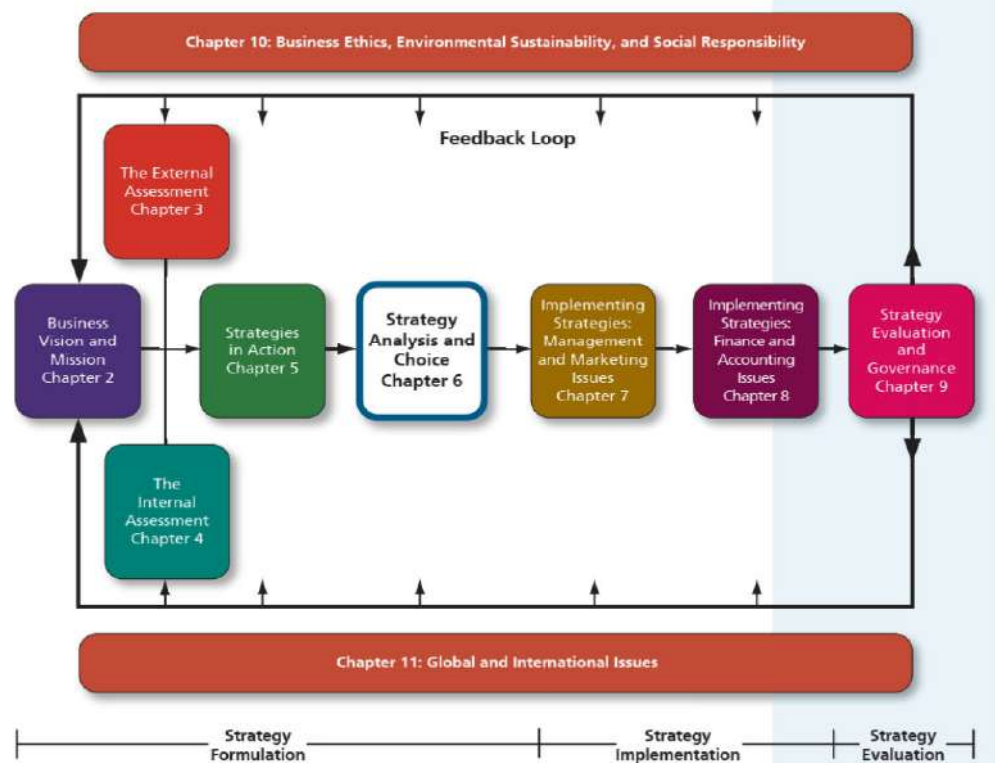


Chapter 6

Strategy Analysis and Choice

The Comprehensive, Integrative Strategic- Management Model



Learning Objectives

- *After studying this chapter, you should be able to do the following:*
 - *Describe the strategy analysis and choice process.*
 - *Diagram and explain the three-stage strategy-formulation analytical framework.*
 - *Construct and apply the Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix.*
 - *Construct and apply the Strategic Position and Action Evaluation (SPACE) Matrix.*
 - *Construct and apply the Boston Consulting Group (BCG) Matrix.*
 - *Construct and apply the Internal-External (IE) Matrix.*
 - *Construct and apply the Grand Strategy Matrix.*
 - *Construct and apply the Quantitative Strategic Planning Matrix (QSPM).*

Preface

- *Strategy analysis and choice largely involve making subjective decisions based on objective information.*
- *Prior chapters focused on obtaining the objective information needed in this chapter to formulate strategies and decide upon particular strategies to implement.*
- *This chapter introduces important concepts that enable strategists to generate feasible alternatives, evaluate those alternatives, and choose a specific course of action.*

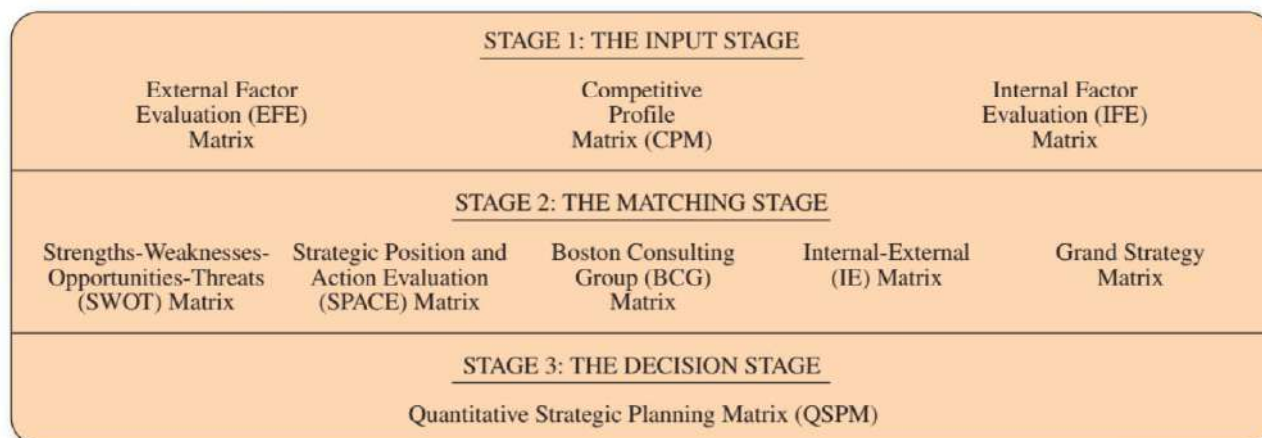
Strategy Analysis and Choice

- *Strategy analysis and choice seek to determine alternative courses of action that could best enable the firm to achieve its mission and objectives.*
- *The firm's present strategies, objectives, vision, and mission, coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies.*
- *This systematic approach is an effective way to avoid an organizational crisis.*
- *Rudin's Law states, "When a crisis forces choosing among alternatives, most people choose the worst possible one."*

The Process of Generating and Selecting Strategies

- *Strategists never consider all feasible strategies that could benefit the firm because there is an infinite number of possible actions and an infinite number of ways to implement those actions.*
- *Therefore, a manageable set of the most attractive alternative strategies must be developed, examined, prioritized, and selected.*
- *Involvement provides the best opportunity for managers and employees to gain an understanding of what the firm is doing and why and to become committed to helping the firm accomplish its objectives.*
- *At a bare minimum, SWOT analysis should be performed by participants as described in this chapter.*
- *Additionally, BCG, IE, SPACE, GRAND, and QSPM analyses are always immensely helpful in strategic planning*

The Strategy-Formulation Analytical Framework



Stage 1: The Input Stage

- Called the input stage.
- Summarizes the basic input information needed to formulate strategies.
- Consists of:
 - the External Factor Evaluation (EFE) Matrix,
 - the Internal Factor Evaluation (IFE) Matrix,
 - the Competitive Profile Matrix (CPM).

Stage 2: The Matching Stage

- *Called the matching stage.*
- *Focuses on generating feasible alternative strategies by aligning key external and internal factors.*
- *Consists of:*
 - *the Strengths-Weaknesses Opportunities-Threats (SWOT) Matrix,*
 - *the Strategic Position and Action Evaluation (SPACE) Matrix,*
 - *the Boston Consulting Group (BCG) Matrix,*
 - *the Internal-External (IE) Matrix,*
 - *The Grand Strategy Matrix.*
- *Matching external and internal key factors is essential for effectively generating feasible alternative strategies.*
- *In most situations, external and internal relationships are complex, and matching requires multiple alignments for each strategy generated.*

Stage 3: The Decision Stage

- *Called the decision stage.*
- *Involves a single technique, the Quantitative Strategic Planning Matrix (QSPM)*
- *A QSPM uses input information from Stage 1 to objectively evaluate feasible alternative strategies identified in Stage 2.*
- *It reveals the relative attractiveness of alternative strategies and thus provides an objective basis for selecting specific strategies.*
- *The QSPM is a more robust way to determine the relative attractiveness of strategies than the summed ranking method described previously.*

Stage 3: The Decision Stage

- When all feasible strategies identified by participants are stated in specific terms and understood, the strategies should be individually rated in order of attractiveness by each participant, with
 - 1 = should not be implemented,
 - 2 = possibly should be implemented,
 - 3 = probably should be implemented,
 - 4 = definitely should be implemented.
- Strategies with the highest sums are deemed the most attractive, so this process results in a prioritized list of best strategies that reflects the collective wisdom of the group.
- Rather than, or in conjunction with, this ranking method, the QSPM, offers a more robust procedure to determine the relative attractiveness of alternative strategies.

The SWOT Matrix

- There are four sets of strategies developed in SWOT analysis:
 - SO,
 - WO,
 - ST,
 - WT.

	Helpful to achieving the objective	Harmful to achieving the objective
Internal origin (attributes of the organization)	 <p>The diagram is a 2x2 matrix. The top row is labeled 'Internal origin (attributes of the organization)' and the bottom row is labeled 'External origin (attributes of the environment)'. The left column is labeled 'Helpful to achieving the objective' and the right column is labeled 'Harmful to achieving the objective'. The four quadrants are: Top-Left (green) contains 'S' and 'Strengths'; Top-Right (orange) contains 'W' and 'Weaknesses'; Bottom-Left (teal) contains 'O' and 'Opportunities'; Bottom-Right (purple) contains 'T' and 'Threats'.</p> <p>S Strengths</p>	<p>W Weaknesses</p>
External origin (attributes of the environment)	<p>O Opportunities</p>	<p>T Threats</p>

SO Strategies

- *SO strategies use a firm's internal strengths to take advantage of external opportunities. All managers would like their organization to be in a position in which internal strengths can be used to take advantage of external trends and events.*
- *Organizations generally will pursue WO, ST, or WT strategies to more effectively position themselves into situations in which they can apply SO strategies.*

WO Strategies

- *WO strategies aim at improving internal weaknesses by taking advantage of external opportunities.*
- *Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent it from exploiting those opportunities.*
- *For example, for an auto parts manufacturer, the rising demand for electric cars (external opportunity), coupled with the firm having limited batteries to offer (internal weakness), suggests that the firm should consider developing and producing a new line of batteries.*

ST Strategies

- *ST strategies use a firm's strengths to avoid or reduce the impact of external threats.*
- *An example ST strategy could be when a firm uses its excellent legal department (a strength) to collect millions of dollars in damages from rival firms that infringe on its patents.*
- *Rival firms that copy ideas, innovations, and patented products are a threat to many industries.*
- *When an organization faces major threats, it will seek to avoid them while concentrating on opportunities.*
- *For example, when an organization has both the capital and human resources needed to distribute its own products (internal strengths) and distributors are unreliable, costly, or incapable of meeting the firm's needs (external threats), forward integration (gaining control of distributors) can be an attractive ST strategy.*

WT Strategies

- *WT strategies are defensive tactics directed at reducing internal weakness and avoiding external threats.*
- *An organization faced with numerous external threats and internal weaknesses may indeed be in a precarious position.*
- *In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose to liquidate.*
- *For example, some restaurant chains do business with suppliers that treat livestock inhumanely (internal weakness) and face growing customer awareness of the need to preserve wildlife and treat animals with respect (external threat)—resulting in a WT strategy to cease using certain suppliers.*

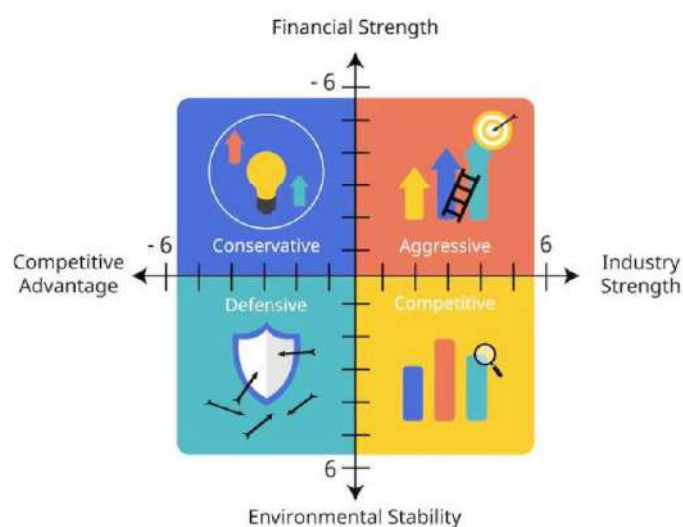
SWOT Matrix Development

- The process of constructing a SWOT Matrix can be summarized in eight steps, as follows:
 1. List the firm's key internal strengths.
 2. List the firm's key internal weaknesses.
 3. List the firm's key external opportunities.
 4. List the firm's key external threats.
 5. Match internal strengths with external opportunities to develop specific SO strategies.
 6. Match internal weaknesses with external opportunities to develop specific WO strategies.
 7. Match internal strengths with external threats to develop specific ST strategies.
 8. Match internal weaknesses with external threats to develop specific WT strategies.

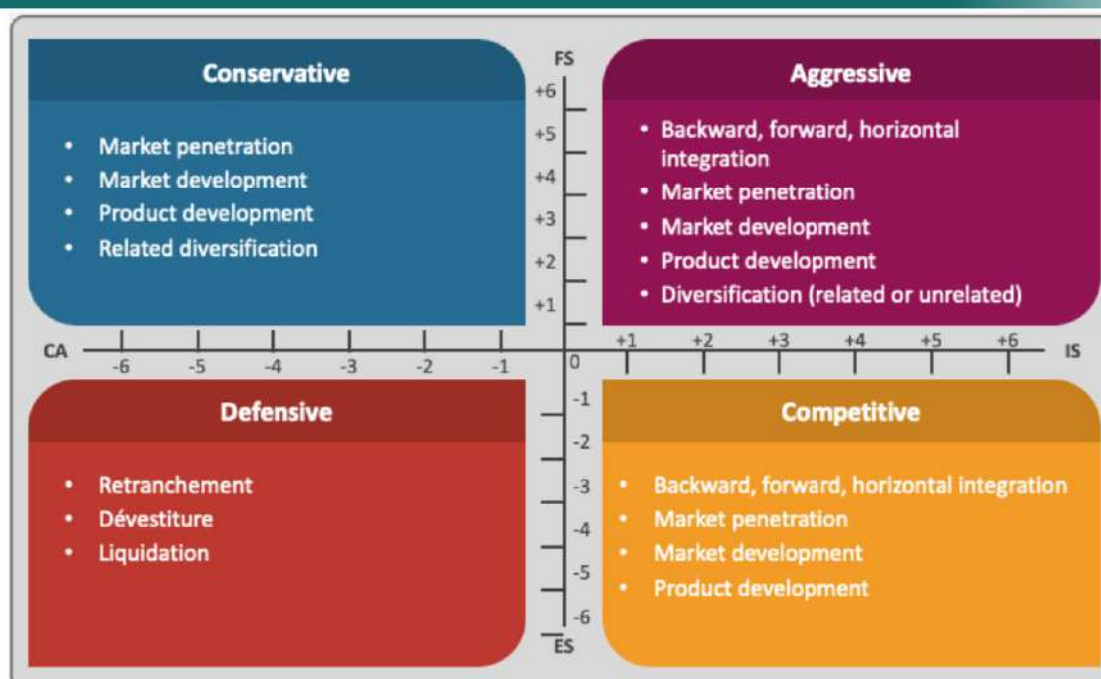
📖 Example SWOT Matrix is illustrated in Figure 6-3.

SPACE Matrix

- The Strategic Position and Action Evaluation (SPACE) Matrix is another Stage 2 matching tool that uses two axes and four quadrants to reveal whether aggressive, conservative, defensive, or competitive strategies are most appropriate for a given organization.
- Axes of the SPACE Matrix represent two internal dimensions (financial position [FP] and competitive position [CP]) and two external dimensions (stability position [SP] and industry position [IP]).



SPACE Matrix



Steps in Performing SPACE Analysis

1. Select a set of variables to define financial position (FP), competitive position (CP), stability position (SP), and industry position (IP).
2. Assign a numerical value ranging from +1 (worst) to +7 (best) to each of the variables that make up the FP and IP dimensions. Assign a numerical value ranging from -1 (best) to -7 (worst) to each of the variables that make up the SP and CP dimensions.
3. Compute an average score for FP, CP, IP, and SP by summing the values given to the variables of each dimension and then by dividing by the number of variables included in the respective dimension.
4. Plot the average scores for FP, IP, SP, and CP on the appropriate axes in the SPACE Matrix.
5. Add the two scores on the x-axis and plot the resultant point on X.
6. Draw a directional vector from the origin of the SPACE Matrix (0,0) through the new (x, y) coordinate

Factors That Make Up the SPACE Matrix Axes

Internal Strategic Position	External Strategic Position
<i>Financial Position (FP)</i>	<i>Stability Position (SP)</i>
Return on investment	Technological changes
Leverage	Rate of inflation
Liquidity	Demand variability
Working capital	Price range of competing products
Cash flow	Barriers to entry into market
Inventory turnover	Competitive pressure
Earnings per share	Ease of exit from market
Price earnings ratio	Risk involved in business

Factors That Make Up the SPACE Matrix Axes

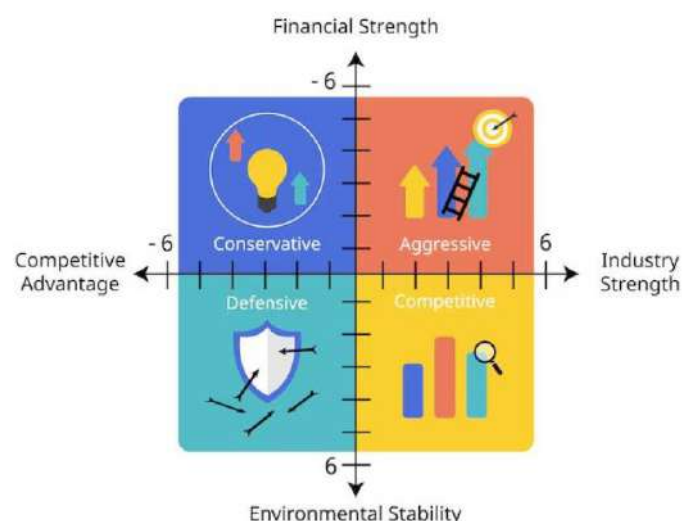
Internal Strategic Position	External Strategic Position
<i>Competitive Position (CP)</i>	<i>Industry Position (IP)</i>
Market share	Growth potential
Product quality	Profit potential
Product life cycle	Financial stability
Customer loyalty	Extent leveraged
Capacity utilization	Resource utilization
Technological know-how	Ease of entry into market
Control over suppliers and distributors	Productivity, capacity utilization

SPACE Matrix Limitations

- A SPACE Matrix analysis has some limitations as follows:

1. It is a snapshot in time.
2. There are more than four dimensions that firms could/should be rated on.
3. The directional vector could fall directly on an axis, or could even go nowhere if the coordinate is (0,0).
4. The relative attractiveness of alternative strategies generated is unclear.

📖 SPACE Matrix for Facebook's overall strategic position provided in Figure 6-6.



The Boston Consulting Group (BCG) Matrix

- BCG is a private management consulting firm that specializes in strategic planning.
- Based in Boston, Massachusetts and employing 6,200 consultants worldwide.
- BCG has approximately 90 offices in 45 countries, and annually ranks in the top five of Fortune's list of the "100 Best Companies to Work For."



The Boston Consulting Group (BCG) Matrix

- *Autonomous divisions (also called segments or profit centers) of an organization make up what is called a business portfolio.*
- *When a firm's divisions compete in different industries, a separate strategy must often be developed for each business.*
- *The BCG Matrix is designed specifically to enhance a multidivisional firm's efforts to formulate strategies.*

The Boston Consulting Group (BCG) Matrix

- *The BCG Matrix graphically portrays differences among divisions based on two dimensions:*
 1. *relative market share position on the x-axis,*
 2. *industry growth rate on the y-axis.*
- *The BCG Matrix allows a multidivisional organization to manage its portfolio of businesses by examining these two dimensions for each division relative to other divisions in the organization.*

Relative Market Share Position (RMSP)

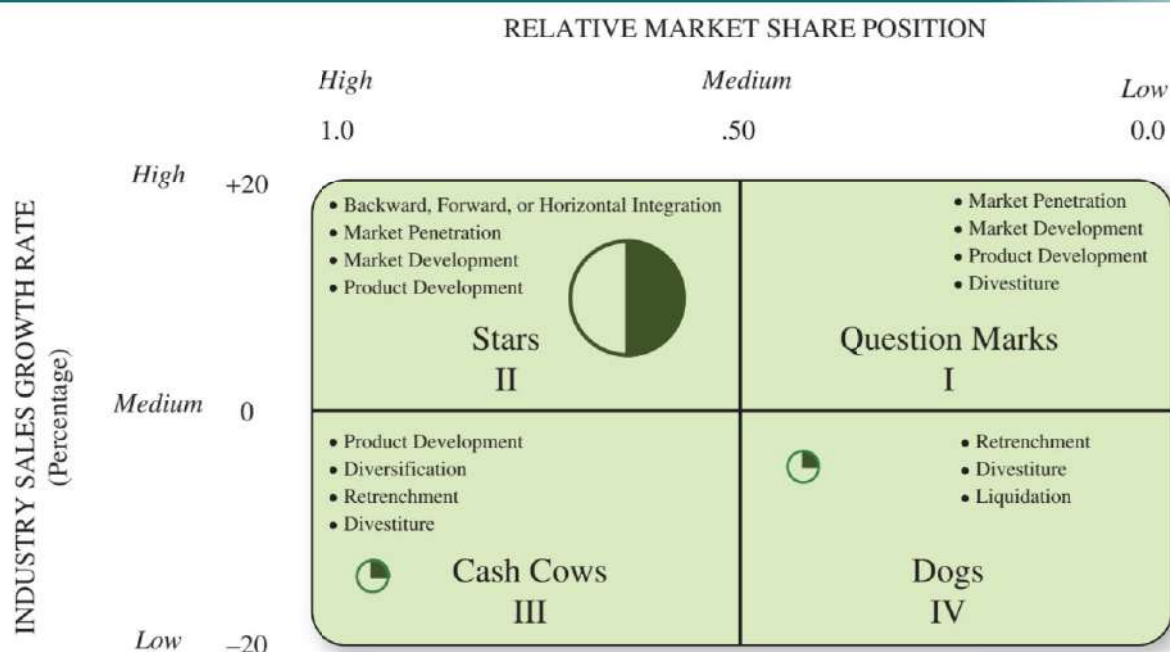
- *Defined as the ratio of a division's own market share (or revenues or number of stores) in a particular industry to the market share (or revenues or number of stores) held by the largest rival firm (leader) in that industry.*
- *The midpoint on the x-axis usually is set at 0.50, corresponding to a division that has half the market share of the leading firm in the industry.*

Company	Market Share (percent)	BCG: Relative Market Share Position
Hershey	25.9	$25.9/25.9 = 1.000$
Mars	25.2	$25.2/25.9 = 0.973$
Ferrara	05.8	$05.8/25.9 = 0.232$
Mondelez	05.6	$05.6/25.9 = 0.216$
Nestlé	02.9	$02.9/25.9 = 0.039$
Lindt & Sprungli	02.0	$02.0/25.9 = 0.077$
Perfetti Van Melle	02.0	$02.0/25.9 = 0.077$
Russell Stover	01.6	$01.6/25.9 = 0.062$

Industry Growth Rate (IGR)

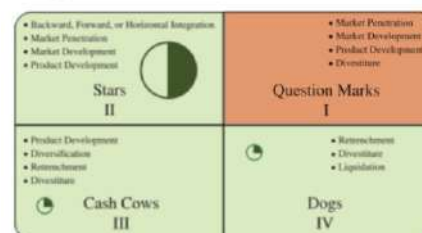
- *The average annual increase in revenue for all firms in an industry.*
- *The growth rate percentages on the y-axis could range from -20 to +20 (or -10 to +10) percent, with 0.0 being the midpoint.*
- *The average annual increase in revenues for several leading firms in the industry would be a good estimate for the IGR value.*

BCG Matrix



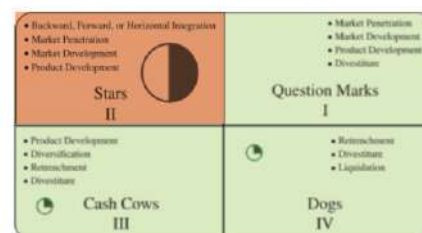
Question Marks - Quadrant I (Upper Right)

- A low relative market share position, yet they compete in a high-growth industry.
 - These firms' cash needs are high and their cash generation is low.
 - The organization must decide whether to strengthen them by pursuing an intensive strategy (market penetration, market development, or product development) or to sell them.
- ✓ Samsung's smartwatches operate in a rapidly growing wearable tech market but currently have a lower market share compared to competitors. The company must decide whether to invest heavily to increase share or exit the segment



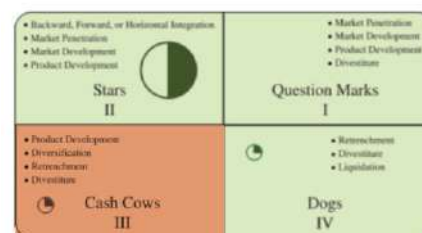
Stars - Quadrant II (Upper Left)

- The organizations' best long-run opportunities for growth and profitability.
 - Divisions with a high relative market share and a high industry growth rate should receive substantial investment to maintain or strengthen their dominant positions.
 - Forward, backward, and horizontal integration; market penetration; market development; and product development are appropriate strategies for these divisions to consider.
- ✓ Samsung's Galaxy smartphones are considered Stars. They hold a high market share in a rapidly growing global smartphone market. This segment requires significant investment to maintain growth and market leadership



Cash Cows - Quadrant III (Lower Left)

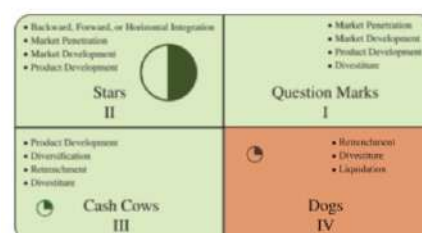
- A high relative market share position but compete in a low-growth industry.
 - They generate cash in excess of their needs, they are often milked.
 - Many of today's cash cows were yesterday's stars.
 - Product development, or diversification, may be an attractive strategy for strong cash cows.
- ✓ The Coca-Cola Classic soda has a dominant market share in the mature, slow-growing soft drink market. It consistently generates strong cash flow for the company, funding other ventures



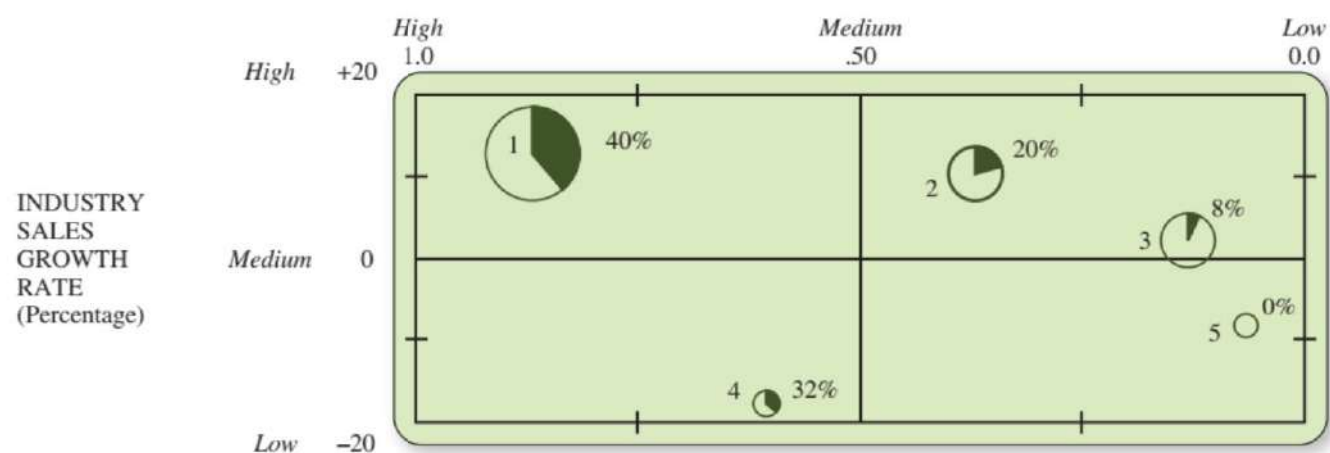
Dogs - Quadrant IV (Lower Right)

- A low relative market share position and compete in a slow- or no-market-growth industry; they are dogs in the firm's portfolio.
- Because of their weak internal and external position, these businesses are often liquidated, divested, or trimmed down through retrenchment.

✓ Samsung's printer business had low market share in a declining market, leading the company to divest this segment.



RELATIVE MARKET SHARE POSITION IN THE INDUSTRY



Division	Revenues	Percent Revenues	Profits	Percent Profits	Relative Market Share	Industry Growth Rate (%)
1	\$60,000	37	\$10,000	40	.80	+15
2	40,000	24	5,000	20	.40	+10
3	40,000	24	2,000	8	.10	+1
4	20,000	12	8,000	32	.60	-20
5	5,000	3	-500	0	.05	-10
Total	\$165,000	100	\$24,500	100	—	—

Quadrant Transformation

- *The divisions of many firms evolve over time:*
 - *dogs become question marks,*
 - *question marks become stars,*
 - *stars become cash cows,*
 - *cash cows become dogs*

in an ongoing counterclockwise motion.

- *Less frequently, stars become question marks, question marks become dogs, dogs become cash cows, and cash cows become stars (in a clockwise motion).*
- *In some organizations, no cyclical motion is apparent.*
- *Over time, organizations should strive to achieve a portfolio of divisions that are stars.*

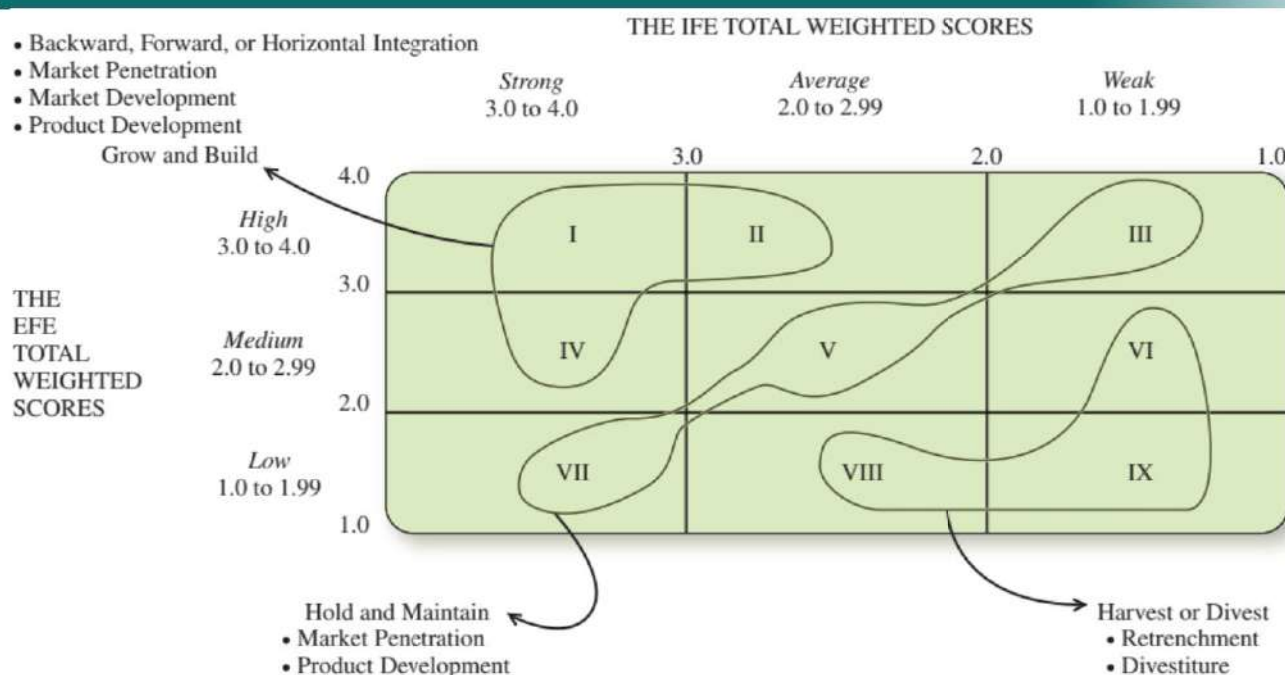
BCG Matrix Limitations

- *Viewing every business as a star, cash cow, dog, or question mark is an oversimplification.*
- *Many businesses fall right in the middle of the BCG Matrix and thus are not easily classified.*
- *Furthermore, the BCG Matrix does not reflect if various divisions or their industries are growing over time.*
- *The matrix has no temporal qualities, but rather it is a snapshot of an organization at a given point in time.*
- *Other variables besides relative market share position and industry growth rate in sales, such as the size of the market and competitive advantages, are important in making strategic decisions about various divisions.*

The Internal-External (IE) Matrix

- Positions an organization's various divisions (segments) in a nine-cell display.
- The IE Matrix is similar to the BCG Matrix in that both tools involve plotting a firm's divisions in a schematic diagram; this is why both tools are forms of portfolio analysis.
- In both the BCG and IE Matrices, the size of each circle represents the percentage of revenues or number of stores each division contributes, and pie slices reveal the percentage of operating profits contributed by each division.
- But there are four important differences between the BCG Matrix and the IE Matrix, as follows:
 1. The x- and y-axes are different.
 2. The IE Matrix requires more information about the divisions than does the BCG Matrix.
 3. The strategic implications of each matrix are different.
 4. The IE Matrix has nine quadrants versus four in a BCG Matrix.

The Internal-External (IE) Matrix



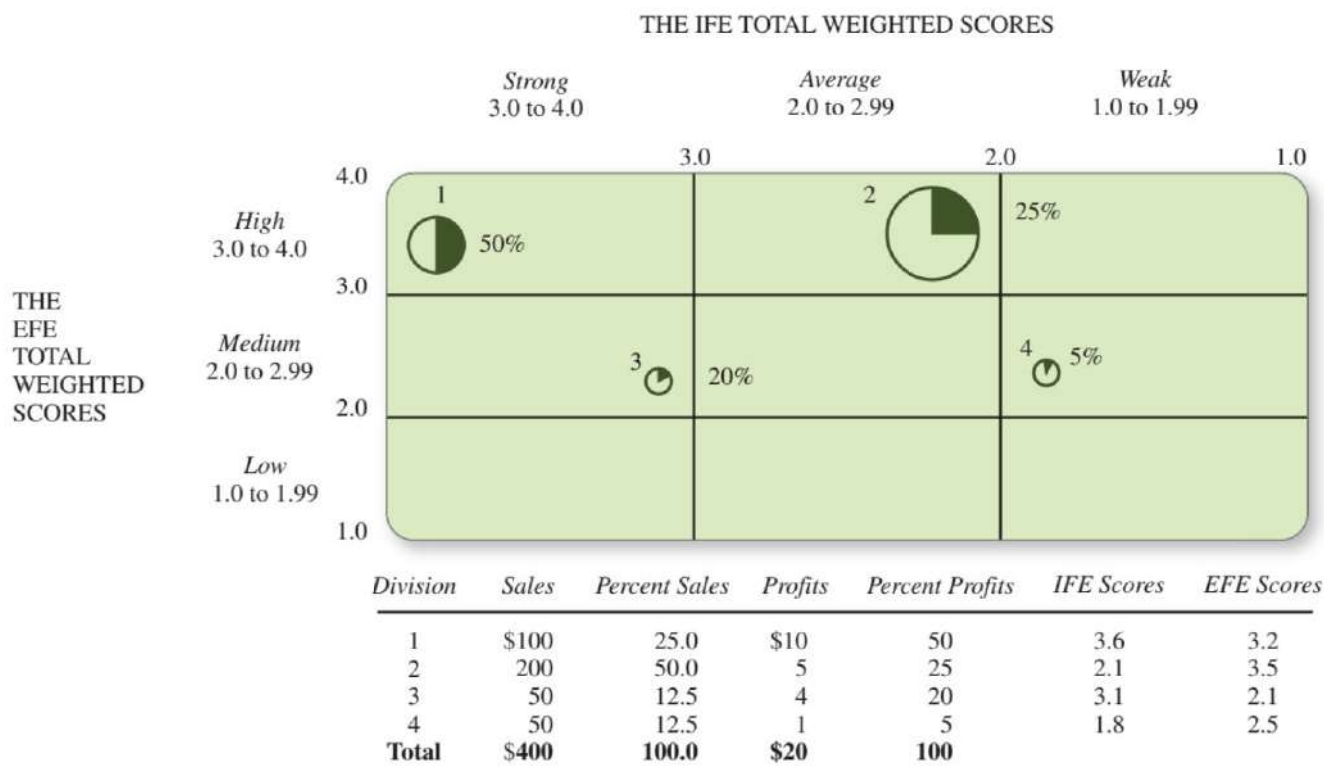
IE Matrix Axis

- *The IE Matrix is based on two key dimensions:*
 1. *the IFE total weighted scores on the x-axis and*
 2. *the EFE total weighted scores on the y-axis.*

- *On the x-axis (y-axis) of the IE Matrix, an IFE (EFE) total weighted score of*
 - *1.0 to 1.99 represents a weak internal position;*
 - *2.0 to 2.99 is considered average;*
 - *3.0 to 4.0 is strong.*

IE Matrix Region

- *Despite having nine cells (or quadrants), the IE Matrix has three major regions that have different strategy implications, as follows:*
 1. *Region 1: The prescription for divisions that fall into cells I, II, or IV can be described as grow and build. Intensive (market penetration, market development, and product development) or integrative (backward integration, forward integration, and horizontal integration) strategies can be most appropriate for these divisions. This is the best region for divisions, given their high IFE and EFE scores. Successful organizations are able to achieve a portfolio of businesses positioned in Region 1.*
 2. *Region 2: The prescription for divisions that fall into cells III, V, or VII can be described as hold and maintain strategies; market penetration and product development are two commonly employed strategies for these types of divisions*
 3. *Region 3: The prescription for divisions that fall into cells VI, VIII, or IX can be described as harvest or divest.*



The Grand Strategy Matrix

- The Grand Strategy Matrix is based on two evaluative dimensions:
 1. competitive position on the x-axis and
 2. market (industry) growth on the y-axis.
- All organizations can be positioned in one of the Grand Strategy Matrix's four strategy quadrants.
- Any industry whose annual growth in sales exceeds 5 percent could be considered to have rapid growth.
- Appropriate strategies for an organization to consider are listed in sequential order of attractiveness in each quadrant of the Grand Strategy Matrix.

The Grand Strategy Matrix



Quadrant I

- Firms located in Quadrant I of the Grand Strategy Matrix are in an excellent strategic position.
- These companies, continued concentration on current markets (market penetration and market development) and products (product development) is an appropriate strategy.
- When a Quadrant I organization has excessive resources, then backward, forward, or horizontal integration may be considered.
- When a Quadrant I firm is too heavily committed to a single product, then related diversification may reduce the risks associated with a narrow product line.
- Quadrant I firms can afford to take advantage of external opportunities in several areas. They can take risks aggressively when necessary.

Quadrant II

- *Firms positioned in Quadrant II need to evaluate their present approach to the marketplace seriously.*
- *Although their industry is growing, they are unable to compete effectively; they need to determine why the firm's current approach is ineffective and how the company can best change to improve its competitiveness.*
- *Because Quadrant II organizations are in a rapid market growth industry, an intensive strategy (as opposed to integrative or diversification) is usually the first option that should be considered.*
- *However, if the firm is lacking a distinctive competence or competitive advantage, then horizontal integration is often a desirable alternative. As a last resort, divestiture or liquidation should be considered.*
- *Divestiture can provide funds needed to acquire other businesses or buy back shares of stock*

Quadrant III

- *Quadrant III organizations compete in slow-growth industries and have weak competitive positions.*
- *These firms must make drastic changes quickly to avoid further decline and possible liquidation.*
- *Extensive cost and asset reduction (retrenchment) should be pursued first.*
- *An alternative strategy is to shift resources away from the current business into different areas (diversify).*
- *If all else fails, the final options for Quadrant III businesses are divestiture or liquidation.*

Quadrant IV

- *Quadrant IV businesses have a strong competitive position but are in a slow-growth industry.*
- *These firms have the strength to launch diversified programs into more promising growth areas: Quadrant IV businesses have characteristically high cash-flow levels and limited internal growth needs and often can pursue related or unrelated diversification successfully.*
- *Quadrant IV firms also may pursue joint ventures.*

The Decision Stage: The QSPM

- *The Quantitative Strategic Planning Matrix (QSPM), which comprises Stage 3 of the strategy-formulation analytical framework, objectively indicates which strategies are best.*
- *The QSPM is a tool that allows strategists to evaluate alternative strategies objectively, based on previously identified external and internal key success factors.*

The QSPM Structure

Key Factors	Weight	Strategic Alternatives		
		Strategy 1	Strategy 2	Strategy 3
<i>Key External Factors</i>				
Economy				
Political/Legal/Governmental				
Social/Cultural/Demographic/				
Environmental				
Technological				
Competitive				
<i>Key Internal Factors</i>				
Management				
Marketing				
Finance/Accounting				
Production/Operations				
Research and Development				
Management Information Systems				

Steps to Develop a QSPM

1. Make a list of the firm's key external opportunities and threats and internal strengths and weaknesses in the left column of the QSPM.
2. Assign weights to each key external and internal factor.
3. Examine the Stage 2 (matching) matrices, and identify alternative strategies that the organization should consider implementing.
4. Determine the Attractiveness Scores (AS).
5. Compute the Total Attractiveness Scores.
6. Compute the Sum Total Attractiveness Score.

Chapter Summary

- *Strategy formulation involves assessing if an organization is doing the right things and how it can improve.*
- *Organizations must avoid becoming trapped by outdated strategies; regular reassessment prevents complacency.*
- *Objectives and strategies should be deliberately developed, not formed by routine daily decisions.*
- *Lack of direction and strategy can lead to an organization's failure.*
- *All types of organizations (e.g., military, business, government, sports) need clear objectives and effective strategies to succeed.*
- *Strategies can be:*
 - *Offensive – using strengths to seize opportunities.*
 - *Defensive – addressing weaknesses and avoiding threats.*

Chapter Summary

- *Every organization faces internal strengths/weaknesses and external opportunities/threats, which must be aligned to form viable strategies.*
- *Strategic tools such as:*
 - *SWOT Matrix*
 - *SPACE Matrix*
 - *BCG Matrix*
 - *IE Matrix*
 - *Grand Strategy Matrix*
 - *QSPM Matrix*
- *These tools should inform but not dictate strategy choices.*

Topics for Further Collaboration ...

- *David Green, CEO of Hobby Lobby (Page 192 – David Book)*
- *India's Economy Is Booming (Page 214 – David Book)*