

12 Strategy Tools Every Finance Professional Should Know

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Tool # 1

PESTEL Analysis

As a CFO or FP&A you will be required to support strategic decision making about geographical expansion in a certain market, and the first situational analysis that should be done is the PESTEL Analysis.



What is PESTEL Analysis?

It is about analysing the external factors that impact or could potentially impact the Business in the potential market from 6 angles



1. Political:

Any political factors that impact or could potentially impact the Business. Examples: A new government, a new initiative, a change of policy, etc.

2. Economical:

Any Economic factors that impact or could potentially impact the Business.

Examples: A change in disposable income, an economic downturn, currency fluctuation or devaluation, etc.

3. Social:

Any Sociological factors that impact or could potentially impact the Business.

Examples: The demographic change of a company's customers, a change in the cultural habits of the population, a change in lifestyle, etc.

4. Technological:

Any Technological factors that impact or could potentially impact the Business.

Examples: A new software, device, patents, internet infrastructure, etc.

5. Environmental:

Any Environmental factors that impact or could potentially impact the Business.

Examples: the use of plastic bags for goods, the use of electrical cars, environmental regulations, etc.

6. Legal & regulations:

Any Legal factors that impact or could potentially impact the Business.

Examples: Competitive regulations, employment law, Data protection, etc

Tool # 2

SWOT Analysis

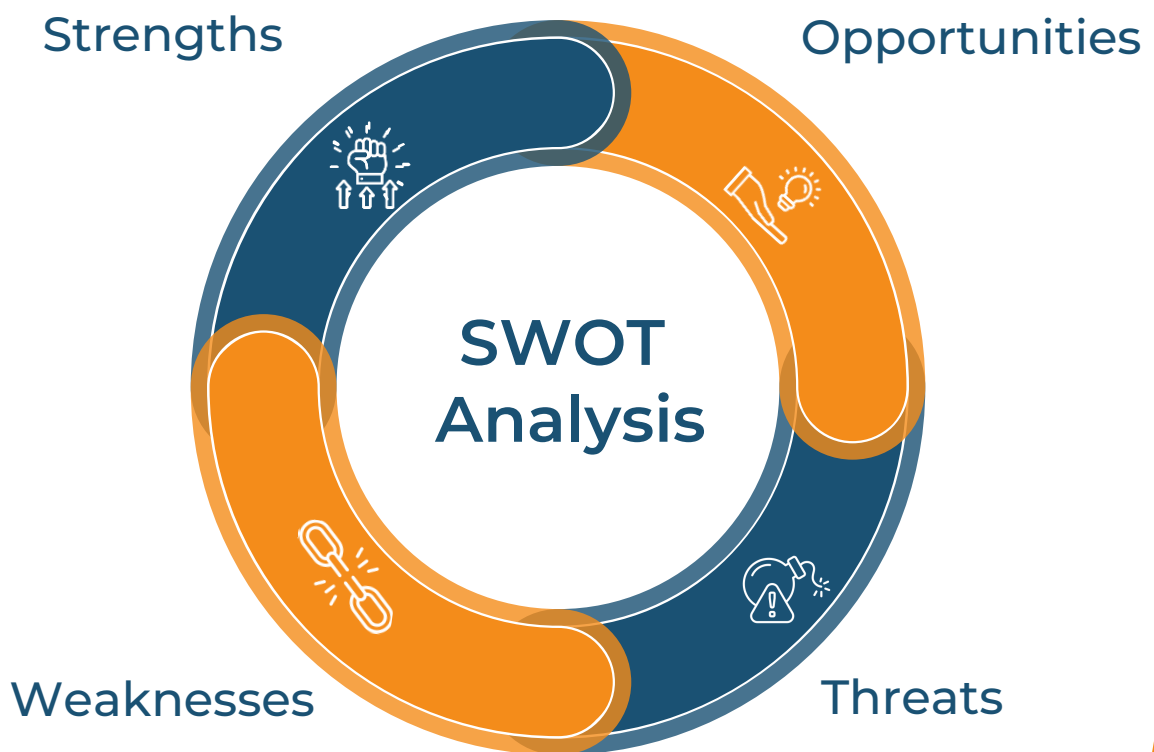
As a CFO or FP&A you will be required to support your organization's strategic plan, and one of the important tools used to analyse the internal and external environment is the **SWOT analysis**.



What is SWOT Analysis?

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats

Strengths & Weaknesses cover the internal forces, and Opportunities, and Threats cover the external forces.



1. Strengths:

Are the organization's resources and capabilities that can be used to develop a competitive advantage vs other competitor; strengths should be realistic and not modest.

Examples: Strong brand equity, talented and skilled team, strong financial capabilities, etc



2. Weaknesses:

Are the barriers to maintaining or achieving a competitive advantage; a limitation, fault, or defect of the organization; weaknesses; should be truthful so that they addressed and overcome as quickly as possible.

Examples: Lack of quality in some products, lack of financial resources, high employees' turnover, low customer retention, etc



3. Opportunities

Are the favourable external factors that could give your organization a competitive advantage.

Examples, if a country cuts tariffs, a new innovative technology that can help in serving customers better, etc.



4. Threats

Are the factors that have the potential to harm your Organization.

Examples, rising costs for materials, increasing competition, tight labour supply, etc.



Tool # 3

Porter's 5 Forces

As a CFO or FP&A you will be required to act as a strategic business advisor, and deeply understand the industry factors represented by 5 forces which are threat of new entrants, power of suppliers, power of buyers, threat of substitutes, and rivalry among existing competitors.



What is Porter's 5 Forces ?

This will help CFO / FP&A to develop strategies and action plans to mitigate risks from the forces that have negative impacts and reduce the share of profits going to suppliers, buyers, substitutes, competitors or new entrants.



1. Rivalry among Existing Competitors

The first of the Five Forces refers to the number of competitors and their ability to undercut a company. The larger the number of competitors, along with the number of equivalent products and services they offer, the lesser the power of a company.

2. Threat of New Entrants

A company's power is also affected by the force of new entrants into its market. The less time and money it cost for a competitor to enter a company's market and be an effective competitor, the more an established company's position could be significantly weakened.

3. Power of Suppliers

The next factor in the Porter model addresses how easily suppliers can drive up the cost of inputs. It is affected by the number of suppliers of key inputs of a good or service, how unique these inputs are, and how much it would cost a company to switch to another supplier. The fewer suppliers to an industry, the more a company would depend on a supplier.



4. Power of Customers

The ability that customers must drive prices lower, or their level of power is one of the Five Forces. It is affected by how many buyers or customers a company has, how significant each customer is, and how much it would cost a company to find new customers or markets for its output.



5. Threat of Substitutes

Substitute goods or services that can be used in place of a company's products or services pose a threat. Companies that produce goods or services for which there are no close substitutes will have more power to increase prices and lock in favourable terms. When close substitutes are available, customers will have the option to forgo buying a company's product, and a company's power can be weakened.



Tool #4

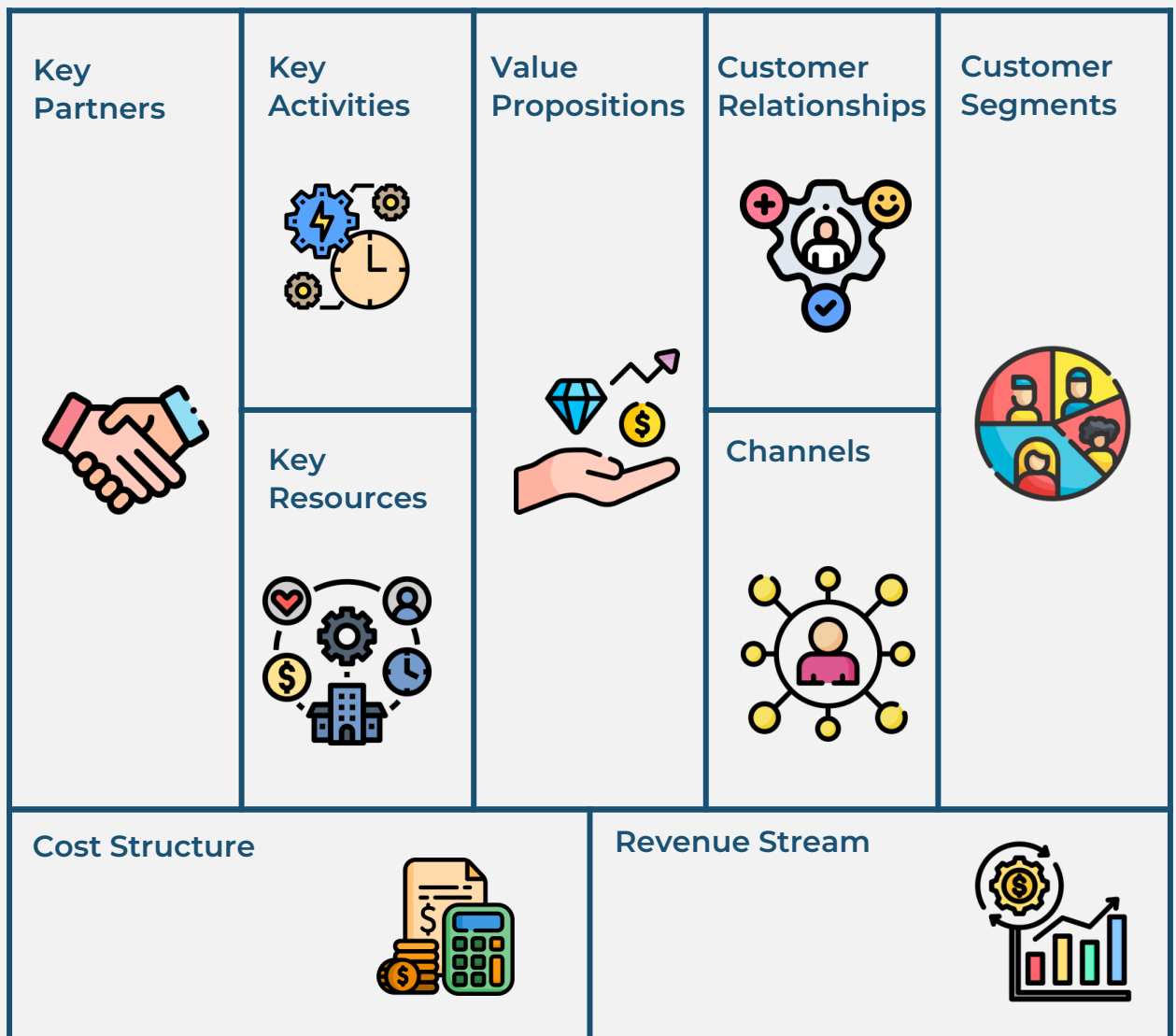
Business Model Canvas

As a CFO or FP&A you will be required to act as a strategic business advisor, and to help your organization to develop new business models or improve existing ones.



What is Business Model Canvas?

It is a business model describes the rationale of how an organization creates, delivers, and captures value. It includes 9 building blocks, which are:



1. Key Partners

List the partners who helps you optimize your operations, reduce your risks, and get a competitive advantage.



2. Key Activities

List the most important activities required to implement the company's value proposition.



3. Key Resources

List the resources that are necessary to create value for your customers. These resources could be human, financial, physical, and intellectual.



4. Value Propositions

List the products and services you offer to meet the needs of your customers. It includes also your unique selling proposition that will distinguish you from your competitors.



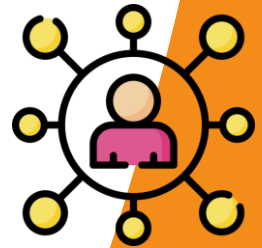
5. Customer Relationships

Identify the type of relationship you want to create with your customer segments. How will you interact with them?



6. Channels

List the different channels you will be using to deliver your value proposition to your targeted customers. The organization can reach its clients through its own channels, through partner's channels, or through a combination of both.



7. Customer Segments

Identify which customers you try to serve (e.g., age, gender, location, interests, habits, etc.).



8. Cost Structure

Estimate the key cost drivers, and how much you are planning to spend on Product development, Marketing, Sales, Website design, etc.



9. Revenue Stream

Estimate the key revenue drivers, and how much you are planning to earn from your different sources of revenue.



Tool #5

Stakeholders Analysis

As a CFO or FP&A you will be required to understand and set the right strategy to deal with different types of stakeholders who are affected by your organization and at the same time your organization has an impact on them.



What is the benefit of Stakeholders' Analysis?

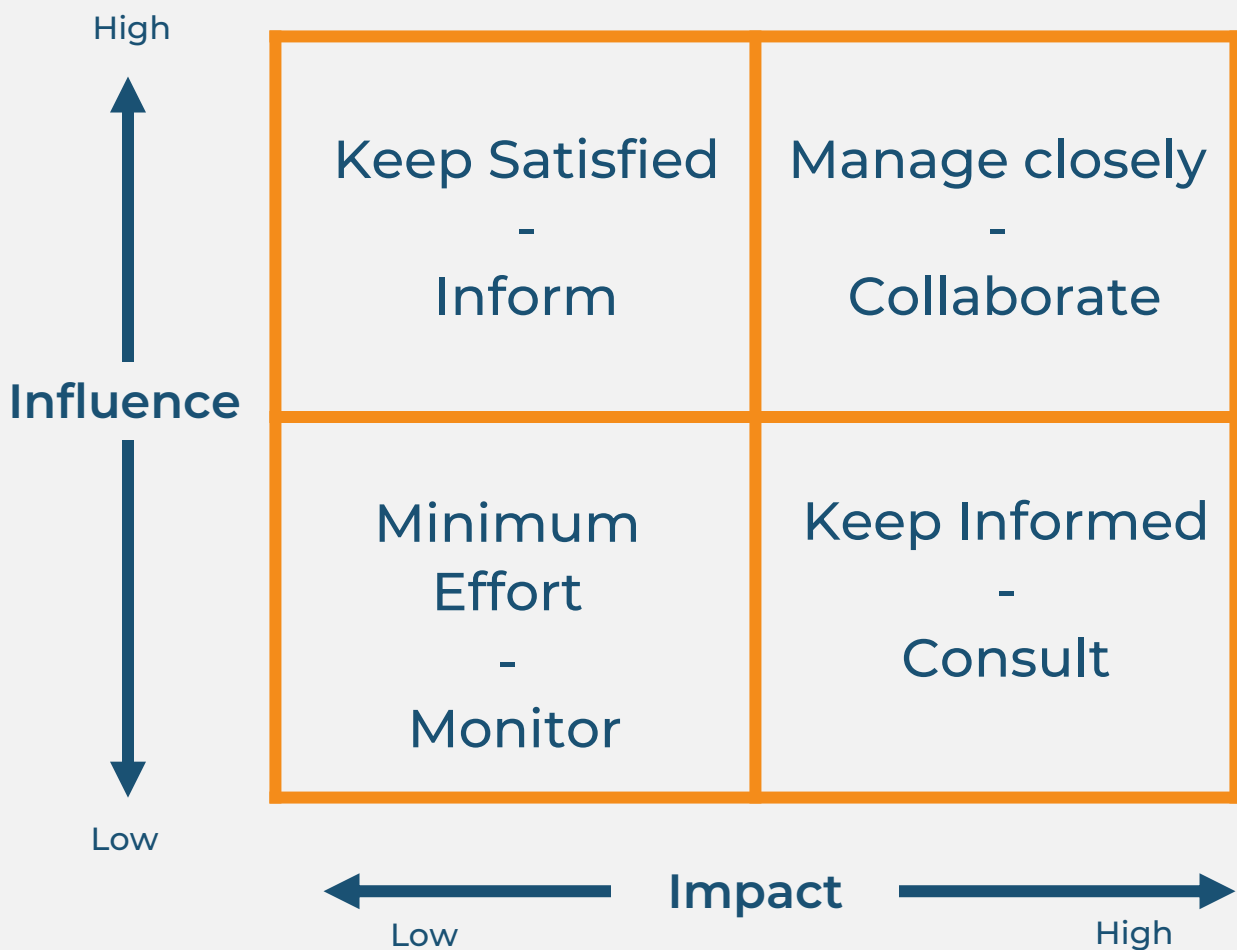
There are many benefits of stakeholders' analysis like identifying and effectively managing your key stakeholders, getting more resources by engaging with influential stakeholders, increasing the quality of your business by receiving input from stakeholders with high expertise, etc.

Let's explore the four steps of Stakeholder Analysis in more detail:

1. Identify Your Stakeholders. Start by brainstorming who your stakeholders are.
2. Clarify the interest and Influence of stakeholders.
3. Prioritize Your Stakeholders. You may now have a list of people and organizations that are affected by your work.
4. Agree on the process of engagement between stakeholders and manage the relationship

How does the stakeholders' analysis work?

It works through effectively segmenting your stakeholders into 4 different strategies, and setting the right strategy for each group as follows:



Stakeholders' Analysis 4 Segments

High Influence / High Impact

Strategy: Manage Closely ... Collaborate

You must fully engage and collaborate with these people and make the greatest efforts to satisfy them.

High Influence / Low Impact

Strategy: Keep Satisfied ... Inform.

Put enough work in with these people to keep them satisfied, but not so much that they become bored with your message

Low Influence / High Impact

Strategy: Keep Informed ... Consult

Adequately inform these people and talk to them to ensure that no major issues are arising. People in this category can often be very helpful with the detail of your project.

Low Influence / Low Impact

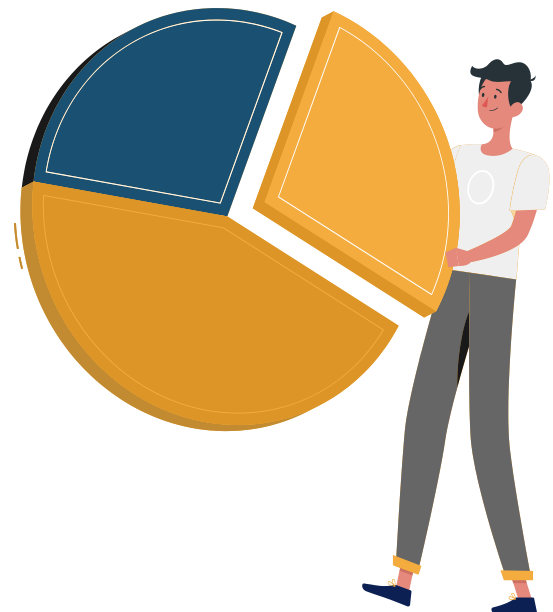
Strategy: Minimum Efforts ... Monitor

Monitor these people, but don't bore them with excessive communication.

Tool #6

McKinsey 7S Model

As a CFO or FP&A you will be required to understand how your organization is positioned to achieve its strategic goals? Or what elements influence its ability to implement change successfully?

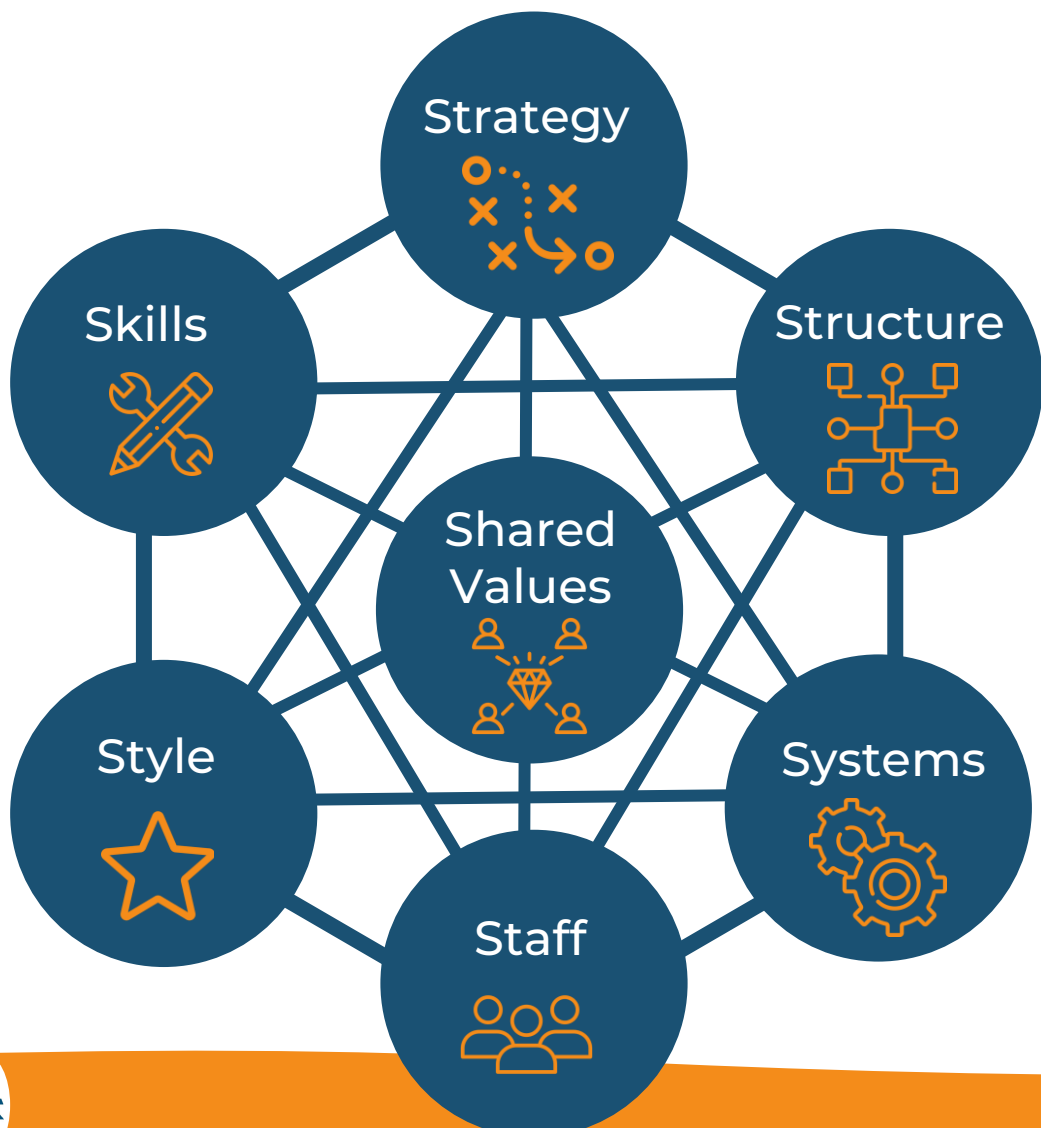


What is McKinsey 7S Model?

McKinsey 7S Model is one of the most powerful tools to assess the organization's effectiveness in achieving its strategic goals through the interactions of seven key elements – Structure, Strategy, Skills, System, Shared Values, Style, and Staff.

The focus of the McKinsey 7s Model lies in the interconnection of the elements that are categorized by “Soft Ss” and “Hard Ss”.

“Hard Ss” refers to Structure, Strategy, and system, whereas the remaining elements which are Skills, style, stuff, and shared values considered as “Soft Ss.”



McKinsey 7S Model

1. Structure

Structure is the way in which a company is organized; how your company is organized (how departments and teams are structured, including who reports to whom).

2. Strategy

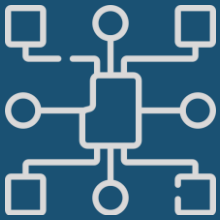
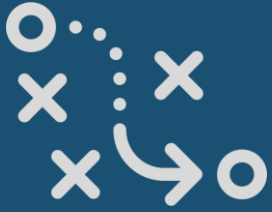
Strategy refers to the organization's plan for building a sustainable competitive advantage over its competitors, reinforced by the company's mission and values.

3. Systems

Systems refers to the business and technical infrastructure of the company that establishes workflows and the chain of decision-making.

4. Skills

Skills form the capabilities and competencies of the organization's employees that enables achieve its strategic objectives.



McKinsey 7S Model



5. Style

The attitude of senior employees in a company establishes a code of conduct through their ways of interactions and symbolic decision-making, which forms the style of leadership adopted.



6. Staff

Staff involves the employees and their general capabilities, and all human resources related to company decisions, such as training, recruiting, and rewards systems.



7. Shared Values

These are the core values of the organization and reflect its general work ethic. It plays an important role in aligning all key elements to maintain an effective organizational design.

Tool #7

BCG Matrix

As a CFO or FP&A it's important to assess your company's product lines regularly to see which product is profitable, which is making losses, and which ones need some work. Also, you will need to know how the cash resources can be allocated properly among different products to maximize the company's future growth and profitability.

So, one of the best strategy tools supports that purpose is the BCG Matrix.



What is the BCG Matrix?

The BCG Matrix is a strategy tool which produces a framework for allocating resources among different products and makes it possible to compare the product portfolio briefly, and it helps you to screen the opportunities quickly and simply and to think about how you can make the most of them.

The BCG Matrix classifies the company's business units / products into four categories based on the combination of their market growth and market share relative to the next best competitor. The four categories are:

- Stars
- Cash Cows
- Question Marks
- Dogs

It is based on the combination of market growth and market share relative to the next best competitor.



BCG Matrix

Stars - High Growth, High Market Share

Star units are leaders in the category. These products have a significant market share; hence they bring the most cash to the business, and a high growth potential that can be used to increase further cash inflow.



Cash Cows - Low Growth, High Market Share

Cash cows are products with significant ROI but operating in a matured market which lacks innovation and growth. These products generate more cash than it consumes.

Usually, these products finance other activities in progress (including stars and question marks).



BCG Matrix

Question Marks - High Growth, Low Market Share

Question marks have high growth potential but a low market share which makes their future potential to be doubtful.

Since the growth rate is high here, with the right strategies and investments, they can become stars. But they have a low market share so wrong investments can downgrade them to Dogs even after lots of investment.



Dogs - Low Growth, Low Market Share

Dogs hold a low market share and operate in a market with a low growth rate. In general, they are not worth investing in because they generate low or negative cash returns and may require large sums of money to support. Due to low market share, these products face cost disadvantages.



Tool #8

VRIO Model

As a CFO or FP&A it's important to assess your company's internal resources and capabilities to find out if they can be a source of sustained competitive advantage or not.



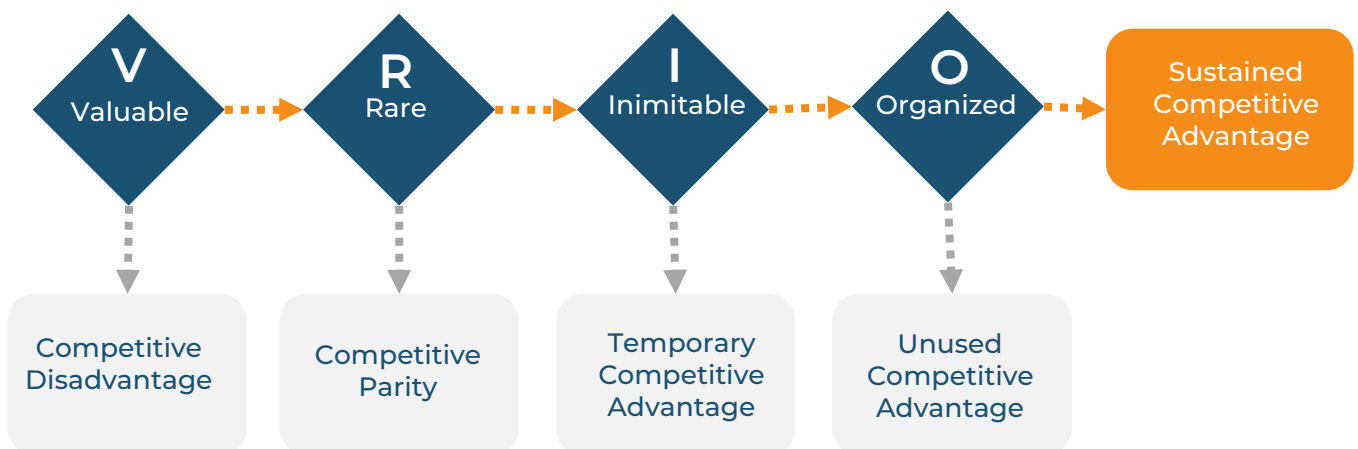
What is the VRIO Model?

One of the best tools to make that assessment is VRIO model, that comes from the words

- Value
- Rarity
- Imitability
- Organization.

VRIO Model includes four questions that ask if a resource is: valuable? rare? costly to imitate? And is a firm organized to capture the value of the resources? A resource or capability that meets all four requirements can bring sustained competitive advantage for the company.

Is the resource/capability/company.....



VRIO Model



Valuable

The first question of the framework: Do you offer a resource that adds perceived value for customers? Are you able to exploit an opportunity or neutralize competition with an internal capability? The resources that cannot meet this condition, lead to competitive disadvantage and you need to reassess your resources and capabilities to uncover value.



Rare

Do you control scarce resources or capabilities? Do you own something that's hard to find yet in demand? Rare and valuable resources grant temporary competitive advantage. On the other hand, the situation when more than few companies have the same resource or uses the capability in the similar way, leads to competitive parity.

VRIO Model



Costly to Imitate

Is it expensive to duplicate your organization's resource or capability? Is it difficult to find an equivalent substitute to compete with your offerings? Imitation can occur in two ways: by directly imitating (duplicating) the resource or providing the comparable product/service (substituting).



Organized to Capture Value

Does your company have organized management systems, processes, structures, and culture to capitalize on resources and capabilities to be able to fully realize the potential of its valuable, rare and costly to imitate resources and capabilities? Only then the companies can achieve sustained competitive advantage.

How the model works:

Step 1. Identify valuable, rare, and costly to imitate resources.

Step 2. Find out if your company is organized to exploit these resources.

Step 3. Protect the resources.

Tool #9

Porter's Generic Strategies

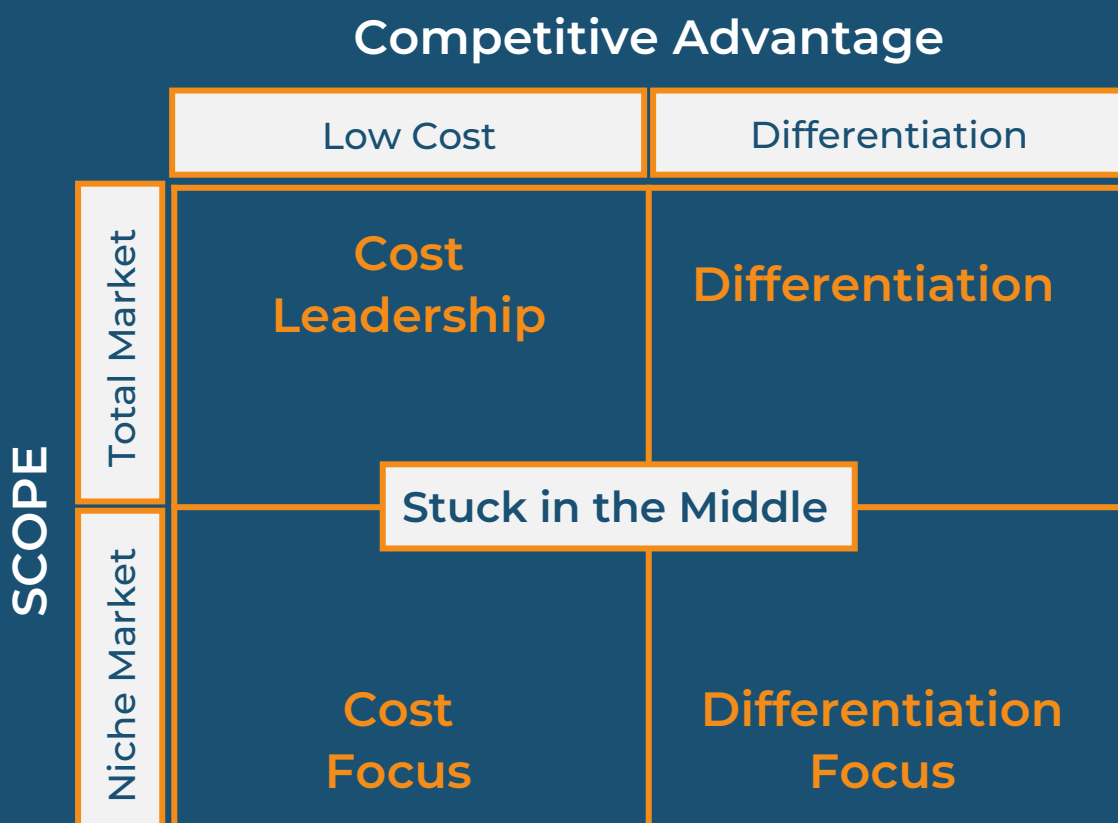
As a CFO or FP&A it's important to help your organization in selecting the right strategy which will make it growing faster and differentiated among competitors.



What is Porter's Generic Strategies?

Porter's Generic Strategies is one of the most frequently used techniques to visualize the approach of a company or organization toward its competitors.

It includes three basic strategies, namely the "Cost Leadership Strategy," "Differentiation Strategy" and "Focus Strategy." Porter indicated that every organization should only pursue one of these strategies.



Porter's Generic Strategies

1. The Cost Leadership Strategy

It involves being the leader in terms of cost in your industry or market, and it could be implemented through increasing profits by reducing costs, while charging industry-average prices, or increasing market share by charging lower prices, while still making a reasonable profit on each sale because you've reduced costs.

The successful cost leadership strategy could be achieved through different approaches like invest in technology that will bring costs down, having very efficient logistics process, low operation cost base (labour, materials, facilities, etc), and a way of sustainably cutting costs below other competitors.

2. The Differentiation Strategy

It is about making your products or services different from and more attractive than those of your competitors. To achieve a successful differentiation strategy you will need to have a solid R&D and innovation process and an organizational culture that can support these activities, the ability to deliver high-quality products or services, and strong sales & marketing functions, so that the market understands the benefits offered by the differentiated offerings.

3. The Focus Strategy

It is about concentrating on a particular niche market, by understanding the dynamics of that market and the unique needs of your customers within it, you should develop uniquely low-cost or well-specified products for that market.

To make the focus strategy successful the organization needs to serve its customers in their market uniquely well, and to build strong brand loyalty amongst its customers.

Tool #10

OKR

As a CFO or FP&A it's important to help your organization in implementing an agile goal setting and leadership tool for communicating what you want to accomplish and what milestones you'll need to meet in order to accomplish it, and one of the best tools helps to achieve that is OKR.



What is OKR?

OKRs stand for Objectives and Key Results. OKRs are a simple system that aims to thrive engagement and unleash the creativity of team members. It is about how you track progress, create alignment, and encourage engagement around measurable ambitious goals. OKRs are frequently set, measured, tracked, and evaluated – usually quarterly.

What are the components of an OKR?

Objectives and Key Results



Objectives

Simply what is to be achieved, by definition, objectives are significant, concrete, action oriented, and (ideally) inspirational.



Key results

Key Results benchmark and monitor how we get to the Objective. Effective KRs are specific, time-bound, and aggressive yet realistic. Most of all, they are measurable and verifiable.

OKRs are typically written with an Objective at the top and 3-5 supporting Key Results below it.

Example:



O: Create the lowest carbon footprint in our industry.



KR1: Supply chain and shipping infrastructure 100% zero waste.

KR2: Pay 100% carbon offset for calculated carbon dioxide emissions.

KR3: 30% of material is compostable.

KR4: 70% of material is biodegradable.

The Benefits of OKRs

OKRs provide many benefits, including clarity, enhanced communication, and a coherent, transparent organization-wide strategy.

Tool #11

Value Chain Analysis (VCA)

As a CFO or FP&A it's important to recognize which activities are the most valuable to your organization and which ones could be improved to provide competitive advantage, and one of the best tools to do that is Value Chain Analysis (VCA).

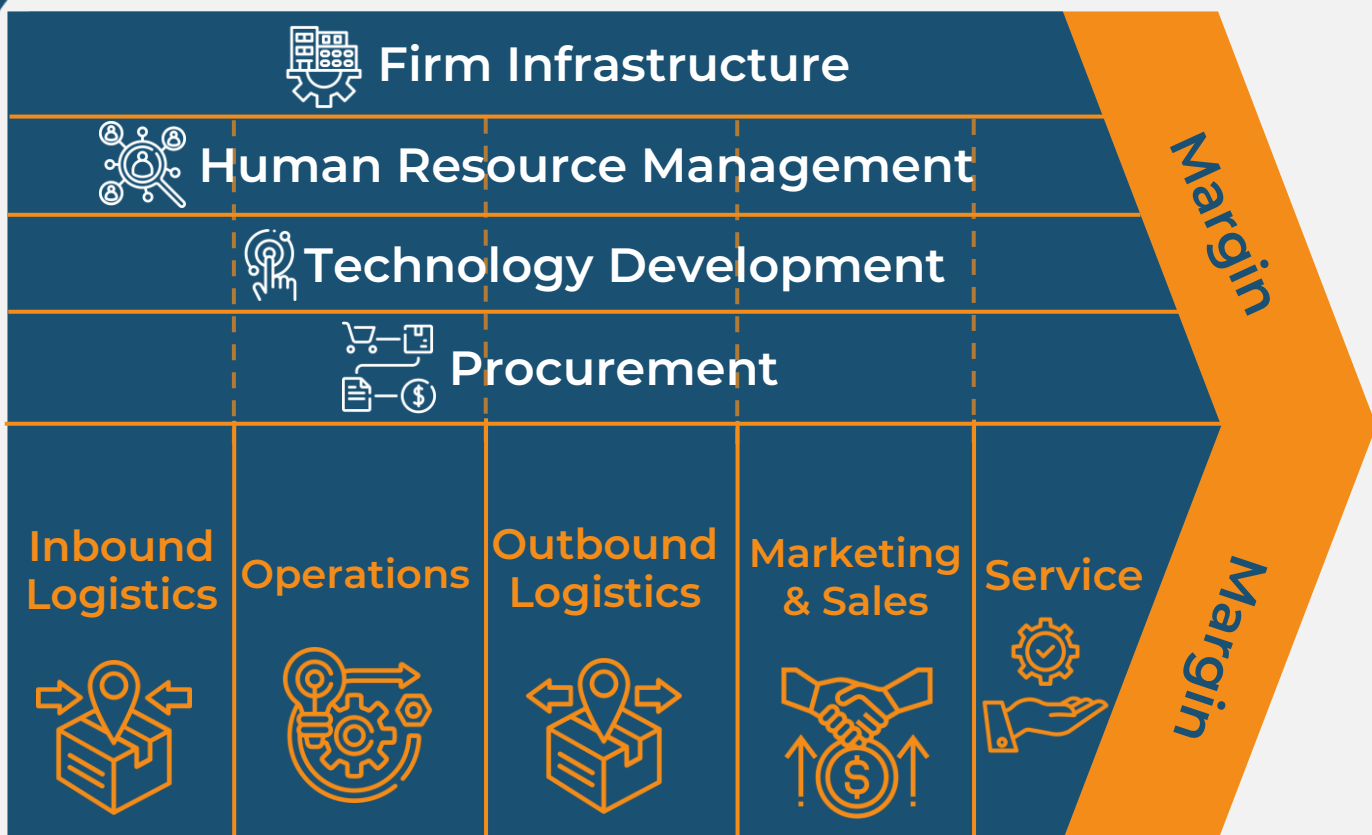


What is

Value Chain Analysis (VCA)?

Value Chain Analysis (VCA) is a process where an organization identifies its primary and support activities that add value to its final product and then analyse these activities to reduce costs or increase differentiation.

Support Activities



Primary Activities

How does the Value Chain Analysis (VCA) work?

There are two different approaches on how to perform the analysis, which depend on what type of competitive advantage a company wants to create (cost advantage or differentiation advantage).

Cost Advantage:

This approach is used when the organizations try to compete on costs and you as a CFO or FP&A wants to understand the sources the cost advantage or disadvantage and what are the cost drivers. Below are the steps for the cost advantage approach.

1. Identify the organization's primary and support activities.
2. Understand the importance of each activity in the total cost of the product / service.
3. Identify cost drivers for each activity.
4. Identify the relationships between activities.
5. Find opportunities for reducing costs from those activities.
6. Lead cross functions initiatives / projects to achieve that.

Differentiation advantage:

The organization focus on creating superior products / services use differentiation advantage approach.

1. Identify the customers' value-creation activities.
2. Identify the relationships between activities.
3. Evaluate ideas for increasing value to your customers.
4. Identify the best sustainable ideas (cost / benefits) to further differentiate you from competitors.
5. Lead cross functions initiatives / projects to achieve that.

Tool #12

Balanced Scorecards (BSC)

As a CFO or FP&A it's important to implement strategy mapping tool to see where value is added within your organization, and to develop strategic initiatives and strategic objectives.

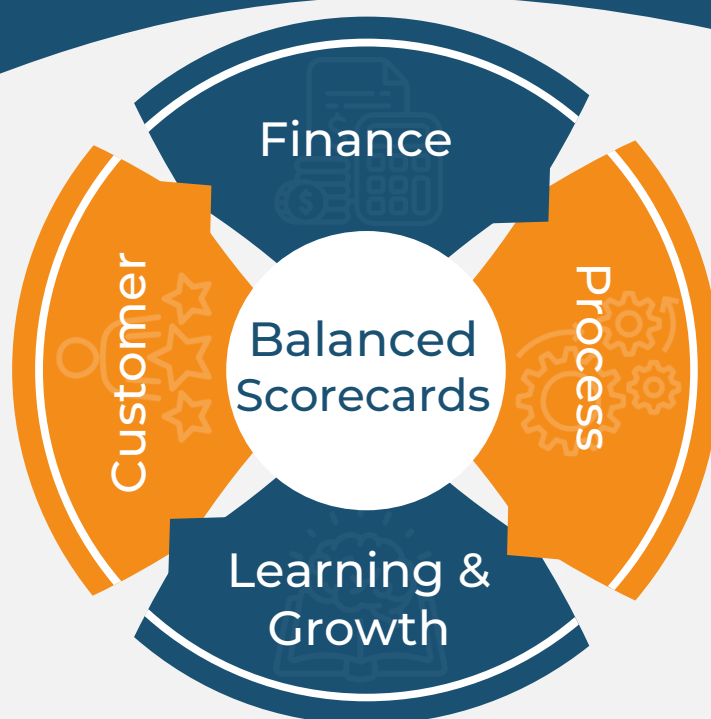
This can be done by assigning tasks and projects to different areas of the company to boost financial and operational efficiencies, thus improving the company's top & bottom line. one of the best tools to do that is Balanced Scorecards (BSC).



What is Balanced Scorecards (BSC)?

Balanced Scorecards (BSC) is a strategic management performance metric that helps organizations to translate strategy into operational objectives that drive both behaviour and performance to deliver superior external outcomes. Also, it measures past performance data and provides organizations with feedback on how to make better decisions in the future.

There are many benefits of using a balanced scorecard. For instance, the BSC allows businesses to pool together information and data into a single report rather than having to deal with multiple tools. This allows management to save time, money, and resources when they need to execute reviews to improve procedures and operations.



The Balanced Scorecards 4 perspectives

In Balanced Scorecards (BSC) model, the information is collected and analysed from four aspects of a business:

1. Financial Perspective:

To satisfy our stakeholders, what financial objectives must be accomplished?

Examples: Increase revenue through finding new sources of revenue, improve profitability from existing customers, improve cost efficiencies, increase assets utilization, improve EBITDA, reduce DSO, etc



2. Customer Perspective:

To achieve our financial objectives, how the entity is providing value to its customers and determines the level of customer satisfaction with the company's products or services? Customer satisfaction is an indicator of the company's success.

How well a company treats its customers can obviously affect its profitability.

Examples: Customer satisfaction scores, customer retention rate, NPS (Net Promoter Score), Increase number of new customers, etc.



3. Internal Business Processes Perspective:

To satisfy our customers, and shareholders, which internal business processes must we excel? the scorecard helps evaluate the company's products or services and determine whether they conform to the standards that customers desire or not. Examples: Reduce machine downtime, improve forecast accuracy, reduce month end closing time, reduce customer returns, etc.



4. Organizational Capacity / Learning & Growth Perspective:

To achieve our objectives, how must our organization learn and innovate? People are required to demonstrate high performance in terms of leadership, the entity's culture, application of knowledge, and skill sets. Also, proper infrastructure is required for the organization to deliver according to the expectations of management.

Examples: Number of key hires, keep smart (learning), employee engagement survey, number of new hire failures in 90 days, continuing education and training, number of quality meetings per week (sales leading indicator), Glassdoor recommendations, the use of the latest technology to automate activities and ensure a smooth flow of activities, etc.

