BUSINESS AND COMPETITIVE ANALYSIS

EFFECTIVE APPLICATION OF NEW AND CLASSIC METHODS

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FT Press

Chapter9

SERVO Analysis

Ch9. SERVO Analysis

- Short Description

- Background

- Strategic Rationale & Implications

- Strengths & Advantages

- Weaknesses & Limitations

- Process for Applying Technique

- Summary

- FAROUT

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Ch9.2

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Short Description

- The SERVO (**S**trategy, **E**nvironment, **R**esources, **V**alues, **O**rganization) analysis framework model is a diagnostic management tool used to build and test a firm's strategic decisions and initiatives.

- Analysts examine the interactions and relationships among five critical elements to test the degree of fit between the firm's strategies, its organization, capabilities, management preferences and environment.

- It facilitates the process of strategy formulation and implementation within the context of both market and organizational change.

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Ch9.3
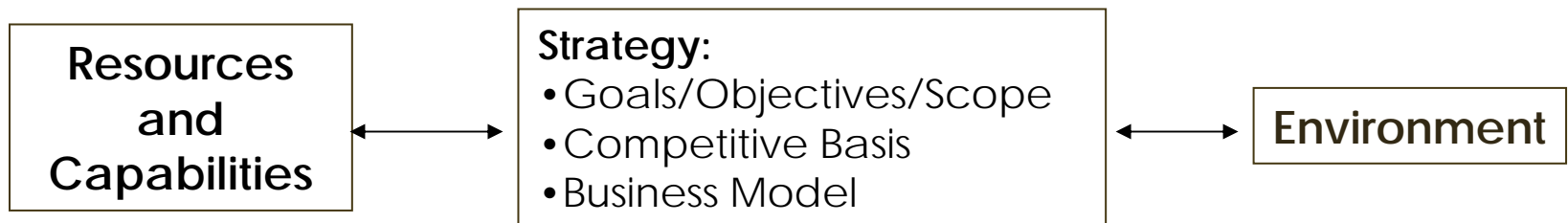
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Background

- SERVO allows for broad, integrative, in-depth analysis.

- Emphasizes the relationships among actions or decisions.

- Balance between both internal and external dimensions impacting strategy.

- 'Fit' is critical in the application of this model. Better fit leads to better performance.

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Background

- Illustration of 'Fit' Concept:

| Resources and Capabilities | ⟷ | Strategy:
• Goals/Objectives/Scope
• Competitive Basis
• Business Model | ⟷ | Environment |

- *The reality of most organizational situations is that some inconsistencies will exist between the elements over time.*

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Background

- **Strategy** is the set of competitive decisions and actions made in response to the firm's environment.

- Should identify the firm's goals and objectives, the product/service and market, the business activities, the value it will offer to customers, and how it will provide superior offerings.

- Strategy within the SERVO model is composed of four elements:
  - **Goals**
  - **Scope**
  - **Competitive basis/premise**
  - **Business Model**

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Background

- Environment:
  - External includes things 'outside' the legal boundaries of the firm.
  - Internal environment includes stakeholders, forces and conditions 'inside' the firm.
- Environment can also be segmented into components in proximity to the business.
  - **Internal**
  - **Task**
  - **Industry**
  - **Macro-environment** (PEST/STEEP)

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Background

- Resources
  - Assets and capabilities used to generate outputs.
  - Can use the value chain to classify.
    - Includes:
      - Financial
      - Human
      - Physical
      - Intangible

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Background

- Values
  - Analyst must capture the human & social sides of the firm's leading decision makers.
  - Values are reflected in the posture and managerial style of the decision maker.
  - Shared values represent the collective value system that drives a firm's organizational culture.
    - Go beyond the firm's mission statement by encompassing strategic intent, beliefs, mental mindsets, and future direction.
    - Can be the fundamental building block of an organization.

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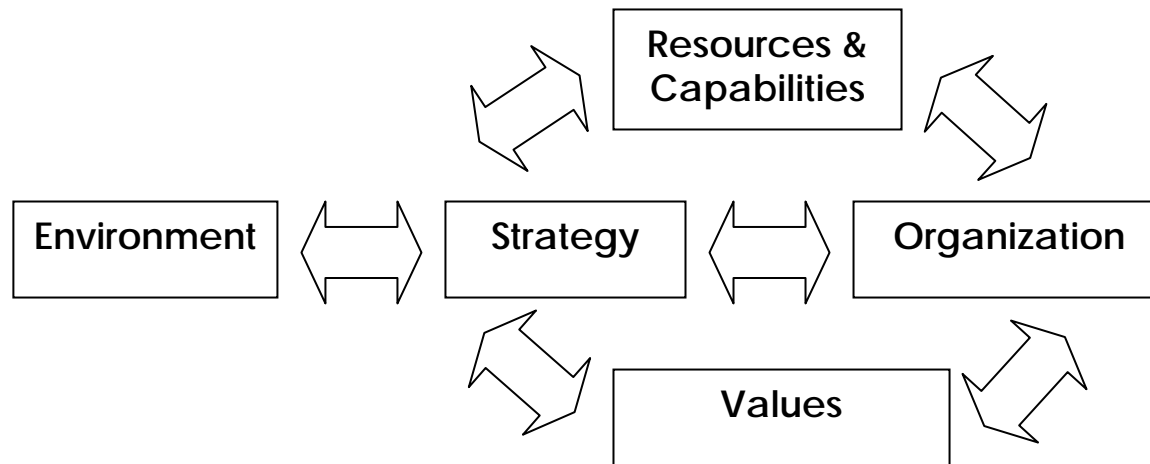
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Background

- Organization
  - **Culture**: beliefs, history, modus operandi, stories, traditions, and values.
  - **Leadership**: actions & behaviors of top decision makers.
  - **Staffing**: attraction, development, motivation, retention, and training of individuals.
  - **Structure**: allocation of responsibilities & reporting relationships within a firm.
  - **Systems**: flow of primary and secondary activities that are important for daily functioning.

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Background

- SERVO Model diagram:

```
                    ┌──────────────────┐
              ⇕     │   Resources &    │     ⇖⇘
                    │   Capabilities   │
                    └──────────────────┘
┌──────────────┐        ┌──────────┐        ┌──────────────┐
│ Environment  │  ⇔    │ Strategy │   ⇔    │ Organization │
└──────────────┘        └──────────┘        └──────────────┘
              ⇙⇗        ┌──────────┐        ⇘⇖
                        │  Values  │
                        └──────────┘
```

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Background

- SERVO Model diagram insights:

  1. Inclusion of 3 other elements in addition to strategy and structure: environment, resources, and values.

  2. Dual arrow lines connecting each element.

  3. Strategic failure may be attributable to any one of the five elements of strategic fit.

  4. The circular shape focuses attention on the absence of hierarchical dominance.

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Strengths and Advantages

- Balances between internal and external factors.
- Model departs from 'structure follows strategy' and broadens scope.
- Recognizes that change requires management of the relationships among **ALL** five elements of strategic fit.
- Inclusive and holistic.

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Weaknesses and Limitations

- Model is abstract, not precise.
- Can assist with both formulation & implementation tasks, but does not provide guidance for either.
- Model is difficult to apply.
  - Inter-relationships between elements are hard to discern.
- Model tends to be static.

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Process for Applying the Technique

- **Step 1: Assess whether performance has met internal and external goals.**
  - **Internal**
    - What do decision makers hope to achieve?
    - What do customers, suppliers, partners, and employees hope the firm will do?
  - **External**
    - Compare to market competitors over time.

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Process for Applying the Technique

- **Step 2: Assess the current strategy and discern whether change is necessary.**

- Analyst must be mindful that the relationships among strategic actions or decisions are important because they should complement each other.

- If the rare, major, and direction setting (that is, strategic) decisions are correctly made, then the operational and tactical decisions should follow.

  - Diagnosis begins with the macro relationships among elements.

  - Then details within each of 5 elements are considered.

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Process for Applying the Technique

- SERVO Grid Showing Fits among Elements

An Ideal SERVO Configuration:

	S	E	R	V	O
S	xxx	T/n	T/e	T/n	T/n
E	T/n	xxx	T/n	T/n	T/n
R	T/e	T/n	xxx	T/n	T/n
V	T/n	T/n	T/n	xxx	T/e
O	T/n	T/n	T/n	T/e	xxx

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Process for Applying the Technique

- SERVO Grid Showing Fits among Elements

SERVO Configuration at current state w/ misfits:

	S	E	R	V	O
S	xxx	T/n	T/n	L/d	T/n
E	M/n	xxx	T/n	M/d	L/e
R	T/n	M/n	xxx	T/n	M/n
V	M/d	L/d	T/n	xxx	T/n
O	T/n	L/e	M/n	T/n	xxx

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Process for Applying the Technique

- Fit Types: 2 stage process
  - Stage 1: Look at strength of fit (Capital letters on grid)
    - **Tight**: Highest level of performance.
      - All decisions support each other.
      - Difficult to maintain over time.
    - **Loose**: Lowest level of performance.
      - Decisions made in elements fail to support each other.
    - **Medium**: Some decisions in elements support each other, some do not.
      - Most common state.
      - Goal is to tighten loose fits.

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Process for Applying the Technique

- Fit Types: 2 stage process
  - Stage 2: Look at temporal fit. (Small letters on grid)
    - **Early:** Firm has a new pattern of fit between its SERVO elements before any other business.
      - Usually driven by the relationship of its strategy (S) with other elements.
      - Can be competitive advantage.
    - **Delayed:** Firm is slow competitor.
      - Usually driven by the relationship of its environment (E) with other elements.
    - **Normal:** Changes at the same time as a 'typical' firm.

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Process for Applying the Technique

- **Step 3: Develop and evaluate strategic options and programs.**

- **Three options:**
  - Change components to fit with strategy.
  - Change strategy to fit with components.
  - Compromise between strategy and components.

- Work to bring elements into alignment.

- Consider feasibility of alternatives.

- Helpful to prepare performance projections for alternatives.

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Process for Applying the Technique

- **Step 3: Cont'd**

- Recommend alternatives that offer best performance potential.

- Once decisions have been made, create a projected new SERVO grid.

- Framework should reflect an improved, or even better, ideal, alignment between each of the SERVO elements.

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Summary

- The SERVO model is an analytical framework that addresses what is important to strategic thinking.

- The analyst will need to consider the key factors associated with the firm, its strategy, and the environment in terms of the five elements.

- A strategic problem is present when the fit among the elements is loose, fragile, or broken.

- The analyst's objective is to generate recommendations to decision making clients that will tighten the fit among the loose relating elements.

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- **FAROUT Summary**

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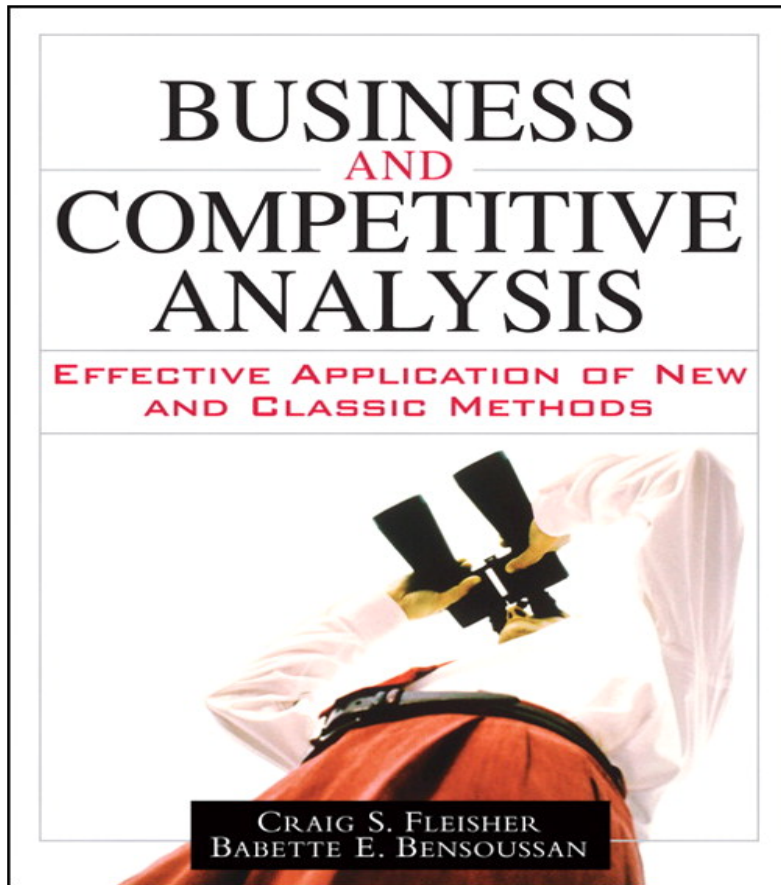Business and Competitive Analysis. By C. Fleisher & B. Bensoussan.

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Related Tools and Techniques

- 7S Analysis
- Competitive Benchmarking
- Customer Segmentation and Needs Analysis
- Customer Value Analysis
- Financial Ratio and Statement Analysis
- Functional Capability and Resource Analysis
- STEEP Analysis
- SWOT Analysis
- Value Chain Analysis

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For More About SERVO 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

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FINANCIAL TIMES

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