What Can a Gap Analysis Do for You?

A gap analysis is a process that compares actual performance or results with what was expected or desired. The method provides a way to identify suboptimal or missing strategies, structures, capabilities, processes, practices, technologies, or skills, and then recommends steps that will help the company meet its goals.

By comparing the current state with the target state, companies, business units, or teams can determine what they need to work on to make their performance or results better and get on the right path quicker. Companies can also use the gap analysis process to elevate individual or team performance and look at attributes such as task competency, performance level, and productivity. Other names for the process include need-gap analysis, needs analysis and needs assessment.

As opposed to a risk assessment, which tends to be forward-looking, a gap analysis examines the current state. ANSI (American National Standards Institute), ASIS (American Society for Industrial Security), and RIMS (Risk and Insurance Management Society) standards say that risk assessment includes the identification, analysis, and evaluation of uncertainties to objectives and outcomes of an organization.

You can also look at a gap analysis as a means of comparing performance to potential.

In other words, how far did a person, group, or product fall from their capacity? Did the resources fall short of the needs?

Gap analysis is a process that, when applied to other business processes, becomes a reporting process used for improvement. When applied to manufacturing or production, a gap analysis can help balance the allotment and integration of resources from their current allocation level closer to an optimal level. Those resources can be time, money, material, or human resources.

Concrete vs. Conceptual

You can perform a concrete gap analysis that looks at the real world or a conceptual one that examines hypothetical scenarios. While you can use the same template in both exercises, when performing a conceptual gap analysis, you'll need to make assumptions about which parameters to use. Conversely, use real facts and data for a concrete analysis.

Strategic vs. Operational

A gap analysis can be strategic and focus on the overall organization and the planning and execution at that level, or it can be operational and focus on the day-to-day work of a team or department. Since both methods are based on real-world situations, there's no need to make assumptions.

Gap Analysis Examples

While there are a myriad of business areas (e.g. accounting, sales, customer service, HR) and situations that can use the gap analysis process, here are a few examples that illustrate the broad range of ways a company can use a gap analysis:

- New Product Launch: After a company launches a new product, they might do a gap analysis to determine why sales didn't meet forecasts.

- Productivity: When a factory's productivity is not meeting expectations, targeted customer needs, or the set of business requirements that were laid out a gap analysis can help determine what process to fix.

- Supply Management: If a hospital finds itself running short of supplies on a regular basis, they could perform a gap analysis to identify the reason why.

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Sales Performance: A manufacturer can look at the sales performance of their catalog of products to make sure they are producing the right mix, and use the result to maximize their production–possibility frontier.

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Individual Assessment: A team leader at an accounting firm can have each member perform a gap analysis on themselves, and use those results not only to find targets to improve each person’s performance but also to draw out the best practices that everyone can adopt.

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Product Evaluation: A software company might perform a gap analysis of their product to ensure that all features and functions outlined in the business requirements are present and working as expected.

Why Do Businesses Perform a Gap Analysis?

In project management, the difference between the way a company is performing a task or activity and the ideal way it could be performed is called CΔV (pronounced C delta-V), or the current gap vision. The difference between a target for a metric and where the metric actually ended up is called AΔT (pronounced A delta T), or the actual gap target. The goal of a gap analysis is to evaluate those differences, find out what caused them, and suggest ways to match the ideal target with the real-world results. In other words, this process is comparing where we are with where we want to be.

Some reasons that a company might kick off a gap analysis include the following:

- Benchmarking: Comparing results against external criteria. A computer company may want to see where they stand against industry performance criteria, or a candy company may want to compare its reputation with its competitors.

- Portfolio Analysis: Examining their product portfolio to look for new sales opportunities, a company can use a gap analysis to identify new products to sell. In the opposite direction, they can also look for existing products that are not selling well, use a gap analysis to find out why, then promote them (e.g. feature them more propensity in marketing or put them on sale), change them to better meet customer needs, or remove them from their portfolio.

- Profits: If a forecast profit percentage isn’t reached, a company can use a gap analysis to determine what went wrong and whether it was in planning or execution. Was the organization paying higher-than-expected expenses for materials, or having to lower prices due to unexpected competition?

- Processes: A gap analysis can help reveal the shortcomings of processes so that the real outcomes match the expected outcomes. A shipping firm could examine their AP process to see why so many of their vendors are not getting paid on time, or examine their billing processes to see why many of their suppliers don’t get their invoices until after the due date.

- Performance Indicators: A gap analysis can also be applied to key performance indicators like new customer acquisition, average order amount, or return on investment (ROI). A mobile carrier could look for the reasons that caused them to miss their customer acquisition goal, or a seafood company could seek the reasons they didn’t process as much salmon as expected.

- Usage Gaps: A usage gap is a difference between the current market size for a product or service and the potential market size. Gap analysis in this area can help an organization see why it is not reaching the full potential. Is a company's reputation pushing down sales? Or did management misread the demand for a product?

What Is a Market Gap Analysis?

A market gap analysis (performed internally or externally) is a way to research sales opportunities where the demand is greater than the supply.

Using this process can help a company identify markets that are currently under-serviced.

Through the deployment of market gap analyses, an organization can make logical decisions based on market facts rather than opinion.

A market gap analysis differs from market research in that it's proactive rather than reactive. Business-to-consumer (B2C) companies take advantage of this process often.

The market they might investigate can be geographic (there's nobody selling anything like our product on the west coast), product-based (there was a time when no one was selling mobile phone cases that doubled as wallets), service-based (there may a lot of dogs in a city, but not many dog walkers or other pet care businesses), or look for a way to better utilize existing resources (think of Uber launching Uber Eats).

What Is a Strategic Gap Analysis?

A strategic gap analysis looks at a company's strategy and is closely tied to benchmarking (comparing yourself to competitors or best practices).

An example of a strategic gap analysis is a handyman service that wants to grow into becoming a larger contractor.

First, they should perform a market gap analysis to find out what current contractors don't do, and neighborhoods they don't serve.

Then they’d need to perform a strategic gap analysis that looks at their current state and see what kind of skills they lack if their office location is right, what kind of advertising they need, and what equipment they’ll need to acquire.

When to Perform a Gap Analysis

A company can perform a gap analysis at any time, but being thoughtful about when you do one can maximize your effectiveness. First, look at strategic planning, which is a process that helps an organization define a strategy that will guide them to accomplish their goals and objectives.

A gap analysis can be a key part of strategic planning.

By looking for issues via gap analysis, they can adjust the strategy to better fit the situation, or realign the company's processes to align with the strategy.

When an organization is looking for problems with its performance, a gap analysis can be a key tool in identifying where things are falling short.

For example, if a company wants to start a marketing campaign to improve their reputation or apply for a loan, they could perform a market gap analysis to help determine their impact on their local economy and use that data as part of their campaign or loan application.

Similarly, when a company is preparing for an audit or other oversight activities, a gap analysis is a proactive way of showing the auditors which regulations the company is complying with, and that it has a plan to meet the rest.

Benefits and Challenges of a Gap Analysis

Gap analyses are a frequently-used tool because of the many benefits they can bring to the companies and organizations that implement them. These benefits include the following:

- insight into areas that need improvements, such as efficiency, products, profitability, processes, customer satisfaction, performance, participation, and competitive advantage
- Ensuring that project requirements have been met
- Finding areas of weakness and shortcomings to address
- Uncovering differences in perception vs. Reality
- Providing information to guide decision-makers, which can lead to better decisions
- Finding the best places to deploy resources and focus energy
- Prioritization of needs
- If performed well, the results of gap analysis are clear and easy to understand

While valuable, gap analyses are not perfect. Some challenges related to the gap analysis process include the following:

• Successful completion depends on the knowledge and persistence of the people involved in the process.

• While the process may expose some causes, if it doesn't go deep enough, the proposed resolutions will not address the real root cause or can miss the complexities behind them.

For example, when evaluating sales performance, an analysis might conclude that sales reps are not offering a new product enough, but may not find out why.

Are they not familiar enough with the product? Are customers unwilling to change from an existing product? Or does the new product not work as advertised?

- The analysis can be inaccurate, as the ground is constantly shifting (especially in large organizations or in fast-moving industries)

How to Perform a Gap Analysis

In larger organizations, the gap analysis process generally falls under the purview of business analysts, project managers, process improvement teams, or management.

But with a little training and a well-designed template, anyone can work through the process.

Some organizations may already have a process outlined that you can follow. However, the basic steps for performing a gap analysis are explained below.

1. Identify the area to be analyzed and identify the goals to be accomplished.

For example, you may want to figure out why your factory is not meeting its output target. The goal will be to discover the causes that contributed to targets not being met, and recommend how to remove the causes.

2. Establish the ideal future state. If everything worked according to plan, where would you be?

3. Analyze the current state. What causes contributed to the targets being missed? For example, were the workers not trained well enough? Was the production floor short-staffed? Were required materials consistently available? Did the layout of the production floor slow things down?

4. Compare the current state with the ideal state. How far from the target was actual production? For example, did you expect to produce 1,000 units per hour, but only managed to produce 800 units per hour?

5. Describe the gap and quantify the difference. In the unit production example (described in step 4), there would be a 20 percent shortfall. After researching the potential causes, outline the contribution of each to the gap. In this example, we may find that insufficient training caused 5 percent of the gap, staffing problems caused 7 percent, material shortages caused 2 percent, and inefficient layout of the factory floor caused 14 percent. Companies can use other ratings systems to quantify the difference that can be as basic as simple terminology like good, fair, and poor, to something more detailed like a 1-50 scale.

6. Summarize the recommendations and create plan to bridge the gaps. Decide what needs to be changed and determine what steps need to be taken to fix things. In this example, the team performing the analysis may decide the layout issue is the easiest to tackle and will have the greatest impact, so they might recommend ways to address it. Then they could work with the supply chain and staffing teams to create recommendations for those issues as well. They would summarize their ideas and present it to management to begin planning the improvements.

Gap Analysis Best Practices

As when you're setting goals, be SMART (specific, measurable, achievable, relevant, and time-bound) in your gap analysis.

In other words, be realistic when deciding what areas, items, and processes to analyze, and which recommendations to adopt. Take a holistic approach and understand the environment.

Changes by your team or organization can impact others, so make sure you consider those effects when creating your recommendations.

Use charts to illustrate your data. As the saying goes, a picture is worth a thousand words.

By backing up your recommendations with supporting data from your analysis, it’s more likely your company will adopt them. It’s also imperative to consider cost, resources, and consequences when recommending problems to address and recommending solutions.

Remember, if a solution is out of reach, it’s not likely to be adopted.

Assign responsibility to ensure that each part of the process will have an owner to make sure each step gets completed.

By digging deep into the proposed solution, you’ll find it might not be easy to achieve. Look beyond the obvious to see if there’s more.

Frameworks for Gap Analysis

When performing a gap analysis, there are many ways to identify and view problems. There are some common frameworks that you can utilize to perform the process.

A few of them are outlined below. Each framework can be used as an organizing principle for both the discovered causes and the recommended changes. Looking for misalignments among the categories or areas can also help you identify root causes.

McKinsey 7Ss Framework

The McKinsey framework has seven categories: strategy, structure, systems, shared values, skills, style, and staff. The first three are considered “hard” and the rest are considered “soft.”

An example of a misalignment might be if a production line requires 20 people to operate at full capacity, but the graveyard shift only has 15 people available. In this case, there's a misalignment between systems and staff.

Nadler-Tushman Congruence Framework

This model breaks a company's performance into four areas: work, people, structure, and culture. Note each area’s strengths and weaknesses, and then compare them to the other areas.

The goal is to find out if the work being done in each area supports the others.

For example, if a compliance group is performing their tasks at a high level and finds areas where the company is not following certain laws and regulations, but the company’s organization doesn't have any way to implement these changes, the people and structure are not congruent.

SWOT Framework

SWOT is an acronym that stands for strengths, weaknesses, opportunities, and threats.

While some experts see gap analysis and SWOT analysis as separate tools, SWOT

is a useful tool for organizing both the causes and the recommendations.

However, the threat portion veers into risk assessment, and as mentioned previously, a gap analysis is not a risk assessment.

Download a free SWOT analysis template to get started with this framework.

PESTEL Framework

PESTEL is another acronym and stands for political, economic, social, technological, environmental, and legal.

While it can be a standalone analysis, a company can also use it as a gap analysis framework.

Fishbone Framework

A fishbone diagram is a tool created by Kaoru Ishikawa, a Japanese quality control expert. The method is designed to identify problem causes and divide them into categories, similar to the other frameworks above.

While the image above illustrates six categories that are used in manufacturing, there are other sets of categories that other business areas use. A couple of these are outlined below.

The 8 Ps of Product Marketing

- Product
- Price
- Promotion
- Place
- Process
- People
- Physical evidence
- Performance

The 4 Ss of Service

- Surroundings
- Suppliers
- Systems
- Skills

What Is a Gap Analysis in the Pharmaceutical Industry?

A gap analysis (also known as validation gap analysis) in the pharmaceutical industry looks at the difference between regulatory requirements affecting a company, and the practices and processes that a company currently uses.

Turn a Gap Analysis into Actionable Processes with Real-Time

Empower your people to go above and beyond with a flexible platform designed to match the needs of your team and adapt as those needs change.

The Smartsheet platform makes it easy to plan, capture, manage, and report on work from anywhere, helping your team be more effective and get more done.

Report on key metrics and get real-time visibility into work as it happens with roll-up reports, dashboards, and automated workflows built to keep your team connected and informed.

When teams have clarity into the work getting done, there’s no telling how much more they can accomplish in the same amount of time.