LEEDS BECKETT UNIVERSITY
LEEDS BUSINESS SCHOOL

Strategic Planning & Control

Lecture 8: Evaluation of Strategic Options

Part A : From SWOT to Evaluation of Options for Strategy : the TOWS matrix

Part B: Suitability, Feasibility & Acceptability.

Part C: A Balanced Product Portfolio : BCG matrix

Module Overview

- Lecture A looked at :Options for Strategy
- Today Lecture B looks at how to choose between them (Evaluation of Strategic Options)
- Seminars this week (Week 4) – bring your individual Round 2 Global Challenge decisions to class to debate, compare and finalise with your team
- This week we will brief you on the different seminar activity you will start in part in week 5 and complete in week 6
- Before next week input your <u>individual</u> decisions for Round 3 Global Challenge
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- **LEARNING JOURNALS!**

Week 6 (w/c 28/10) Seminar Activity

Applying Lectures to Global Challenge!

This is exactly what you will need to be able to do in your assignments!

Do not miss this important opportunity for a practice run , and tutor and peer formative feedback!

- **Briefing is on MyBeckett/ Weekly Materials/ Seminar Materials / Week 6 Seminar Project**
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- **Designed to prepare you for your individual Strategic Plan assignment…**

Cost Leadership & Differentiation in Action – "Posh Paints"

Revisited

Go to the following link for Screwfix – what is the cheapest 10L Magnolia Matt emulsion paint ? Who is the supplier and what is the price?

https://www.screwfix.com/c/decorating/emulsion-paints/cat850168?colourgroup=cream&sort_by=price

Go to the following link for Farrow & Ball – how much is a 5L tin of Slipper Satin paint.

(You'll need to click on Slipper Satin in the colour chart, select a ' surface' and a' finish' to get to the price..)

https://www.farrow-ball.com/paint-colours?s=az

Now have brief look around the Farrow & Ball website – identify 2 factors that might justify the price difference in the eyes of a customer?

75 Years of Perfecting Paint (farrow-ball.com)

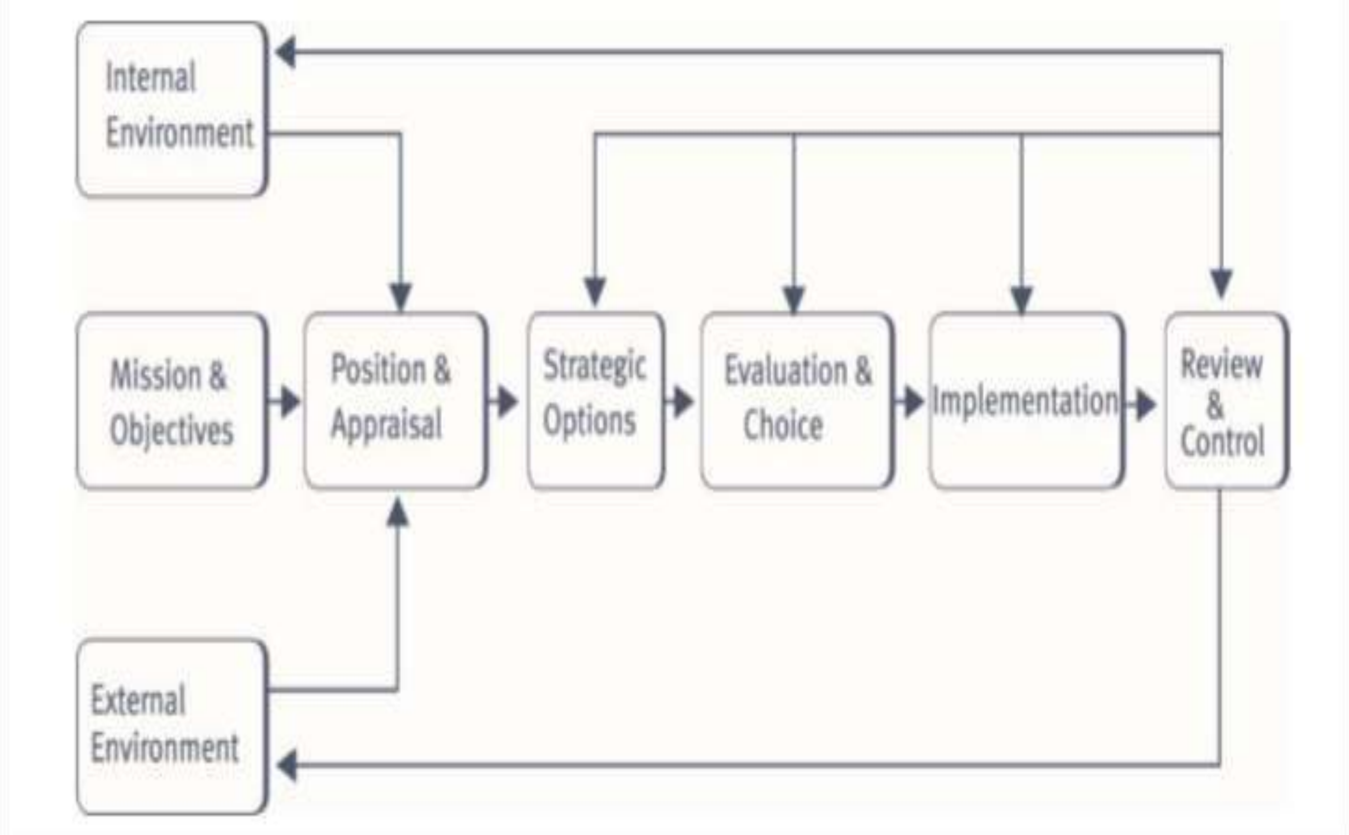
Learning Outcomes

1. To understand the importance of ‘ Strategic Fit’ in choosing between differing options for strategy
2. To be able to apply the TOWS matrix to match opportunities and threats to capabilities and generate viable strategies
3. To understand and be able to apply the Suitability, Feasibility and Acceptability framework for evaluating alternative strategies in a specific context
4. To be able to analyse an organisation’s portfolio of products using the Boston Consulting Group matrix and draw from this implications for strategy development and evaluation

Rational Planning Model

3 main stages

- Strategic Analysis
- Strategic Choice
- Strategic Implementation



This session looks at how to evaluate and choose between different strategic options

CIMA (201

In Lecture 7 we looked at 2 of these 3 areas of strategy..

Product / Market strategy

- Which products to offer and which markets to serve

ANSOFF'S MATRIX: 4 product/ market strategy directions…

Competitive strategy

How to compete?

- The way in which the firm will win customers <u>profitably</u> from rivals in its selected market

PORTER's 3 GENERIC STRATEGES ; BOWMAN'S CLOCK: multiple strategic positions

Development Strategy

Which investment vehicle to use?

-methods of corporate growth

Will be explored in Lecture 11

The question is .. How does an organisation choose between all these different strategies?

Part A

From SWOT to Evaluation of Options for Strategy

TOWS matrix

The starting point for strategic choice is the Strategic Position Analysis (a full analysis of ‘ Where are we now?’)…

…summarised in the Corporate Appraisal (SWOT)

… see Lecture 6

Evaluation of a proposed strategy will always refer back to the points raised in this….

S

Things we are doing well

Things we are doing that rivals are not

Major areas of success

Core Competences

Unique Resources

W

Things we are doing badly

Things we are not doing but should be

Major areas of failure

A lack of or just a threshold level of a competence or a resource

O

Events or changes in the external environment that can be exploited

Things likely to go well in the future

T

Events or changes in the external environment we need to protect ourselves from or defend ourselves against

Things likely to go badly in the future

TOW’s Matrix (Weihrich)

	Strengths	Weaknesses
Opportunities	SO Strategies	WO Strategies
Threats	ST Strategies	WT Strategies

- Enables movement from the SWOT to start formulating some viable strategic options
- Includes the need for defensive strategies (WT) as well as strategies that build on opportunities
- TOWS allows opportunities and threats to be matched with the firm’s strategic capabilities (strengths & weakness’) - referred to as ‘Strategic Fit’ .

TOWS Matrix

Strategy		
WT	Threats focussing on weakness	Top priority - identify solutions , defensive response
ST	Threats focussing on strength	Employ strengths to overcome threats or avoid them
SO	Opportunity focussing on strength	Creates an opportunity to create ‘competitive advantage’ over rivals
WO	Opportunity focussing on weakness	Management choose to either - Ignore the opportunity , as it is not in an area in which the organisation is ‘strong’ , so success is risky , and resources better used elsewhere - Develop the competences or resources needed to pursue the opportunity – expensive , risky and may take too long?

Examples….

A company has a prestigious brand name and is wondering whether or not to enter a new emerging market.

- Suggestion: (SO) the prestigious brand name is a strength and the emerging market is an opportunity. The company could make use of the brand name by adopting a differentiation or focused differentiation strategy

A company has a poor distribution network, but wants to start exporting to lucrative overseas markets

- Suggestion: (WO) collaboration with a company that has a good distribution network might overcome the weakness so as to make use of the opportunity

Examples….

A company is facing new competition from cheap overseas manufacturers. The company has a long standing reputation for good quality products.

- Suggestions: (ST) The company could move towards a differentiation strategy to try to make use of its reputation for quality to counter the competitive threat. This might not work if the imports were also of good quality and cheaper. Perhaps relocating manufacturing abroad would give a low cost base but retain the strength of the company's reputation.

A company has old product lines and is facing dynamic competition from new producers

- Suggestion: (WT) The most difficult scenario to deal with as nothing is going right – weaknesses and threats combined. Repositioning itself might help so that the company was seen as a seller of more traditional goods. Spending on new design and products would help eradicate the weakness.

Part B

Suitability, Feasibility & Acceptability.

Evaluating Strategies … Suitability , Feasibility & Acceptability (Johnson & Scholes)

This important framework ensures that the selected strategy:

- Is a ‘strategic fit’ with the internal and external environment
- Is practically possible
- Meets the objectives of stakeholders

And should be used in your assignments to evaluate different options for strategy….

Link to assignment

- **5.Evaluation and Choice of Strategy**

  Evaluate 2 of the following 3 strategies as ways forward for Mobile Inc. You should use the **Suitability, Feasibility, Acceptability** framework to do this.

  Cost Leadership (Michael Porter)
  Differentiation (Michael Porter)
  Hybrid (Bowman – Strategy Clock)

  Your evaluation should be made in the light of the Strengths, Weakness', Opportunities and Threats you have prepared for Mobile Inc. and **you should reach a clear conclusion on your choice of strategy.**

  <u>You should use the guidance in Lecture 8 (Evaluation of Strategic Options) to carry out your evaluation.</u>

SUITABILITY - Is the strategy a good fit with the firm’s Strategic Position Analysis : internal & external environments & SWOT analysis?

FEASIBILITY - Does the firm have the resources to carry out the strategy and is it possible in practice?

ACCEPTABILITY- Are the expected performance outcomes acceptable (eg returns and risks) , and are these in line with the expectations of the main stakeholders?

Suitability

✓**Is it aligned with key features of the Internal or External environment as highlighted in the SWOT?**

✓Will it build on Strengths - which ones from the SWOT? (Nb core competences and unique resources!)

✓Will it take advantage of Opportunities - which ones from the SWOT?

- ✗ Does it depend on an area of Weakness?
- ✗ Does it expose the company to any of the identified areas of Threat?

✓Is it in alignment with Mission? – how?

✓ Does it result in a balanced portfolio (see BCG Matrix later in lecture)

Feasibility

- ✓ **Does the firm have the strategic capability to carry out the strategy**

- ✓ Does it have the necessary resources? Threshold <u>and</u> Unique : Which ones from the Resource Audit/ SWOT?
- ✓ Does it have the necessary competences - skills and abilities? Threshold <u>and</u> Core: Which ones?
- ✓ Are there any practical implementation issues and can these be managed – how?
  - ✓Includes an assessment of funding
  - How much finance is needed?
  - Does the company have adequate cash levels, or will finance need to be raised – how?

Acceptability

✓**Is the strategy acceptable to the most significant stakeholders in the business**

Will involve considering:

- ✓ **Return** :shareholders will expect a return from strategy .What is the return? Quiz; How could this be measured?

  What about lenders?

- ✓ **Risk** :what is the level of risk attached to the strategic option under consideration? Why?

Quiz : What are the general risks of a Cost Leadership strategy?

What about a Differentiation strategy?

- ✓ Are there any significant **wider stakeholder groups** and is the strategy acceptable to them?

  Examples

- New strategy might mean internal change – how will staff respond , how could this be managed?
- Public / Consumers eg ethical/ CSR considerations
- Government – legal & political considerations

Acceptability

✓**Is the strategy acceptable to the most significant stakeholders in the business**

- Evaluating acceptability will often involve quantitative analysis such as NPV calculations or ‘real option theory’ to calculate a ‘ strategic NPV’
- This is outside the scope of this module!

Evaluating Strategies … Suitability , Feasibility & Acceptability (Johnson & Scholes)

You will have the opportunity to practice applying this framework to Mobile Inc in Week 6 Seminars , with tutor feedback ….

Part C

A Balanced Product Portfolio: BCG matrix

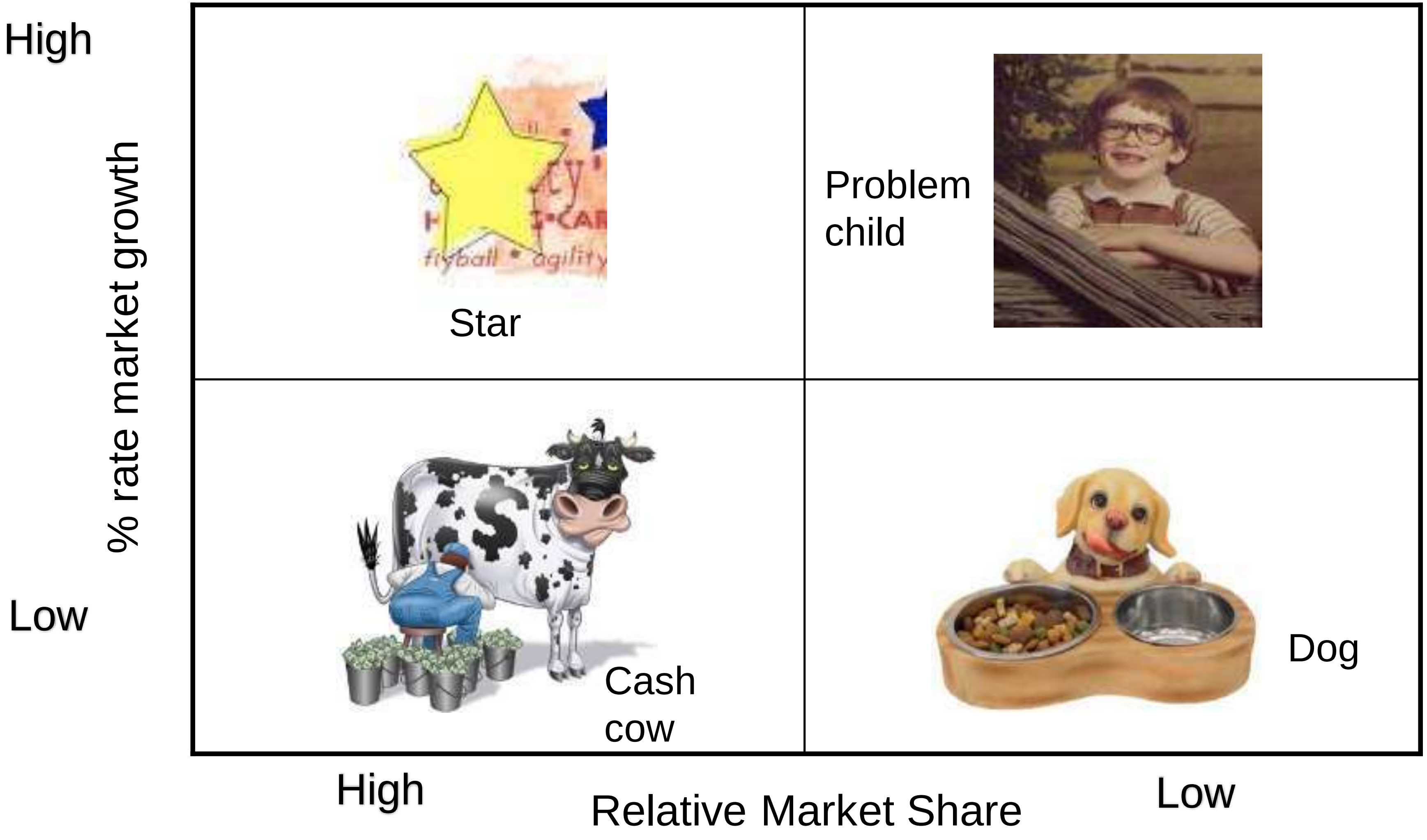
Product Portfolio Theory - Boston Consulting Group

- Two by two matrix classifies businesses, divisions or products according to the present market share and the future growth of that market2

- Growth rate is seen as the best measure of market attractiveness:
- high growth = better long term prospects

- Market share is seen to be a good indicator of competitive strength:
- access to high volumes gives cost advantages :economies of scale & learning curve

Assessing business units: BCG Matrix



BCG Strategies

Hold	Build	Harvest	Divest
Keep product in its current quadrant – will require investment	Attempt to increase market share through investment	Reduce investment to maximise cash return from the product	Exit the product to free up any cash tied up in it.

Cash Cows: Hold or Harvest

- Maturity stage in Product Life Cycle
- Market Leaders in a low growth market
- High economies of scale so usually generating high profit and cash flows
- Low growth market - not attractive to new competitors – no heavy capital investment now needed & only low marketing/ advertising costs
- Harvest : maximise cash flows by keeping investment at a minimum
- NB Cash flows from cash cows used to support high investment needs of other products

Stars: Hold or Build

- Growth stage in Product Life Cycle
- Market Leaders in a high growth market
- Facing high competition; investment in marketing , R&D
- High levels of capital investment to supply growing market
- Rarely generating significant cash flows due to high investments
- Build strategy : heavy investment to keep attracting new customers or Hold to defend existing market share
- Cash Cows of the future

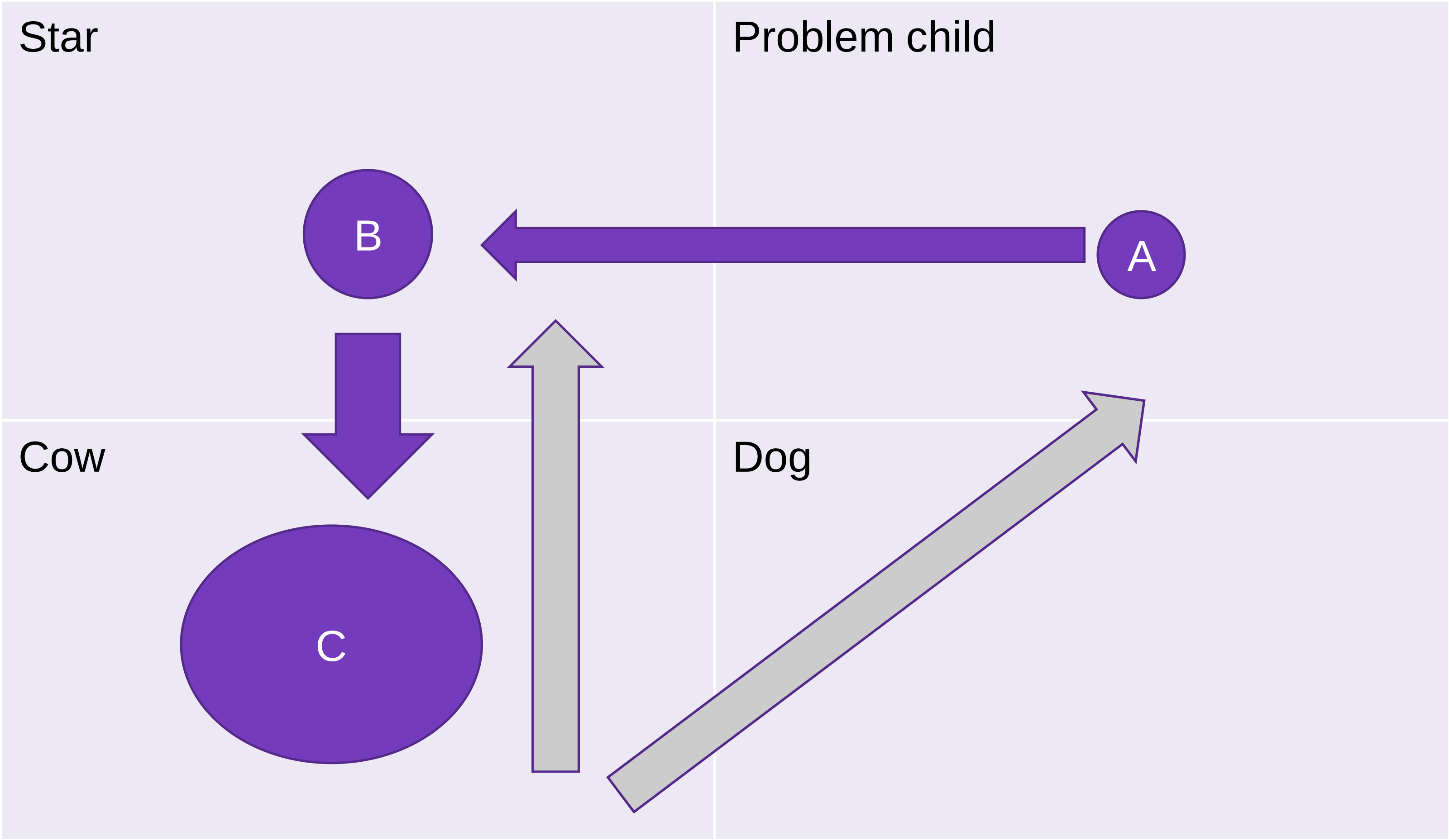
Problem Child: Build or Divest

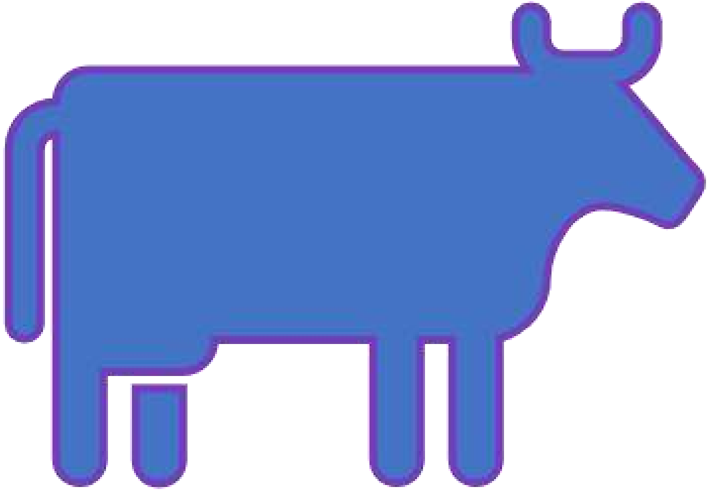
- May be Introduction or Growth stage of product life cycle
- Low market share in rapidly growing market
- ‘ Double of Quit’ approach
- Build with heavy investment in marketing , R&D , capital investment - high cost & risk of failure given existing low market share
- Attempt to increase market share to become a Star
- Or Divest

Dog: Divest

- Decline stage of product life cycle
- Low market share in low growth market
- Further investment would be costly and risky given low market share
- Divest

Ideal progression





So what…

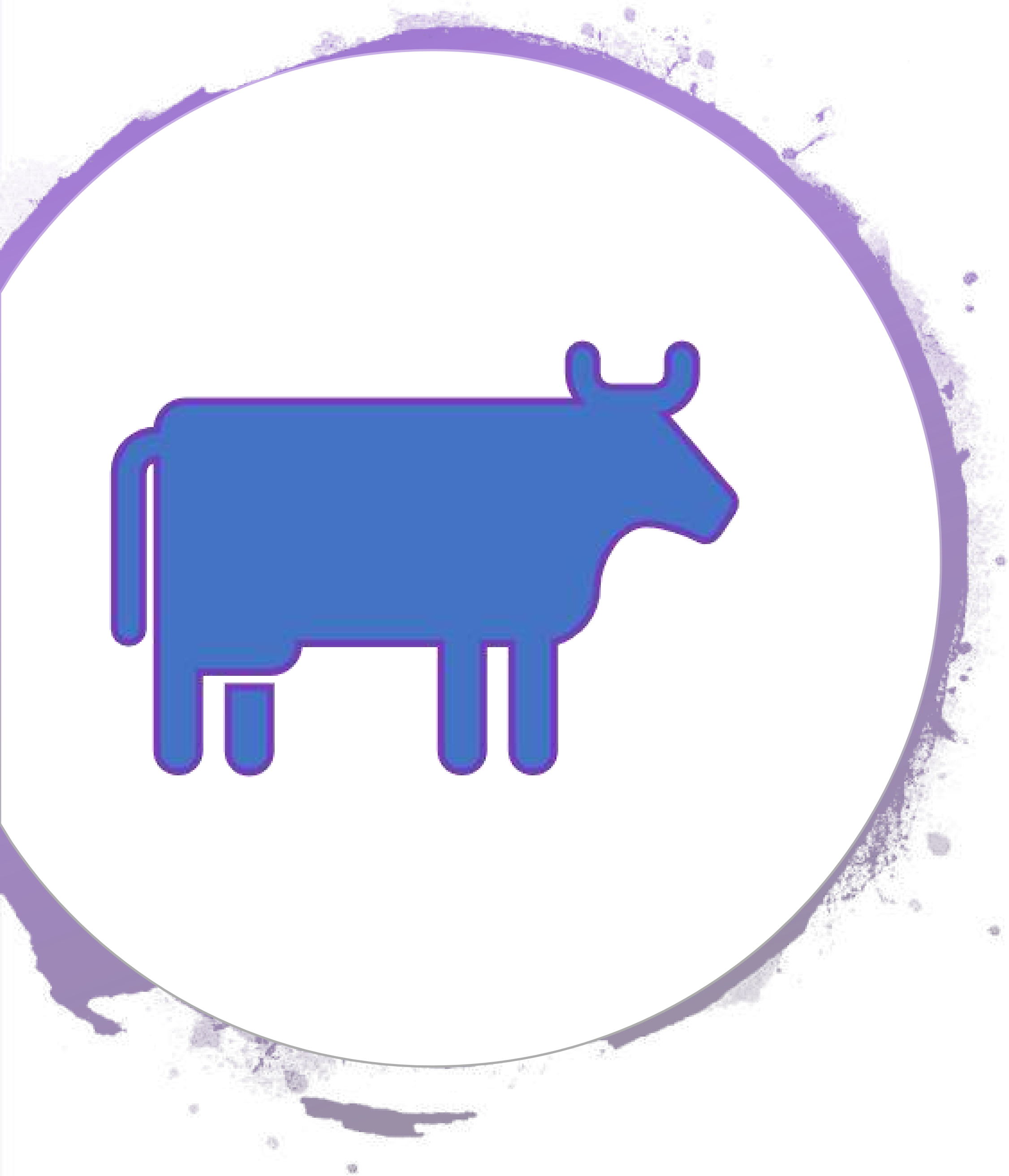
Organisation would want to have a **balanced portfolio** (see the reference to this under Suitability when evaluating strategic options)

Cash cows of sufficient size and/or number that can support other products in the portfolio

Stars of sufficient size and/or number which will provide sufficient cash generation when the current cash cows can no longer do so

Problem children that have reasonable prospects of becoming future stars

No dogs – or if there are any, there would need to be good reasons for retaining them



Mobile Inc : example questions you might ask....

Where do T1 – T4 sit on this matrix?

Does your company have a balanced portfolio? (S/W for SWOT analysis

Are there any Opportunities apparent – problem children/stars?

Are there any Threats? – continued investment in a Dog?

What level of resources are required to fund Stars/Problem children - does your company have them? (S/W)

Do you have a cash cow to fund Stars/ Problem children? (S/W)

What is your strategy to move Techs from one quadrant to another?

To what extent does your proposed strategy contribute to a balanced portfolio? – useful when evaluating different possible strategies? (Suitability, Feasibility, Acceptability)

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Thank you

Any questions?