<u>Conducting a Strategic Audit in a Startup Company</u>

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<u>Introduction:</u>

A Strategic Audit is a process for determining the root cause of negative variances from the company's business plan. As a rule of thumb, if a company is achieving less than seventy percent of its financial metrics for two consecutive quarters, management should conduct a strategic audit.

There is no benefit in delaying the determination of the root cause of poor financial performance. Problems do not fix themselves. Problems tend to grow with time. Cash burned in unproductive activities cannot be replaced.

Although most company goals and metrics are expressed in financial terms such as revenue, cash, expenses and profit, management should avoid simply assuming that shortfalls are the result of poor execution in Marketing and Sales. In most cases the root cause of poor company performance is a deeper, more fundamental flaw in the company's assumptions, strategy or product. Continuing to expend resources in Marketing and Sales when a more fundamental problem exists is a waste of cash.

In a Strategic Audit, management systematically examines the four areas that most directly affect company performance:

1. *Execution in each functional department*
2. *Company Business Model and Strategy*
3. *Target Market*
4. *Product*

After conducting the audit, management should have a fair understanding whether the company has a simple execution problem or a fundamental, more difficult problem to correct.

Every Strategic Audit should start with a review of each department because problems in execution are the easiest to identify and correct. If execution is determined to not be the company's problem; then, management may have to make some difficult decisions about its core assumptions, business model and strategy.

Accepting and acting on a fundamental flaw in a company's business plan is often hard for the management team and the company's investors. If the indicators point to a core issue in the original basis for the company, management should quickly perform whatever due diligence is necessary for it to be comfortable with the result and then it must act decisively. There is no benefit in putting off hard but fundamental decisions. Cash is burning!

The following sections outline a series of questions that management should ask itself about each of the areas.

I. Execution

Departmental reviews will generally focus on:

- **Performance of Individual Contributors**
  - Who is succeeding?
  - What percentage of the team is succeeding?
  - Why are people succeeding?
  - Why are people failing?
  - Can we help more people succeed?

- **Leadership, Management and Process**
  - Is the manager effective? Are his people motivated?
  - Do people have clear direction?
  - Are individual and team goals in place?
  - Do people get effective feedback?
  - Are there well defined processes in place?

- **Resources**
  - Does the department have adequate resources to achieve its goals?

- **External or structural impediments to success**
  - Is there something beyond the department's control that is impeding its success?
  - Are there dependencies on other departments that are not being fulfilled?
  - Are there external, core technologies that are not performing as required?
  - Has there been a systemic event in the target market?

Management should at least ask itself the following questions when reviewing each department's performance:

1. What are the department's goals?
2. How is the department scoring against the goals?
3. How do we know the goals are reasonable? Did we benchmark against successful companies?
4. What were the root causes, both positive and negative, for variances from the goals?
   a. Does the department have adequate resources?
   b. Are there performance issues with individual contributors? Why are people failing?
   c. Are there problem with leadership in the department?
   d. Are our processes adequate?

   e. Are there external or structural factors that are limiting our performance? What are they? How can they be overcome?
   f. Other reasons?
5. Can we develop a corrective plan that allows the deficient department and the company to achieve its original goals? When will the plan be done? When can we start to implement it?
6. If a department cannot achieve its original goals, what impact does it have on other departments' and the company's performance?

II. Business Model & Strategy

a. What is the current strategy? What are its Key Factors of Success (KFS)? What are the assumptions behind the current strategy?
b. What are the metrics for the current strategy? Are they being achieved? Where are the variances both positive and negative?
c. What is causing the variances from the metrics?
d. Can we achieve the company's business plan with the current strategy? Why?
e. Are their alternative strategies? What are they? What are the Key Factors of Success (KFS) of each?
f. What is the "best" strategy?
   i. What are the constraints of changing to each of the alternative strategies?
   ii. Which strategy is the least disruptive extension to the current strategy?
   iii. Which strategy is most capital efficient?
   iv. Which strategy has the least competition?
   v. Which strategy has the largest market potential?
   vi. Which strategy is the easiest to finance?
   vii. How would the company change strategy – what would be the implementation plan for each alternative?
   viii. What advantages does the selected strategy have over the alternatives?
g. Will the new strategy allow the company to achieve its three year business plan? Why?

III. Target Market

a. What is the current target market?
b. What applications/workloads are appropriate for our product in our target market?
c. Is the revenue potential from the workloads in our target market large enough to sustain the required revenue growth?
d. Are the companies in our target market good prospects for our product? Why?
e. Does any competitor dominate our target market?
f. What advantages do we have in our target market?
g. What disadvantages do we have in our target market?
h. What other markets are suitable for our product?

i. What applications/workloads are appropriate for our product in each alternative market?
j. Is the revenue potential from the workloads in these other markets large enough to sustain our required revenue growth?
k. Is potential revenue from some combination of workloads across various markets large enough to sustain our required revenue growth?
l. Are the companies in each alternative market good prospects for our product? Why?
m. Does any competitor dominate each market?
n. What advantages do we have in each market?
o. What disadvantages do we have in each market?
p. What workloads and markets will we focus on during the next 12 months?
q. In what sequence will we focus on these workloads and markets?

*IV. **Product***

a. Is the product truly unique – one of a kind- or evolutionary?
b. Is our product a "whole" product for the target workload in our target market?
c. What is our product's value proposition? What benefits do customers gain?
d. Does the current version of the product deliver the value proposition?
e. Who is the competition?
f. What are buyers' most important considerations when deciding to purchase our product? How does our product score relative to the competition against these buying considerations?
g. What is the product's differentiation from the competition? Is it significant enough?
h. Can we sell the current version of the product to a "wide" segment of our target market?
i. What features need to added to our product? When can these features be available? What is the roadmap for the current product?
j. Is our roadmap schedule realistic and achievable?
k. Does our roadmap allow Sales to capitalize on the current market (i.e. be available for testing by prospects within six months)?
l. Can we "partner" with other companies to deliver a "whole" product? Who? How would partnering work? Will prospects accept a solution from multiple partners?

Notes:

For more on Key Factors of Success (KFS), read the "Mind of the Strategist" By Kenichi Ohmae

For more on the "Whole Product" read "Crossing the Chasm" by Jeffery Moore.