How to Execute a Gap Analysis

When a company wants to improve and optimize its business, a gap analysis is an ideal tool to accomplish this goal. Learn how to perform a gap analysis for your organization.

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Every business seeks to grow and thrive. You have aspirations for your company, but what happens when you fall short of achieving them? This gap between desired and actual outcomes indicates it’s time to perform a gap analysis.

The gap analysis process is straightforward, but the devil is definitely in the details. Depending on what part of the business you’re seeking to improve, a gap analysis report can be extensive.

Let’s dive into this framework for identifying business optimization opportunities.

Overview: What is a gap analysis?

A gap analysis is a formal study of what your business is currently doing, where it wants to go, and how you close the gap between the two. It compares desired and actual outcomes and pinpoints opportunities for improvement.

The need for a gap analysis usually arises from a shortcoming. Perhaps the sales team missed their targets, or customer service response times are too slow, and customers are complaining.

It can also come from proactive leaders who want to understand how to improve the chances for success before undertaking a strategy. Even an individual looking to elevate their own performance can find answers through a gap analysis.
This analysis can be conducted from various perspectives, and as a result, different types of gap analysis methodology exist. There are four main types:

- **Performance (also called strategic) gap analysis**: This seeks to understand why particular performance goals were not met.
- **Market (also called product) gap analysis**: This analysis looks at the company’s position in the marketplace to assess the gap between actual and budgeted sales.
- **Manpower gap analysis**: This looks at the variance between the required number of staff and the actual number.
- **Profit gap analysis**: Examining the gap between actual and targeted profit is the purpose of this gap analysis.

Any member of the organization can initiate a gap analysis to determine how to make improvements. The gap analysis can be applied to performance of a department or team, an individual, or the entire company. Whenever goals are not met, it’s time to dig into what may be getting in the way through a gap analysis.

### Benefits of conducting a gap analysis

A gap analysis enables your organization to perform at its peak potential. Here are some gap analysis examples illustrating how this tool helps.

#### Product portfolio opportunities

With the assistance of a gap analysis, you can review your current portfolio of products and services to determine new opportunities.

Since it’s common for some kind of gap to exist between the needs of customers and a company’s offerings, the gap analysis helps you identify these areas to determine if you want to develop new offerings to fill the gap.

You can also use a gap analysis when a product or service fails to meet your target adoption and revenue goals. Here, you can apply a gap analysis to determine if the new offering includes all of the essential items identified in the business requirements.
Process enhancements

A gap analysis can identify areas for improvement within your company’s operations. Whenever an area of the business is underperforming, execute a gap analysis. If your accounting team is routinely failing to pay invoices on time, a gap analysis can identify process improvement opportunities.

Profit improvements

If you missed your profit targets, use a gap analysis to uncover what went wrong and how to fix it. For instance, the analysis can determine if the forecasting method had issues that set the wrong profit targets, if unexpected competition took business away, if costs increased, or other reasons.

How to perform a gap analysis

The following step-by-step gap analysis template guides you through how to identify the difference between reality and your aspirational business targets, making it easy to uncover where there exists room to grow. This template can apply to the entire organization, or all the way down to a single process.

Step 1: Identify the area(s) for improvement

The initial step is to understand where you want to apply a gap analysis model, and what you seek to get out of it. From there, you can assess what type of gap analysis you want to apply to the situation.

Perhaps you want to enhance the efficiency of an existing operation, in which case a performance gap analysis can help. Maybe you’re trying to determine if you need to hire more staff. In that case, you would leverage a manpower gap analysis.
Tips for identifying improvement areas:

When looking to begin a gap analysis, consider these suggestions.

- **Quantify the need**: Use trackable and measurable key performance indicators (KPIs) to identify where a gap exists. You don’t want to assume you need a gap analysis without quantifiable data. Otherwise, you could be wasting time and resources.

- **Proactive analysis**: You don’t have to wait for failure to strike before doing a gap analysis. Proactively looking at ways to improve your business is a way to jump ahead of the competition. So, continually seek areas in which to apply a gap analysis.

- **When to do a gap analysis**: Sometimes, it may seem like overkill to execute a gap analysis. If the issue is easily identifiable, then a gap analysis might not be necessary. But if you’re not sure of a solution, use a gap analysis. If the problem is complex, such as when outlining a company strategy, employ a gap analysis.

Step 2: Analyze the current state

Once you’ve identified where a gap analysis is needed and the purpose of that analysis, you can review where you are today. By looking at the current state, you determine your starting line for improvement.

For instance, if you’re getting customer complaints about slow response times, learn what those response times currently are.

Collect any relevant business intelligence, and document all of the contributing factors that created the current state. Be specific and detailed in this documentation to help with the analysis. For instance, if a statement of work sets certain legal requirements that contribute to the current state, capture that detail.

Also, note which are beneficial factors and which appear to be hurting the business. This allows you to dissect where you can improve once you define the future state in the next step.

Tips for analyzing the current state:

Here are some tips for analyzing the current state.

- **KPIs**: When dissecting the current state, identify the relevant KPIs and where they stand today. To know how much of a gap you’re trying to overcome, you need data
points that can be tracked and measured. This also ensures you’re applying objective standards to assess the situation.

- **Qualitative feedback:** Collect qualitative feedback as well. This can include employee and customer interviews. The idea here is that the feedback can round out and add insight to the data being collected. For example, if employees are being interviewed about slow customer response times, and they tell you they spend a lot of time on each customer call covering the same basic info, it can lead you to identify the need to post FAQs on your website for customers to reference, thereby cutting down on the number of calls as well as the time spent on each call.

**Step 3: Define the end goal**

After understanding where you currently stand, it’s time to define quantifiable goals to strive for. This is the end state you’re optimizing your business to reach. The end goal should be an improvement over the current state, and it should be measurable so you know when you’ve reached it.

One way to determine your ideal future state is to look at industry standards — or the bar set by the competition. The benefit of this approach is that you know it’s achievable once a company addresses its shortcomings.

Another approach is to look at historical data for your company. If you’ve been growing sales at 10% each year, but they suddenly drop to 8%, the end goal might be to bring sales back up to the 10% level or higher.

You can also use employee or customer feedback to understand the end state you should be creating. For instance, customers might tell you that your offerings are missing a key feature, so the goal can be to develop that feature.

**Tips for defining your end goal:**

These suggestions can help as you define your end state.

- **Feedback on goals:** Because you’re setting a goal in the future, it’s easy to establish a standard that is difficult to achieve within the time period you want to accomplish it. Get feedback on the goal to ensure it’s achievable given the current state.

- **Actionable steps:** When considering your end state, be sure you can translate it into specific, actionable steps. For example, if you want sales to grow by 15% next year,
how will that happen? Will you need to introduce new products, raise prices, enter a new market? It's okay to set a general goal, such as to improve customer service, as long as it can map back to concrete actions.

**Step 4: Understand the gap**

You've looked at the current state. You've defined a future state. Now, compare the two to understand the gap you're trying to close.

Perhaps the gap is small, like a few minor tweaks to an existing workflow, or it could involve making large organizational or operational changes, necessitating a change management process. This is the time to understand what hurdles you're trying to overcome.

Document all of the challenges in the current process that must be overcome to get to the end state. Note which are significant issues that will take time and which can be addressed quickly. This list defines what the gap looks like, which will be helpful for the next step.

**Tips for understanding the gap:**

Use these suggestions to help you understand and define the gap.

- **Learn from mistakes:** The purpose of this step is to understand where the holes in your strategy exist. To that end, ask yourself what is going wrong, and how it can be improved, but don't look for blame. Your focus should be on learning from mistakes in order to continually optimize the business.

- **Gauge impact:** Because you've researched the factors contributing to the current state, determine how much each factor contributes to the current challenges. This can be estimated percentages, a rating system, or even as simple as low, medium, and high designations. Then map these factors to what they will look like once the future state is achieved. Current processes that contribute a great deal to existing issues should be changed or eliminated altogether.
Step 5: Determine a plan of action

Now it’s time to determine a plan of action to bridge the gap. Now that you’ve done the hard work of the prior steps, this step centers on compiling recommendations and getting buy-in from relevant stakeholders.

With clarity on the hurdles to overcome, you can go down this list and devise solutions for each, such as pursuing business development to increase sales. Be sure to collect feedback on your solutions to ensure there’s buy-in across the organization.

Some gap analysis tools that can help turn your findings into an action plan include a S.W.O.T. analysis (strengths, weaknesses, opportunities, threats), which helps you organize the problem areas as well as the recommendations, and a fishbone diagram, which enables you to map the root causes of issues.

Since the plan you devise can be complex, make use of the best project management software in your project planning to turn your ideas into an actionable project plan.

Tips for creating an action plan:

Apply these tips to help you build your plan of action.

- **Project management triangle:** When formulating solutions, consider the project management triangle, particularly the cost and time required to implement the recommended changes. If costs are too high, or the time too long, you may need to look for other solutions.

- **Re-evaluate if necessary:** If you implement your plan and still don’t achieve your target objectives, you might have to dive deeper with your gap analysis to re-evaluate the root cause of the challenges.

Final advice on executing a gap analysis

Now that you know how to conduct a gap analysis, you can use this tool to understand the issues you’re facing and how to fix them. A gap analysis crystalizes the challenges to overcome and puts solutions into action that will get your organization to the desired end state.
Don’t get too bogged down with the gap analysis. Spend only the necessary time to efficiently complete the analysis so you can quickly move into the action plan and turn your company into a better-optimized business.

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