BBA-BI VIII Semester

Unit: VII

Strategic Analysis and Choice

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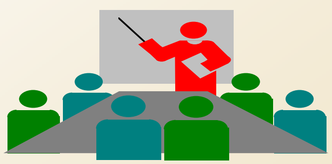
Strategic Analysis and Choice

- **Evaluating and choosing strategies, Industry environment and strategy choices, Evaluating and choosing to diversity 6**

Why Are Clear Objectives Needed?

To Provide Direction	To Provide Purpose
To Allow Synergy	To Aid in Evaluations
To Establish Priorities	To Reduce Uncertainty
To Minimize Conflicts	To Stimulate Exertion
To Allocate Resources	To Design Jobs

To Motivate Managers & Employees



Strategic Analysis and Choices

Strategic Analysis:
- Analysis of External Envt.
- Analysis of Internal Envt.
- Analysis of Stakeholders and their different purposes

Strategic Choices:
- Identifying the basis of strategic choices
- Generating the strategic options
- Evaluating & selecting strategic options

Strategic implementation:
- determining organizational structure, resource allocation and control, managing strategic change

Strategic 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, and mission, coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies.

All strategies are subject to future modification

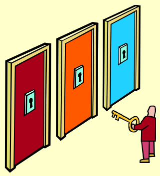
- because external and internal factors are constantly changing!
- Reviewing external and internal factors
- Measuring performance
- Taking corrective actions

Strategy Analysis & Choice

Alternative Strategies Derive From --

- Vision
- Mission
- Objectives

- *External audit*
- *Internal audit*



- Past successful strategies

Strategy Analysis & Choice

Nature of Strategy Analysis & Choice

-- Establishing long-term objectives
-- Generating alternative strategies
-- Selecting strategies to follow
-- Best alternative - achieve mission & objectives

Strategy-formulation Framework

- Stage 1: The input stage
  - External factor evaluation matrix (EFE)
  - Competitive profile matrix (CPM)
  - Internal factor evaluation matrix (IFE)
- Stage 2: The matching stage
  - Strengths, weaknesses, opportunities and threats matrix (SWOT)
  - Strategic position and action evaluation matrix (SPACE)
  - Boston consulting group matrix (BCG)
  - Internal-external matrix (IE)
  - Grand strategy matrix (GS)
- Stage 3: The decision stage
  - Quantitative strategic planning matrix (QSPM)

An *External Factor Evaluation (EFE) Matrix*

allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information.

1. List key external factors as identified in the external-audit process. Include a total of 15 to 20 factors, including both opportunities and threats, that affect the firm and its industry.

2. Assign to each factor a weight that ranges from 0.0 (not important) to 1.0 (very important).

3. Assign a rating between 1 and 4 to each key external factor to indicate how effectively the firm's current strategies respond to the factor, where 4 = *the response is superior, 3 = the response is above average, 2 = the response is average, and* 1 = *the response is poor.*

4. Multiply each factor's weight by its rating to determine a weighted score.

5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

The Competitive Profile Matrix (CPM)

identifies a firm's major competitors and its particular strengths and weaknesses in relation to a sample firm's strategic position. The weights and total weighted scores in both a CPM and an EFE have the same meaning.

TABLE 3-13 An Example Competitive Profile Matrix

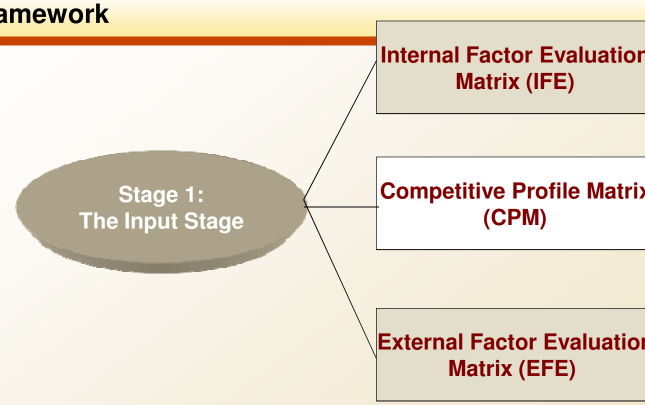
		Company 1	
Critical Success Factors	Weight	Rating	Score
Advertising	0.20	1	0.20
Product Quality	0.10	4	0.40
Price Competitiveness	0.10	3	0.30
Management	0.10	4	0.40
Financial Position	0.15	4	0.60
Customer Loyalty	0.10	4	0.40
Global Expansion	0.20	4	0.80
Market Share	0.05	1	0.05
Total	**1.00**		**3.15**

The Internal Factor Evaluation (IFE) Matrix

This strategy-formulation tool summarizes and evaluates the major strengths and weaknesses in the functional areas of a business, and it also provides a basis for identifying and evaluating relationships among those areas.

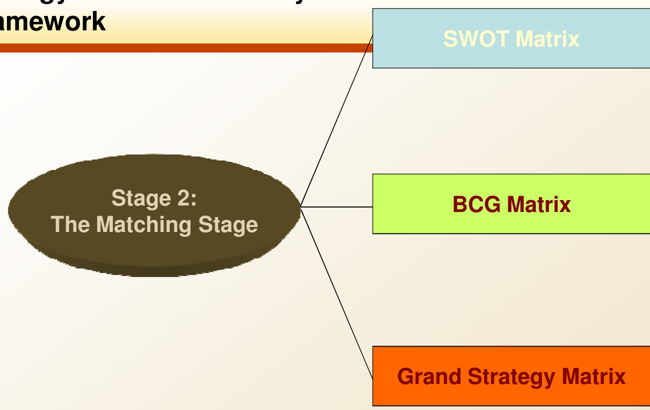
Key Internal Factors	Weight	Rating	Weighted Score
Strengths			
1. Inventory turnover increased from 5.8 to 6.7	0.05	3	0.15
2. Average customer purchase increased from $97 to $128	0.07	4	0.28
3. Employee morale is excellent	0.10	3	0.30
Weaknesses			
1. Revenues from software segment of store down 12 percent	0.10	2	0.20
2. Location of store negatively impacted by new Highway 34	0.15	2	0.30
3. Carpet and paint in store somewhat in disrepair	0.02	1	0.02

Strategy-Formulation Analytical Framework



Note: EFE and CPM form external and IFE from internal (assessment)

Strategy-Formulation Analytical Framework



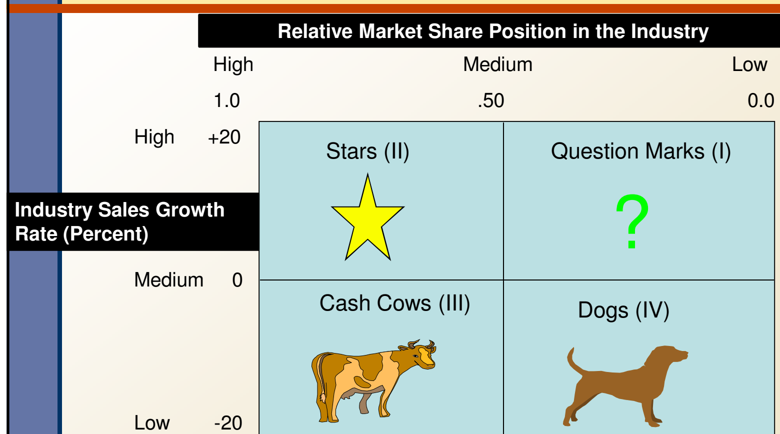
Boston Consulting Group Matrix

- **Allows a multidivisional organization to manage its portfolio of businesses by examining the relative market share position and the industry growth rate of each division relative to all other divisions in the organization.**
  - **Relative market share position - ratio of a division's own market share to the market share held by the largest rival.**

The SWOT Matrix

	STRENGTHS - S List strengths	WEAKNESSES - W List weaknesses
OPPORTUNITIES - O List opportunities	SO STRATEGIES Use strengths to take advantage of opportunities	WO STRATEGIES Overcome weaknesses by taking advantage of opportunities
THREATS - T List threats	ST STRATEGIES Use strengths to avoid threats	WT STRATEGIES Minimize weaknesses and avoid threats

The BCG Matrix

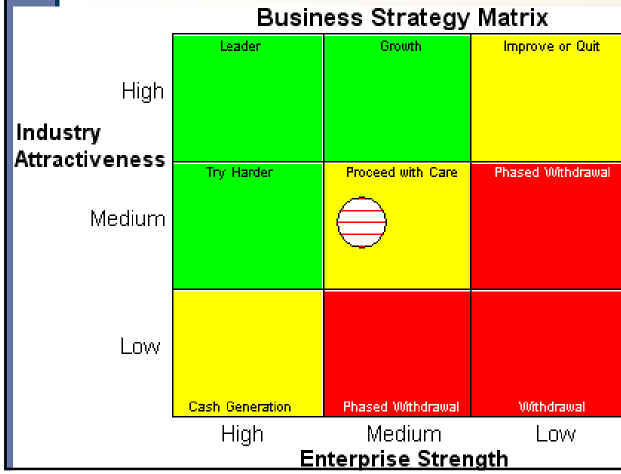


The BCG Matrix and Strategic Direction

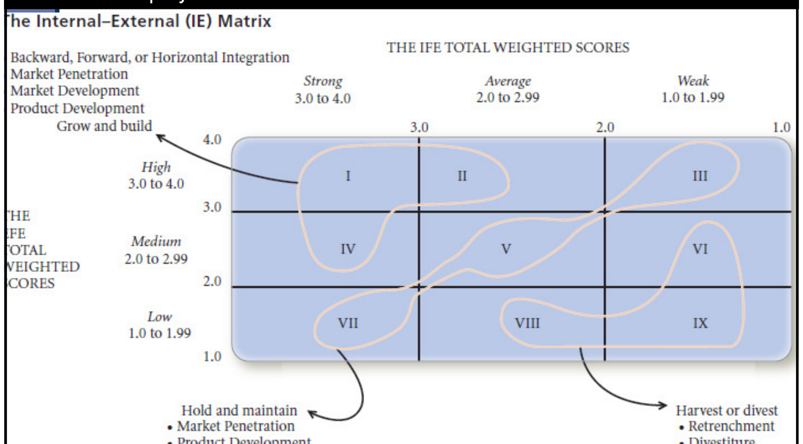
- **Question marks - strengthen them via market penetration, market development or product development, or sell them.**
- **Stars - forward, backward and horizontal integration; market penetration; market development; product development; or joint venture.**
- **Cash cows - for strong ones product development or concentric diversification; for weak ones, retrenchment or divestiture.**
- **Dogs - liquidate, divest or retrench.**

GE / McKinsey Matrix / Nine-Cell Matrix

In consulting engagements with General Electric in the 1970's, McKinsey & Company developed a nine-cell portfolio matrix as a tool for screening GE's large portfolio of strategic business units (SBU). This business screen became known as the **GE/McKinsey Matrix** and is shown below:



The *Internal-External (IE) Matrix positions an organization's various divisions in a Nine cell* display



Nine Cell Matrix

Industry Attractiveness:

The vertical axis of the GE / McKinsey matrix is industry attractiveness, which is determined by factors such as the following:

- Market growth rate
- Market size
- Demand variability
- Industry profitability
- Industry rivalry
- Global opportunities
- Macro environmental factors (PEST)

Business Unit Strength: The horizontal axis of the GE / McKinsey matrix is the strength of the business unit. Some factors that can be used to determine business unit strength include:

- Market share
- Growth in market share
- Brand equity
- Distribution channel access
- Production capacity
- Profit margins relative to competitors

The Grand Strategy Matrix

- **Organizations or divisions are positioned into one of four quadrants based on market growth and competitive position.**
- **Each quadrant suggests alternative strategies.**

SPACE Matrix

Strategic Position & Action Evaluation Matrix

- Aggressive
- Conservative
- Defensive
- Competitive

The Grand Strategy Matrix

SPACE Matrix

Two Internal Dimensions

- Financial Strength (FS)
- Competitive Advantage (CA)

SPACE Matrix

Two External Dimensions

- Environmental Stability (ES)
- Industry Strength (IS)

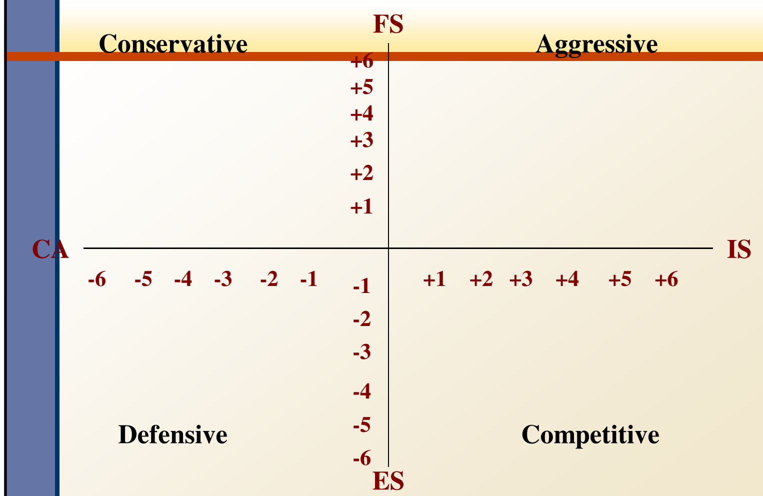
SPACE Factors

Internal Strategic Position	External Strategic Position
Competitive Advantage CA	**Industry Strength (IS)**
Market share Product quality Product life cycle Customer loyalty Competition’s capacity utilization Technological know-how Control over suppliers & distributors	Growth potential Profit potential Financial stability Technological know-how Resource utilization Ease of entry into market Productivity, capacity utilization

SPACE Factors

Internal Strategic Position	External Strategic Position
Financial Strength (FS)	**Environmental Stability (ES)**
Return on investment Leverage Liquidity Working capital Cash flow	Technological changes Rate of inflation Demand variability Price range of competing products Barriers to entry Competitive pressure Price elasticity of demand Ease of exit from market Risk involved in business

SPACE Matrix



The Strategic Position and Action Evaluation (SPACE) Matrix

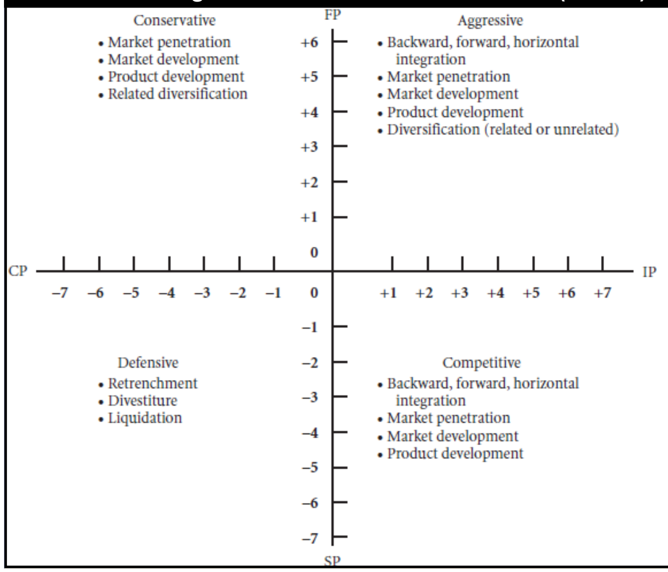


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TABLE 6-2 Example Factors That Make Up the SPACE Matrix Axes

Internal Strategic Position	External Strategic Position
Financial Position (FP)	*Stability Position (SP)*
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	Price elasticity of demand
	Risk involved in business
Competitive Position (CP)	*Industry Position (IP)*
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

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The Quantitative Strategic Planning Matrix—QSPM

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

The Decision Stage: The Quantitative Strategic Planning Matrix

- **Use input from stages 1 and 2.**
- **Not all strategies generated in stage 2 need to be included.**
- **Must assign an “attractiveness score” for each strategy by examining external and internal (SWOT) critical success factors and asking “Does this factor affect the choice of strategies being made?” If yes, then the strategies should be compared relative to that key factor and assign a score of 1 (not attractive) to 4 (highly attractive) to each factor.**
- **Calculate “total attractiveness scores” by multiplying weights by “attractiveness scores”.**

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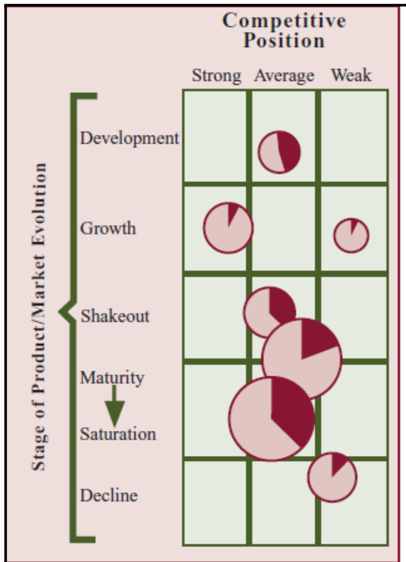

Fig. 7, Life Cycle Matrix

Hofer method of business portfolio analysis

A significant contribution in the field of strategic business portfolio analysis specific to a company Belongs to **Charles W. Hofer**. Over time, he undertook a series of research studies showing that the stage of the life cycle of a product represents a factor that influences to a greater or smaller extent the success of a strategy.

Strategic Management Model

- **The strategic management model identifies concepts of strategy and the elements necessary for development of a strategy enabling the organization to satisfy its mission. Historically, a number of frameworks and models have been advanced which propose different normative approaches to strategy determination. However, a review of the major strategic management models indicates that they all include the following elements:**
- **Performing an environmental analysis.**
- **Establishing organizational direction.**
- **Formulating organizational strategy.**
- **Implementing organizational strategy.**
- **Evaluating and controlling strategy.**

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Strategic Management Models

- **Andrews' Models**
- **Glueck's Model**
- **The Schendel And Hofer Model**
- **The Thompson And Strickland Model**
- **Korey's Model**
- **Schematic Model**

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Andrews' Models

- **In 1965, *Kenneth Andrews* developed a simple model. This model includes the choice of a strategy, but ignores implementation and control. In 1971, *Andrews* formulated a more complete model that included implementation, but it still ignores a strategic control and evaluation.**

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Glueck's Model

- *William F. Glueck* developed several models of strategic management based on the general decision-making process.
- The phases of this model are as follows:
- * Strategic managements elements: "*...to determine mission, goals, and values of the firm and the key decision makers.*"
- * Analysis and diagnosis: " *...to search the environment and diagnose the impact of the threats and opportunities.*"
- * Choice: *...to consider various alternatives and assure that the appropriate strategy is chosen."*
- * Implementation: *"...to match plans, policies, resources, structure, and administrative style with the strategy."*
- * Evaluation: "*...to ensure strategy and implementation will meet objectives."*
- As major contribution to the strategic management process, Glueck considered two elements: "*enterprise objectives*" (the mission and objectives of the enterprise," and "*enterprise strategists*" (who are involved in the process).
- Moreover, Glueck broke down the planning process into analysis and diagnosis, choice, implementation, and evaluation functions. This model also treats leadership, policy, and organizational factors.
- However, Glueck omitted the important medium- and short-range planning activities of strategy implementation.

The Thompson And Strickland Model

Thompson and Strickland developed several models of strategic management.

According to Thompson and Strickland strategic management is an ongoing process: "nothing is final and all prior actions and decisions are subject to future modification."

This process consists of five major five ever-present tasks:

1. Developing a concept of the business and forming a vision of where the organization needs to be headed.
2. Converting the mission into specific performance objectives.
3. Crafting a strategy to achieve the targeted performance.
4. Implementing and executing the chosen strategy efficiently and effectively.
5. Evaluating performance, reviewing the situation, and initiating corrective adjustments in mission, objectives, strategy, or implementation in light of actual experience, changing conditions, new ideas, and new opportunities.

The Schendel And Hofer Model

Dan Schendel and Charles Hofer developed a strategic management model, incorporating both planning and control functions.

Their model consists of several basic steps:

(1) goal formulation,

(2) environmental analysis,

(3) strategy formulation,

(4) strategy evaluation,

(5) strategy implementation, and

(6) strategic control.

According to Schendel and Hofer, the formulation portion of strategic management consists of at least three sub processes:

- environmental analysis,
- resources analysis,
- and value analysis.

Korey's Model

Modern theorist and writer, Jerzy Korey-Krzeczowski, founder and President Canadian School of Management, have proposed an integrated model of strategic management.

Korey's model consists of three discrete major phases:

(1) preliminary analysis phase,
(2) strategic planning phase,
(3) strategic management phase.

Further, Korey states that the systematic planning consists the following continuous subprocesses:

(1) planning studies,
(2) review and control,
(3) feasibility studies, and
(4) feasibility studies.

Schematic Model

As an aid in envisioning the strategic management process in this paper.

This model was developed by ***Peter Wright, Charles Pringle and Mark Kroll*** **(1994). It consists of five stages:**

1. Analyze the environmental opportunities and threats.
2. Analyze the organization's internal strengths and weaknesses.
3. Establish the organizational direction: mission and goals.
4. Strategy formulation.
5. Strategy Implementation.
6. Strategic Control.

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