**4** The Internal Assessment

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*Source: Wavebreak Media Ltd/123rf*

Learning Objectives

After studying this chapter, you should be able to do the following:

* [**4-1 Describe the nature and role of an internal assessment in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP70004991840000000000000000017D2.xhtml#P70004991840000000000000000017D2)
* [**4-2 Discuss why organizational culture is so important in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001804.xhtml#P7000499184000000000000000001804)
* [**4-3 Identify the basic functions (activities) that make up management and their relevance in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP70004991840000000000000000018C7.xhtml#P70004991840000000000000000018C7)
* [**4-4 Identify the basic functions of marketing and their relevance in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP700049918400000000000000000192E.xhtml#P700049918400000000000000000192E)
* [**4-5 Discuss the nature and role of finance/accounting in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP700049918400000000000000000198C.xhtml#P700049918400000000000000000198C)
* [**4-6 Discuss the nature and role of production/operations in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001A59.xhtml#P7000499184000000000000000001A59)
* [**4-7 Discuss the nature and role of research and development (R&D) in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001AC8.xhtml#P7000499184000000000000000001AC8)
* [**4-8 Discuss the nature and role of management information systems (MIS) in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001AE6.xhtml#P7000499184000000000000000001AE6)
* [**4-9 Explain value chain analysis and its relevance in formulating strategies.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001B1A.xhtml#P7000499184000000000000000001B1A)
* [**4-10 Develop and use an Internal Factor Evaluation (IFE) Matrix.**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001B3C.xhtml#P7000499184000000000000000001B3C)

Assurance of Learning Exercises

The following exercises are found at the end of this chapter:

* [**Exercise 4A Apply Breakeven Analysis**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001DCF.xhtml#P7000499184000000000000000001DD1)
* [**Exercise 4B Comparing Netflix with Redbox**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001DCF.xhtml#P7000499184000000000000000001DE0)
* [**Exercise 4C Perform a Financial Ratio Analysis for Hershey Company**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001DCF.xhtml#P7000499184000000000000000001DEF)
* [**Exercise 4D Construct an IFE Matrix for Hershey Company**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001DCF.xhtml#P7000499184000000000000000001DF9)
* [**Exercise 4E Construct an IFE Matrix for Your University**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001DCF.xhtml#P7000499184000000000000000001E07)
* [**Exercise 4F Applying Research-Based View (RBV) theory**](https://jigsaw.vitalsource.com/books/9781323431481/epub/OPS/xhtml/fileP7000499184000000000000000001DCF.xhtml#P7000499184000000000000000001E17)

*This chapter focuses on identifying and evaluating a firm’s strengths and weaknesses in the functional areas of business, including management, marketing, finance, accounting, production/operations, research and development (R&D), and management information systems (MIS). Relationships among these areas of business are examined. Also, strategic implications of important functional area concepts are explained. In addition, this chapter describes the process of performing an internal audit. The resource-based view (RBV) of strategic management is introduced, as is value chain analysis (VCA) and benchmarking.*

*Showcased here for exemplary strategic management, Netflix does an excellent job using its strengths to capitalize on external opportunities. Expanding rapidly globally, Netflix captures demographic information on millions of customers and potential customers globally, and formulates strategies based on that information.*

*Exemplary Company Showcased*

***Netflix, Inc. (NFLX)***

*Based in Los Gatos, California, Netflix does an outstanding job analyzing customer buying trends and desires and incorporating that information into its strategic-planning process. Netflix gathers extensive information about its customers’ usage and content choices, utilizing voluminous individual data into strategic information. An analyst for Janney Capital Markets recently said, “Netflix understands its viewers by tracking every single thing they do; and develops patterns among its subscribers, and matches them up properly with content offerings.” Doing such an excellent job with customer analysis has enabled Netflix to reportedly obtain one-third of all Internet prime-time traffic in the United States. Lately, the company’s streaming video services are focusing more on popular TV shows and less on hit movies. Netflix now has 32 percent of the top 75 TV shows from the past 4 years, compared to Amazon’s 12 percent, but Amazon is actively promoting its Prime Instant Video service that competes with Netflix. In early 2015, Netflix’s stock surged 42 percent in a single day to a 52-week high over $500. Analysts expect Netflix’s addressable subscriber base to reach 207 million globally by 2017, as the company grows rapidly across Europe and beyond. Netflix recently entered six European countries: Germany, France, Austria, Switzerland, Belgium, and Luxembourg—after already providing services in the U.K., Ireland, Netherlands, and Scandinavia. Netflix entered Australia and New Zealand in March 2015, followed by Italy, Portugal, Spain, and Japan in October 2015.*

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*Netflix’s stock is expected to split in late 2015 for only the second time in the company’s 13-year history. With Netflix stock currently being almost $700 per share, a lowered split stock price is expected to widen the pool of people interested in buying the stock, which has been soaring throughout both 2014 and 2015. As of April 1, 2015, Netflix had 20.9 million international subscribers and 41.4 million streaming subscribers in the United States.*

*Source: Based on Jon Friedman, “Reaching Out to Give What Customers Want: Netflix Offers the Right Movies to the Right People,” Investor’s Business Daily, July 7, 2014, A7.*