

CHAPTER SIX

STRATEGY ANALYSIS AND CHOICE

The Nature of Strategy

Analysis and Choice

- ❖ the firm should **generate, evaluate, and select strategies.**
- ❖ 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.

Cont...

- ❖ Alternative strategies do not come out of the wild blue yonder; they are derived from the firm's vision, mission, objectives, external audit, and internal audit; they are consistent with, or build on, past strategies that have worked well.

The Process of Generating and Selecting Strategies

- ❖ Strategists never consider all feasible alternatives that could benefit the firm because there are 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
- ❖ The advantages, disadvantages, trade-offs, costs, and benefits of these **strategies** should be determined

Cont...

- ❖ Identifying and evaluating **alternative strategies** should involve many of the managers and employees who earlier **assembled** the organizational vision and mission statements, **performed** the external audit, and **conducted** the internal audit.

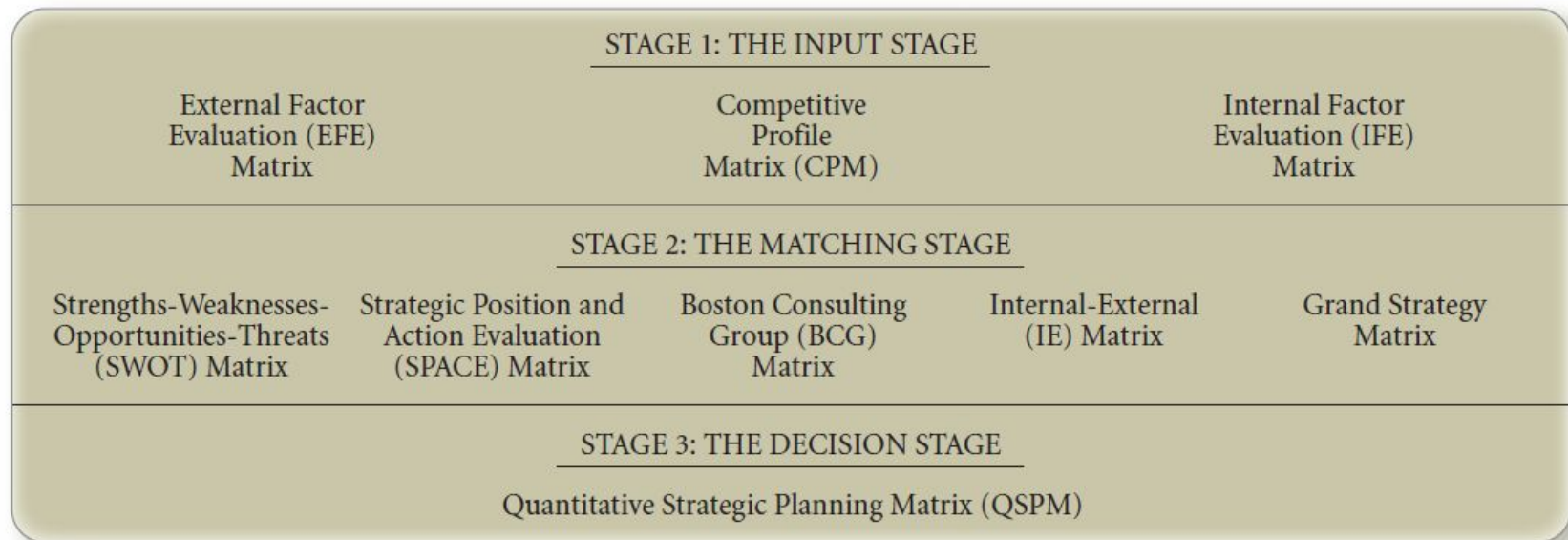
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- ❖ **Alternative strategies** proposed by participants should be considered and discussed in a series of meetings.
- ❖ Proposed strategies should be listed in **writing**.
- ❖ When all **feasible strategies** identified by participants are given and understood, the strategies should be ranked in order of attractiveness.

A Comprehensive Strategy-Formulation Framework

FIGURE 6-2

The Strategy-Formulation Analytical Framework



Cont...

◆ **Stage 1 - Input Stage**

- summarizes the basic input information needed to formulate strategies

◆ **Stage 2 - Matching Stage**

- focuses on generating feasible alternative strategies by aligning key external and internal factors

◆ **Stage 3 - Decision Stage**

- reveals the relative attractiveness of alternative strategies and thus provides objective basis for selecting specific strategies

THE MATCHING STAGE

The Strengths-Weaknesses-Opportunities-Threats (SWOT) Matrix

- ❖ helps managers develop four types of strategies:
 - SO (strengths-opportunities) Strategies
 - WO (weaknesses-opportunities) Strategies
 - ST (strengths-threats) Strategies
 - WT (weaknesses-threats) Strategies

Matching Key External and Internal Factors to Formulate Alternative Strategies

TABLE 6-1 Matching Key External and Internal Factors to Formulate Alternative Strategies

Key Internal Factor	Key External Factor	Resultant Strategy
Excess working capital (an internal strength)	+ 20 percent annual growth in the cell phone industry (an external opportunity)	= Acquire Cellfone, Inc.
Insufficient capacity (an internal weakness)	+ Exit of two major foreign competitors from the industry (an external opportunity)	= Pursue horizontal integration by buying competitors' facilities
Strong R&D expertise (an internal strength)	+ Decreasing numbers of younger adults (an external threat)	= Develop new products for older adults
Poor employee morale (an internal weakness)	+ Rising health care costs (an external threat)	= Develop a new wellness program

Cont...

SO Strategies

- use a firm's internal strengths to take advantage of external opportunities

WO Strategies

- aim at improving internal weaknesses by taking advantage of external opportunities

Cont..



***ST* Strategies**

- use a firm's strengths to avoid or reduce the impact of external threats



***WT* Strategies**

- defensive tactics directed at reducing internal weakness and avoiding external threats

SWOT Matrix

1. List the firm's key external opportunities
2. List the firm's key external threats
3. List the firm's key internal strengths
4. List the firm's key internal weaknesses
5. Match internal strengths with external opportunities

cont...

6. Match internal weaknesses with external opportunities, and record the resultant WO Strategies
7. Match internal strengths with external threats, and record the resultant ST Strategies
8. Match internal weaknesses with external threats, and record the resultant WT Strategies

A SWOT Matrix for a Retail Computer Store

FIGURE 6-3

A SWOT Matrix for a Retail Computer Store

Strengths	Weaknesses
1. Inventory turnover up 5.8 to 6.7	1. Software revenues in store down 12%
2. Average customer purchase up \$97 to \$128	2. Location of store hurt by new Hwy 34
3. Employee morale is excellent	3. Carpet and paint in store in disrepair
4. In-store promotions = 20% increase in sales	4. Bathroom in store needs refurbishing
5. Newspaper advertising expenditures down 10%	5. Total store revenues down 8%
6. Revenues from repair/service in store up 16%	6. Store has no website
7. In-store technical support persons have MIS degrees	7. Supplier on-time-delivery up to 2.4 days
8. Store's debt-to-total-assets ratio down 34%	8. Customer checkout process too slow
	9. Revenues per employee up 19%

Cont..

Opportunities	SO Strategies	WO Strategies
<ol style="list-style-type: none"> 1. Population of city growing 10% 2. Rival computer store opening 1 mile away 3. Vehicle traffic passing store up 12% 4. Vendors average six new products/yr 5. Senior citizen use of computers up 8% 6. Small business growth in area up 10% 7. Desire for websites up 18% by realtors 8. Desire for websites up 12% by small firms 	<ol style="list-style-type: none"> 1. Add 4 new in-store promotions monthly (S4, O3) 2. Add 2 new repair/service persons (S6, O5) 3. Send flyer to all seniors over age 55 (S5, O5) 	<ol style="list-style-type: none"> 1. Purchase land to build new store (W2, O2) 2. Install new carpet/paint/bath (W3, W4, O1) 3. Up website services by 50% (W6, O7, O8) 4. Launch mailout to all realtors in city (W5, O7)
Threats	ST Strategies	WT Strategies
<ol style="list-style-type: none"> 1. Best Buy opening new store in 1 yr nearby 2. Local university offers computer repair 3. New bypass Hwy 34 in 1 yr will divert traffic 4. New mall being built nearby 5. Gas prices up 14% 6. Vendors raising prices 8% 	<ol style="list-style-type: none"> 1. Hire 2 more repair persons and market these new services (S6, S7, T1) 2. Purchase land to build new store (S8, T3) 3. Raise out-of-store service calls from \$60 to \$80 (S6, T5) 	<ol style="list-style-type: none"> 1. Hire 2 new cashiers (W8, T1, T4) 2. Install new carpet/paint/bath (W3, W4, T1)

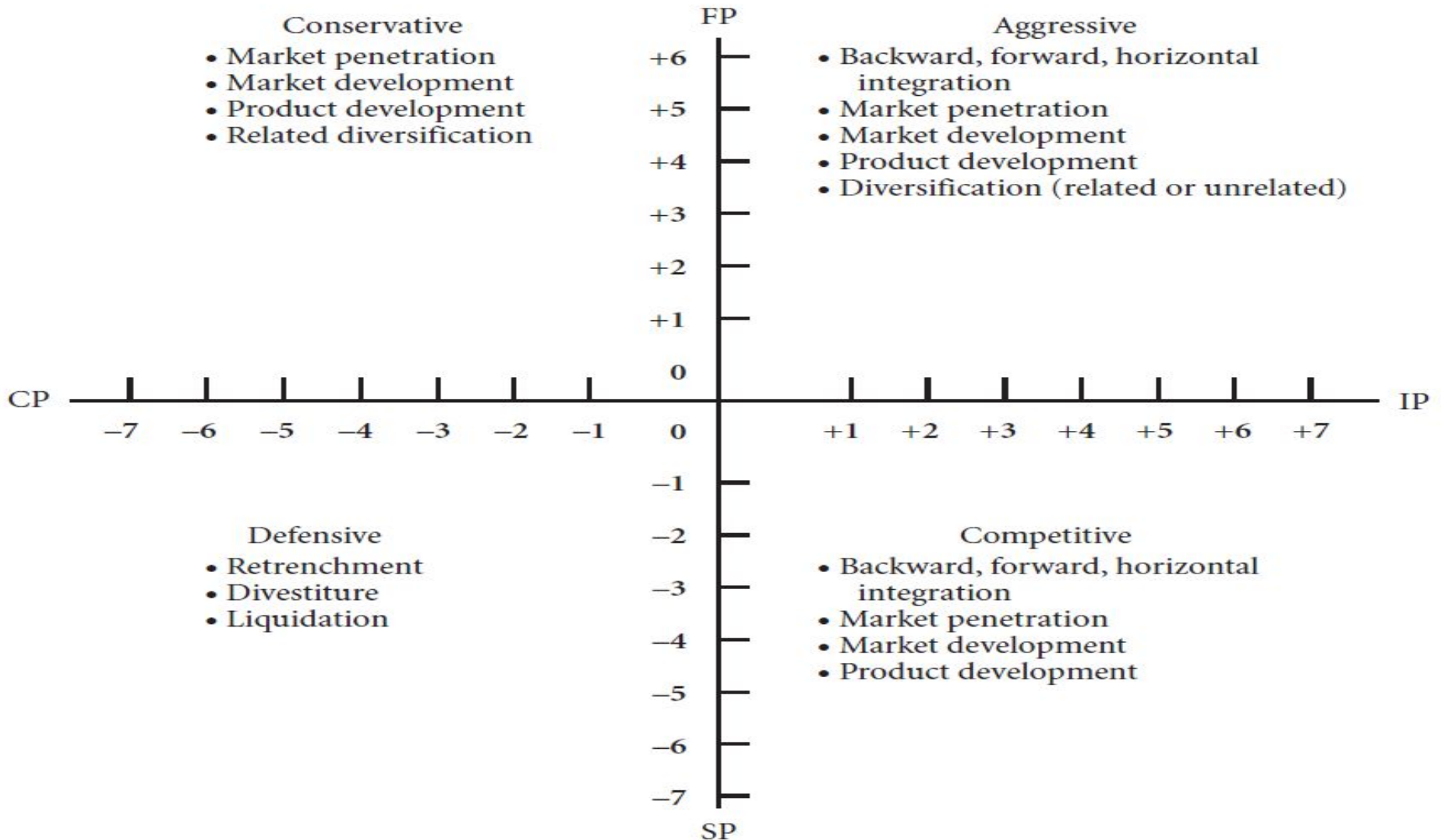
The Strategic Position and Action Evaluation (SPACE) Matrix

- ❖ four-quadrant framework indicates whether **aggressive, conservative, defensive, or competitive strategies** are most appropriate for a given organization
- ❖ Two internal dimensions (**financial position** [FP] and **competitive position** [CP])
- ❖ Two external dimensions (**stability position** [SP] and **industry position** [IP])
- ❖ These Axes (factors) are the Most important determinants of an organization's overall strategic position

Cont...

FIGURE 6-4

The SPACE Matrix



Factors That Make Up the SPACE Matrix Axes

TABLE 6-2 Example 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	Price elasticity of demand
	Risk involved in business
<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

Steps to Develop a SPACE Matrix

1. Select a set of variables to define financial position (FP), competitive position (CP), stability position (SP), and industry position (IP)

Steps to Develop a SPACE Matrix

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

Steps to Develop a SPACE Matrix

3. Compute an average score for FP, CP, IP, and SP
4. Plot the average scores for FP, IP, SP, and CP on the appropriate axis in the SPACE Matrix
5. Add the two scores on the x-axis and plot the resultant point on *X*. Add the two scores on the y-axis and plot the resultant point on *Y*. Plot the intersection of the new *xy* point

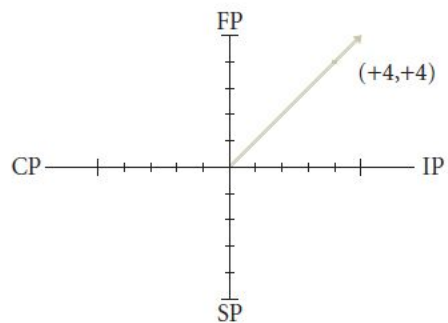
Steps to Develop a SPACE Matrix

6. Draw a *directional vector* from the origin of the SPACE Matrix through the new intersection point
 - This vector reveals the type of strategies recommended for the organization:
aggressive, competitive, defensive, or conservative

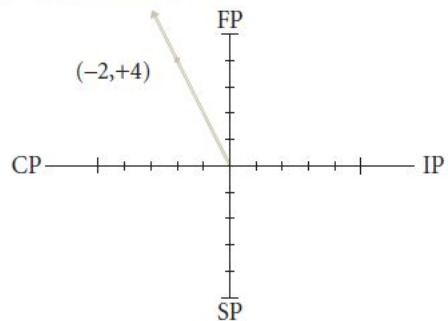
Example Strategy Profiles

FIGURE 6-5

Example Strategy Profiles

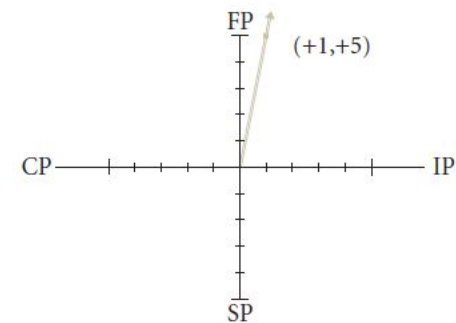


A financially strong firm that has achieved major competitive advantages in a growing and stable industry



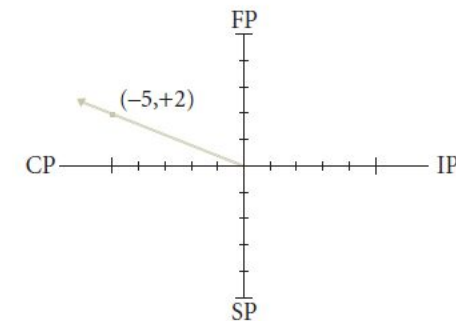
A firm that has achieved financial strength in a stable industry that is not growing; the firm has few competitive advantages

Aggressive Profiles



A firm whose financial strength is a dominating factor in the industry

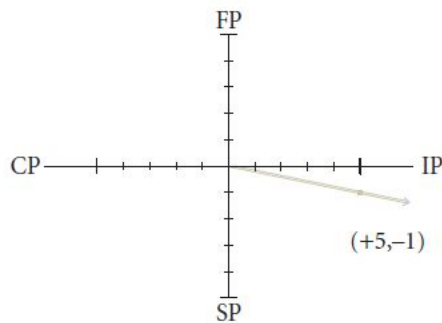
Conservative Profiles



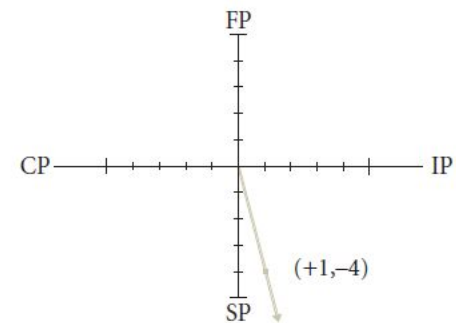
A firm that suffers from major competitive disadvantages in an industry that is technologically stable but declining in sales

Example Strategy Profiles

Competitive Profiles

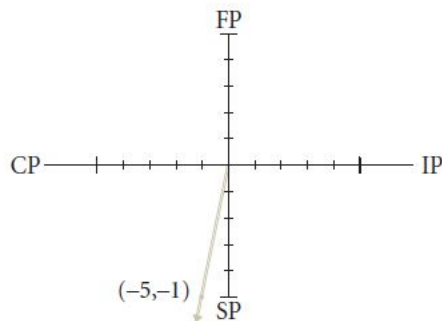


A firm with major competitive advantages in a high-growth industry

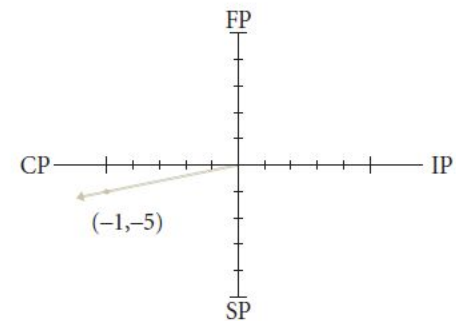


An organization that is competing fairly well in an unstable industry

Defensive Profiles



A firm that has a very weak competitive position in a negative growth, stable industry



A financially troubled firm in a very unstable industry

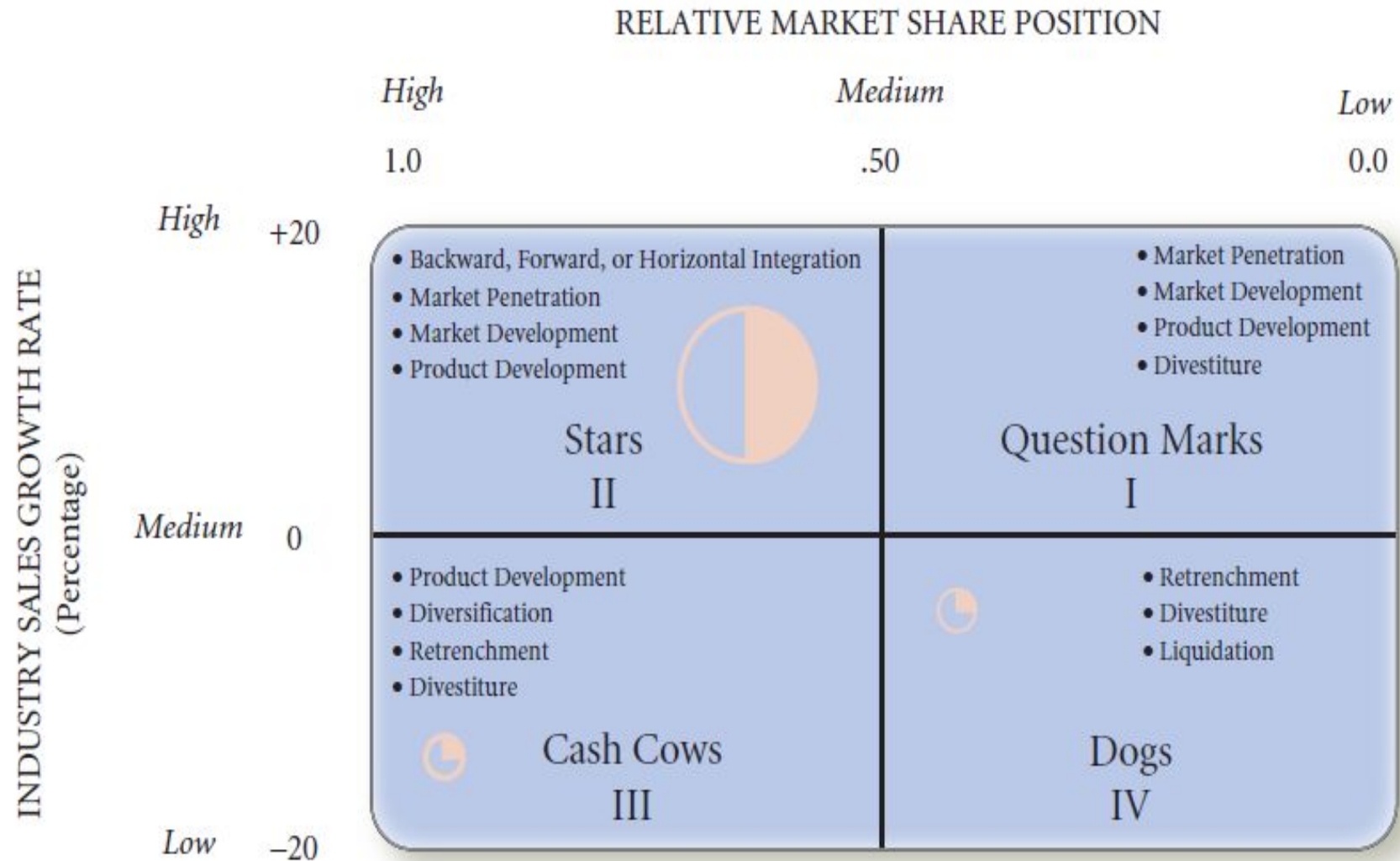
The Boston Consulting Group (BCG) Matrix

- graphically portrays differences among divisions in terms of **relative market share position** and **industry growth rate**
- 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

Cont...

FIGURE 6-7

The BCG Matrix



Cont...

◆ Question marks – Quadrant I

- Organization must decide whether to strengthen them by pursuing an intensive strategy (market penetration, market development, or product development) or to sell them

◆ Stars – Quadrant II

- represent the organization's best long-run opportunities for growth and profitability

Cont..

◆ **Cash Cows – Quadrant III**

- generate cash in excess of their needs
- should be managed to maintain their strong position for as long as possible

◆ **Dogs – Quadrant IV**

- compete in a slow- or no-market-growth industry
- businesses are often liquidated, divested, or trimmed down through retrenchment

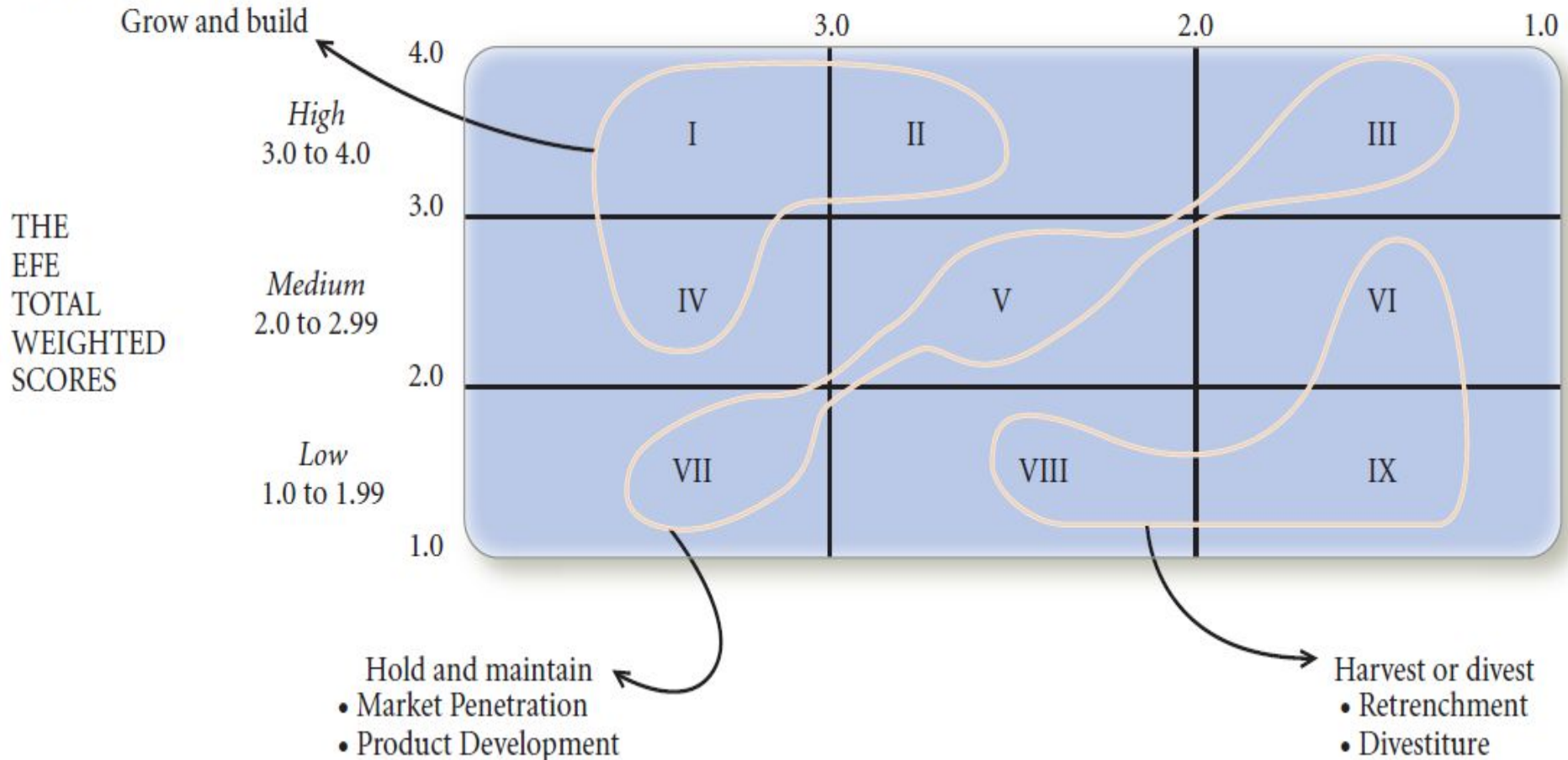
The Internal-External (IE) Matrix

FIGURE 6-10

The Internal-External (IE) Matrix

- Backward, Forward, or Horizontal Integration
- Market Penetration
- Market Development
- Product Development

THE IFE TOTAL WEIGHTED SCORES



The Internal-External (IE) Matrix

- ❖ The **IE Matrix** is based on two key dimensions: the IFE total weighted scores on the x-axis and the EFE total weighted scores on the y-axis
- ❖ **Three major regions**
 - **Grow and build**
 - **Hold and maintain**
 - **Harvest or divest**

The Grand Strategy Matrix

- based on two evaluative dimensions:
competitive position and market (industry)
growth

The Grand Strategy Matrix

FIGURE 6-13

The Grand Strategy Matrix



The Grand Strategy Matrix

◆ Quadrant I

- continued concentration on current markets (market penetration and market development) and products (product development) is an appropriate strategy

◆ Quadrant II

- unable to compete effectively
- need to determine why the firm's current approach is ineffective and how the company can best change to improve its competitiveness

The Grand Strategy Matrix

◆ Quadrant III

- must make some drastic changes quickly to avoid further decline and possible liquidation
- Extensive cost and asset reduction (retrenchment) should be pursued first

◆ Quadrant IV

- have characteristically high cash-flow levels and limited internal growth needs and often can pursue related or unrelated diversification successfully

THE DECISION STAGE

The Quantitative Strategic Planning Matrix (QSPM)

- objectively indicates which alternative strategies are best
- uses input from Stage 1 analyses and matching results from Stage 2 analyses to decide objectively among alternative strategies

The Quantitative Strategic Planning Matrix (QSPM)

TABLE 6-7 The Quantitative Strategic Planning Matrix—QSPM

		Strategic Alternatives		
Key Factors	Weight	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 in a QSPM

1. Make a list of the firm's key external opportunities/threats and internal strengths/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

Steps in a QSPM (cont.)

4. Determine the Attractiveness Scores (AS)
5. Compute the Total Attractiveness Scores
6. Compute the Sum Total Attractiveness Score

Positive Features of the QSPM

- ❖ Sets of strategies can be examined sequentially or simultaneously
- ❖ Requires strategists to integrate pertinent external and internal factors into the decision process
- ❖ Can be adapted for use by small and large for-profit and nonprofit organizations

Limitations of the QSPM

- ❖ Always requires intuitive judgments and educated assumptions
- ❖ Only as good as the prerequisite information and matching analyses upon which it is based

A QSPM for a Retail Computer Store

TABLE 6-8 A QSPM for a Retail Computer Store

		STRATEGIC ALTERNATIVES			
		1		2	
		Buy New Land and Build New Larger Store		Fully Renovate Existing Store	
Key Factors	Weight	AS	TAS	AS	TAS
<i>Opportunities</i>					
1. Population of city growing 10%	0.10	4	0.40	2	0.20
2. Rival computer store opening 1 mile away	0.10	2	0.20	4	0.40
3. Vehicle traffic passing store up 12%	0.08	1	0.08	4	0.32
4. Vendors average six new products/year	0.05	—		—	
5. Senior citizen use of computers up 8%	0.05	—		—	
6. Small business growth in area up 10%	0.10	—		—	
7. Desire for websites up 18% by Realtors	0.06	—		—	
8. Desire for websites up 12% by small firms	0.06	—		—	
<i>Threats</i>					
1. Best Buy opening new store nearby in 1 year	0.15	4	0.60	3	0.45
2. Local university offers computer repair	0.08	—		—	
3. New bypass for Hwy 34 in 1 year will divert traffic	0.12	4	0.48	1	0.12
4. New mall being built nearby	0.08	2	0.16	4	0.32
5. Gas prices up 14%	0.04	—		—	
6. Vendors raising prices 8%	0.03	—		—	
	1.00				

A QSPM for a Retail Computer Store

Strengths

1. Inventory turnover increased from 5.8 to 6.7	0.05	—	—	—	
2. Average customer purchase increased from \$97 to \$128	0.07	2	0.14	4	0.28
3. Employee morale is excellent	0.10	—	—	—	
4. In-store promotions resulted in 20% increase in sales	0.05	—	—	—	
5. Newspaper advertising expenditures increased 10%	0.02	—	—	—	
6. Revenues from repair/service segment of store up 16%	0.15	4	0.60	3	0.45
7. In-store technical support personnel have MIS college degrees	0.05	—	—	—	
8. Store's debt-to-total-assets ratio declined to 34%	0.03	4	0.12	2	0.06
9. Revenues per employee up 19%	0.02	—	—	—	

Weaknesses

1. Revenues from software segment of store down 12%	0.10	—	—	—	
2. Location of store negatively impacted by new Hwy 34	0.15	4	0.60	1	0.15
3. Carpet and paint in store somewhat in disrepair	0.02	1	0.02	4	0.08
4. Bathroom in store needs refurbishing	0.02	1	0.02	4	0.08
5. Revenues from businesses down 8%	0.04	3	0.12	4	0.16
6. Store has no website	0.05	—	—	—	
7. Supplier on-time delivery increased to 2.4 days	0.03	—	—	—	
8. Often customers have to wait to check out	0.05	2	0.10	4	0.20
Total	1.00		4.36		3.27

//END//