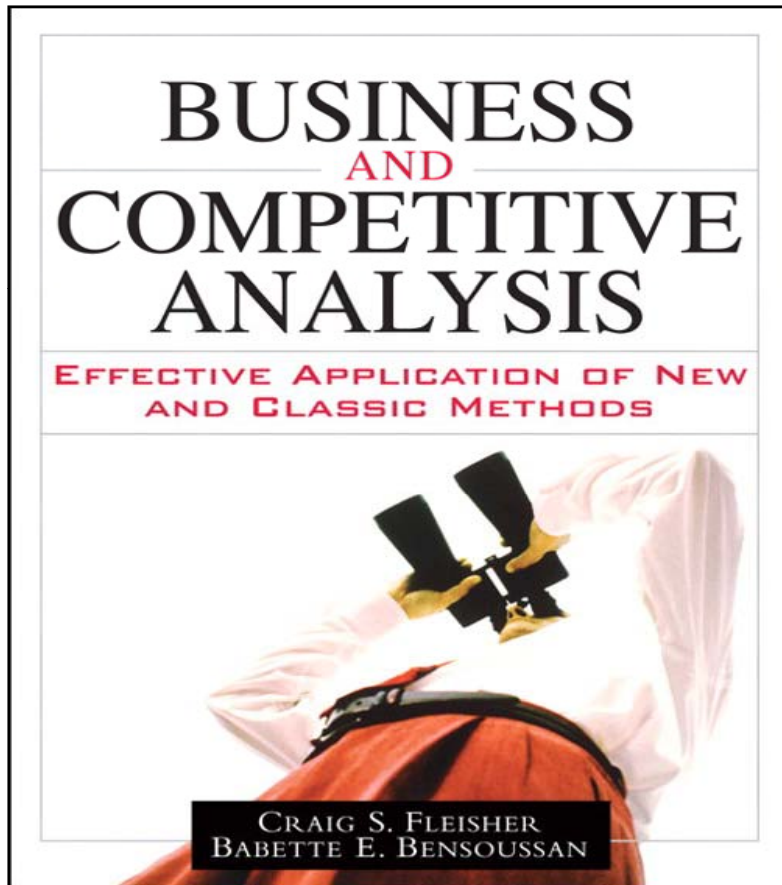


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Related Tools and Techniques

- Abduction
- Analogy
- Alternative Competing Hypothesis (ACH)
- Assumption Analysis
- Blind-spot Analysis
- Opportunity and Threat Analysis
- Scenario Analysis
- Sensitivity Analysis

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For More About **Linchpin Analysis**
and 23 Other Useful Analysis
Methods, see:

Fleisher, Craig S. and Babette E.
Bensoussan

*Business and Competitive
Analysis: Effective Application of
New and Classic Methods*

FT Press
FINANCIAL TIMES

Upper Saddle River, NJ
2007