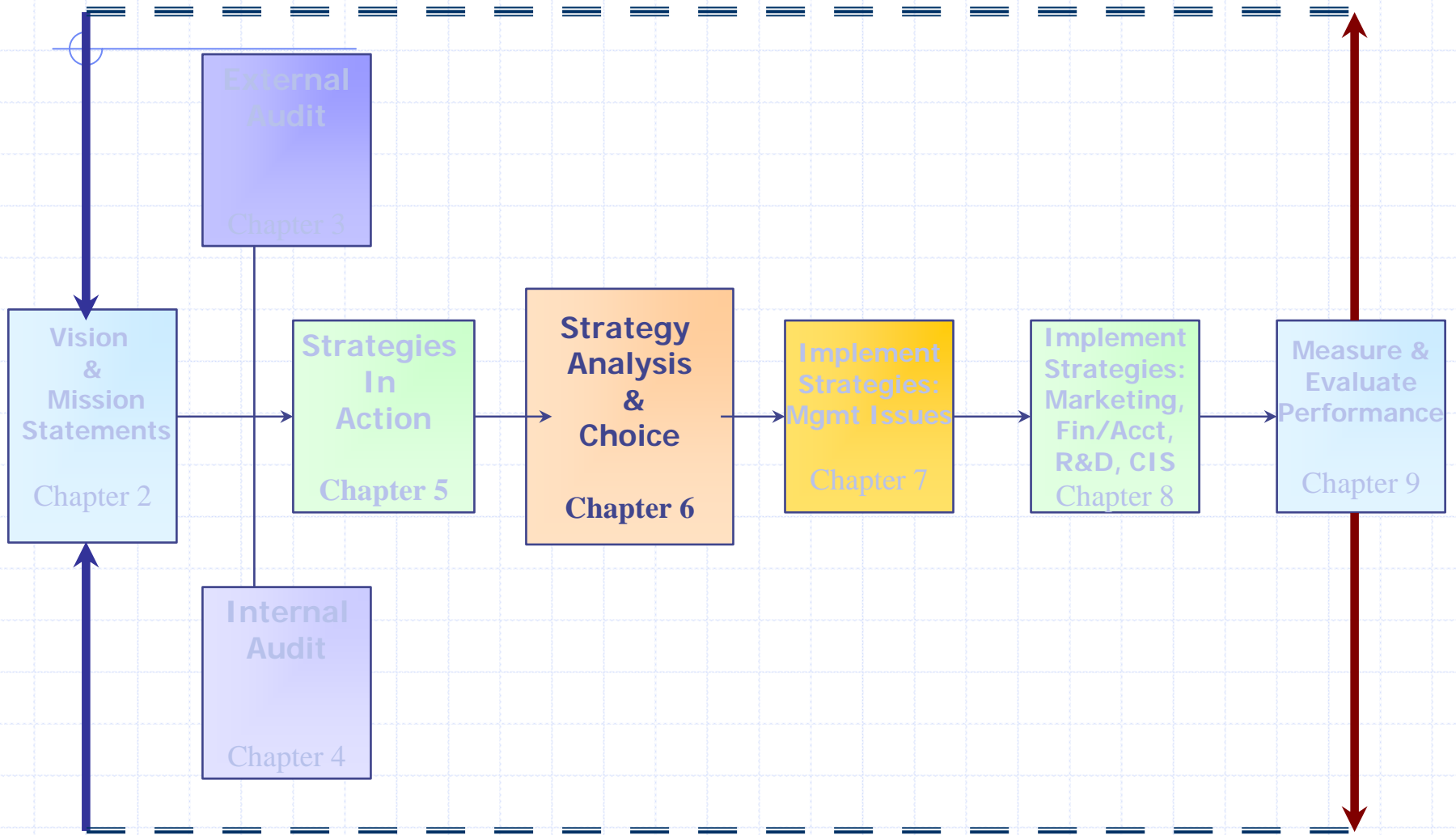




Strategy Analysis and Choice

Comprehensive Strategic Management Model



Strategy Analysis & Choice

“Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action. But quantification alone is not planning. Some of the most important issues in strategic management cannot be quantified at all.”

—Peter Drucker—

Strategy Analysis & Choice

Strategic Analysis and Choice:

- Generate feasible alternatives
- Evaluate alternatives
- Select specific course of action

Strategy Analysis & Choice

Generating & Selecting Strategies

- ✓ Develop set of most attractive alternative strategies
- ✓ Determine for the set
 - Advantages
 - Disadvantages
 - Trade-offs
 - Costs
 - Benefits

Strategy Analysis & Choice

Generating & Selecting Strategies

- ✓ Involve a broad mix of personnel
 - ◆ Representation from each department/function
 - ◆ Provides opportunity to gain understanding of firm's direction
 - ◆ Provides vehicle to develop commitment to attainment of organizational objectives

Strategy Analysis & Choice

Generating & Selecting Strategies

- ✓ Evaluate each alternative
 - ◆ Internal and external audit information
 - ◆ Firm's mission statement
 - ◆ Listed in writing
 - ◆ Ranked in order of attractiveness

Strategy-Formulation Analytical Framework

Stage 1: The Input Stage



Stage 2: The Matching Stage



Stage 3: The Decision Stage

Strategy-Formulation Analytical Framework

Stage 1: The Input Stage

External
Factor
Evaluation
Matrix (EFE)

Competitive
Profile
Matrix

Internal
Factor
Evaluation
Matrix (IFE)

Strategy-Formulation Analytical Framework

Stage 2: The Matching Stage



Threats
Opportunities
Weaknesses
Strengths
(TOWS)

Strategic
Position &
Action
Evaluation
(SPACE)

Boston
Consulting
Group
Matrix
(BCG)

Internal-
External
Matrix
(IE)

Grand
Strategy
Matrix

Strategy-Formulation Analytical Framework

Stage 3: The Decision Stage

Quantitative Strategic
Planning Matrix
(QSPM)

Strategy Analysis & Choice

Stage 1: The Input Stage

- ✓ Provides Basic Input for Stages 2 and 3
 - ◆ External Factor Evaluation Matrix (EFE)
 - ◆ Internal Factor Evaluation Matrix (IFE)
 - ◆ Competitive Profile Matrix

Strategy Analysis & Choice

Stage 2: The Matching Stage

- ✓ Strategy is characterized by the organizational match between
 - Internal resources and skills
 - Opportunities & risks created by external factors

Strategy Analysis & Choice

The TOWS Matrix



- ◆ List the firm's key external opportunities
- ◆ List the firm's key external threats
- ◆ List the firm's key internal strengths
- ◆ List the firm's key internal weaknesses

Strategy Analysis & Choice

The TOWS Matrix

- ◆ Match internal strengths with external opportunities and record the resultant SO Strategies
- ◆ Match internal weaknesses with external opportunities and record the resultant WO Strategies
- ◆ Match internal strengths with external threats and record the resultant ST Strategies
- ◆ Match internal weaknesses with external threats and record the resultant WT Strategies

TOWS Matrix

Leave Blank <i>Leave Blank</i>	Strengths-S <i>List Strengths</i>	Weaknesses-W <i>List Weaknesses</i>
Opportunities-O <i>List Opportunities</i>	SO Strategies <i>Use strengths to take advantage of opportunities</i>	WO Strategies <i>Overcome weaknesses by taking advantage of opportunities</i>
Threats-T <i>List Threats</i>	ST Strategies <i>Use strengths to avoid threats</i>	WT Strategies <i>Minimize weaknesses and avoid threats</i>

Strategy Analysis & Choice

Boston Consulting Group Matrix (BCG)

- ◆ Enhances multidivisional firms' efforts to formulate strategies
- ◆ Autonomous divisions (or profit centers) constitute the business portfolio
- ◆ Firm's divisions may compete in different industries requiring separate strategy

Strategy Analysis & Choice

Boston Consulting Group Matrix (BCG)

- ◆ Graphically portrays differences among divisions
- ◆ Focuses on market share position and industry growth rate
- ◆ Manage business portfolio through relative market share position and industry growth rate

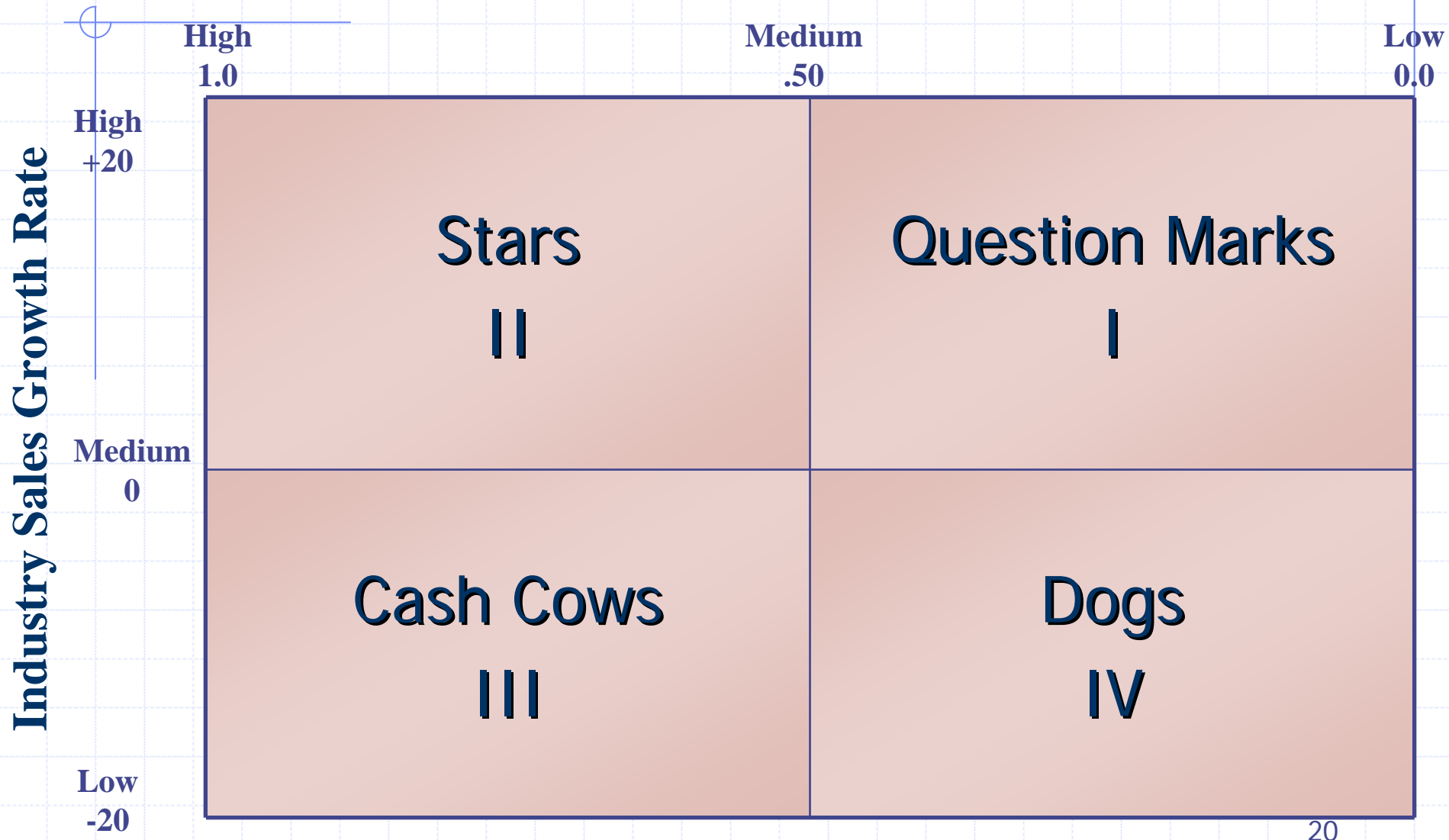
Strategy Analysis & Choice

Boston Consulting Group Matrix (BCG)

- ◆ Relative market share position defined:
 - Ratio of a division's own market share in a particular industry to the market share held by the largest rival firm in that industry.

BCG Matrix

Relative Market Share Position



Strategy Analysis & Choice

BCG Matrix

- ◆ Question Marks
- ◆ Stars
- ◆ Cash Cows
- ◆ Dogs

Strategy Analysis & Choice

BCG Matrix

- ◆ Question Marks
 - Low relative market share position
 - yet compete in high-growth
 - industry.
 - Cash needs are high
 - Case generation is low
 - Decision to strengthen (intensive strategies) or divest



Strategy Analysis & Choice

BCG Matrix

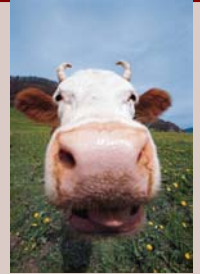


◆ Stars

- High relative market share and high industry growth rate.
 - Best long-run opportunities for growth and profitability
- Substantial investment to maintain or strengthen dominant position
 - Integration strategies, intensive strategies, joint ventures

Strategy Analysis & Choice

BCG Matrix



◆ Cash Cows

- High relative market share position, but compete in low-growth industry
 - Generate cash in excess of their needs
 - Milked for other purposes
- Maintain strong position as long as possible
 - Product development, concentric diversification
 - If becomes weak—retrenchment or divestiture

Strategy Analysis & Choice

BCG Matrix

- ◆ Dogs
 - Low relative market share position and compete in slow or no market growth situation.
 - Weak internal and external position
 - Decision to liquidate, divest, retrenchment



Strategy Analysis & Choice

Grand Strategy Matrix

- ◆ Popular tool for formulating alternative strategies
- ◆ Based on two evaluative dimensions
 - Competitive position
 - Market growth



Grand Strategy Matrix

RAPID MARKET GROWTH

		RAPID MARKET GROWTH	
		<i>Quadrant II</i>	<i>Quadrant I</i>
WEAK COMPETITIVE POSITION		<ul style="list-style-type: none">• Market development• Market penetration• Product development• Horizontal integration• Divestiture• Liquidation	<ul style="list-style-type: none">• Market development• Market penetration• Product development• Forward integration• Backward integration• Horizontal integration• Concentric diversification
		<i>Quadrant III</i>	<i>Quadrant IV</i>
	<ul style="list-style-type: none">• Retrenchment• Concentric diversification• Horizontal diversification• Conglomerate diversification• Liquidation	<ul style="list-style-type: none">• Concentric diversification• Horizontal diversification• Conglomerate diversification• Joint ventures	

SLOW MARKET GROWTH

Strategy Analysis & Choice

Grand Strategy Matrix

- ◆ Quadrant I
 - Excellent strategic position
 - Concentration on current markets and products
 - Take risks aggressively when necessary

Strategy Analysis & Choice

Grand Strategy Matrix

- ◆ Quadrant II
 - Evaluate present approach seriously
 - How to change to improve competitiveness
 - Rapid market growth requires intensive strategy

Strategy Analysis & Choice

Grand Strategy Matrix

- ◆ Quadrant III
 - Compete in slow-growth industries
 - Weak competitive position
 - Drastic changes quickly
 - Cost and asset reduction indicated (retrenchment)

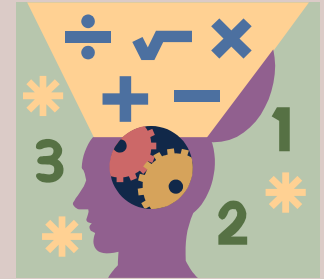
Strategy Analysis & Choice

Grand Strategy Matrix

- ◆ Quadrant IV
 - Strong competitive position
 - Slow-growth industry
 - Diversification indicated to more promising growth areas

Strategy Analysis & Choice

Quantitative Strategic Planning Matrix (QSPM)



- ◆ Comprises Stage 3 of the analytical framework
- ◆ Analytical technique designed to determine the relative attractiveness of feasible alternative actions.
- ◆ Uses input from Stage 1 and Stage 2

Strategy Analysis & Choice

Quantitative Strategic Planning Matrix (QSPM)

- ◆ Tool for objective evaluation of alternative strategies
- ◆ Based on identified external and internal crucial success factors
- ◆ Requires good intuitive judgment

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

Computer Information
Systems

Weight

Strategy 1

Strategy 2

Strategy 3

Strategy Analysis & Choice

QSPM

- ◆ List the firm's key external opportunities & threats; list the firm's key internal strengths and weaknesses
- ◆ Assign weights to each external and internal critical success factor

Strategy Analysis & Choice

QSPM

- ◆ Examine the Stage 2 (matching) matrices and identify alternative strategies that the organization should consider implementing
- ◆ Determine the Attractiveness Scores (AS)

Strategy Analysis & Choice

QSPM

- ◆ Compute the total Attractiveness Scores
- ◆ Compute the Sum Total Attractiveness Score

Strategy Analysis & Choice

QSPM

Positives:

- ◆ Sets of strategies examined simultaneously or sequentially
- ◆ Requires the integration of pertinent external and internal factors in the decision-making process

Strategy Analysis & Choice

QSPM

Limitations:

- ◆ Requires intuitive judgments and educated assumptions
- ◆ Only as good as the prerequisite inputs