Chapter 6

Strategy Analysis & Choice
Strategy Analysis and Selection

1) SWOT Matrix
2) SPACE Matrix
3) BCG Matrix
4) IE Matrix
5) Grand Strategy Matrix
SWOT Matrix

- **Strengths**: "A strength is defined as anything internal to the company that may lead to an advantage relative to competitors and a benefit to customers."
- **Weaknesses**: "A weakness is defined as anything internal that may lead to a disadvantage relative to competitors and customers."
- **Opportunities**: "An opportunity is anything in the external environment that may help a firm reach its goals."
- **Threats**: "A threat is anything in the external environment that may prevent a firm from reaching its goals."
Steps to construct a 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 and record the resulting SO strategies in the appropriate cell.
Steps to construct a SWOT Matrix

6. Match internal weaknesses with external opportunities and record the resulting 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 resulting WT strategies.
# SWOT Matrix

<table>
<thead>
<tr>
<th>Internal Factors</th>
<th>External Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>STRENGTHS (S)</strong> List 5 - 10 internal Strengths here</td>
<td><strong>WEAKNESSES (W)</strong> List 5 - 10 internal Weaknesses here</td>
</tr>
<tr>
<td><strong>OPPORTUNITIES (O)</strong> List 5 - 10 external Opportunities here</td>
<td><strong>SO STRATEGIES</strong> Generate strategies here that use strengths to take advantage of opportunities</td>
</tr>
<tr>
<td><strong>THREATS (T)</strong> List 5 - 10 external Threats here</td>
<td><strong>WO STRATEGIES</strong> Generate strategies here that take advantage of opportunities by overcoming weaknesses</td>
</tr>
<tr>
<td><strong>ST STRATEGIES</strong> Generate strategies here that use strengths to avoid threats</td>
<td><strong>WT STRATEGIES</strong> Generate strategies here that minimize weaknesses and avoid threats</td>
</tr>
</tbody>
</table>
# SWOT Matrix of Dell Computer

## Strengths (S)
1. Growing market share
2. Direct sale approach
3. Build to order approach
4. Long term partnerships with reputable suppliers of name-brand parts and component
5. Reputation/image
6. Dell exchange
7. Just in time inventory, know-how and capabilities
8. Contracts with the local services provider to handle customer request for repairs
9. Environmental policy

## Weakness (W)
1. Lacks the product line and service breadth of HP and IBM
2. The direct sales approach is not the preferred distribution channel in .
3. No in-house repair service capabilities
### SWOT Matrix of Dell Computer

#### Opportunities (O)
1. Customer value convenience and more stop shopping
2. Customer know what they want and need to purchase
3. Marketing on internet
4. Need for replacement equipment from the world trade center attack
5. PC households with internet access will increase 25% by 2002
6. Some rivals weak in PCs in the world's major market
7. Server market can be tapped better

#### SWOT Strategies

<table>
<thead>
<tr>
<th>Opportunities (O)</th>
<th>SWOT Strategies</th>
<th>Opportunities (O)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Customer value convenience and more stop shopping</td>
<td><strong>SO Strategies</strong></td>
<td>1. Conduct aggressive domestic advertising campaigns (S1, S2, S3, S5, O1, O2, O3, O5, O6, O7)</td>
</tr>
<tr>
<td>2. Customer know what they want and need to purchase</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Marketing on internet</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Need for replacement equipment from the world trade center attack</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. PC households with internet access will increase 25% by 2002</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Some rivals weak in PCs in the world's major market</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Server market can be tapped better</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### WO Strategies

1. Joint venture with EMC to offer storage services (W1, O1, O4, O6, O7)
2. Open two Dell outlets stores in Europe (W2, W3, O6)
### SWOT Matrix of Dell Computer

#### Threats

1. Global economic recession
2. Aggressive pricing war
3. Continuously changing consumer demand
4. Strong brand name of competitor (IBM, HP)
5. Rapid technological advancement
6. A long term slow down in global sales of PC and servers
7. Corporate customers relying more & more heavily on the systems and service capabilities

#### ST Strategies

1. Produce low price standardizes PC (T2, S1, S2, S4, S5, S7)
2. Reduce workforce by employees to cut costs (T1, T2, T6, S2, S3, S4, S7)

#### WT Strategies

1. Conduct aggressive European ad campaign to promote Dell Direct selling (W2, T3, T2)
The SPACE Matrix evaluates the organization in terms of 4 dimensions:

- Financial Strength (FS)
- Competitive Advantage (CA)
- Environmental Stability (ES)
- Industry Strength (IS)

The first 2 dimensions are internal (FS & CA), while the last 2 dimensions are external (ES & IS).
SPACE Matrix
(STRATEGIC POSITION & ACTION EVALUATION MATRIX)

- **Financial Strength (FS):** Refer to financial strength of the organization or company in terms of financial ratios (Liquidity Ratios, Activity Ratios, Leverage Ratios, and Profitability Ratios).

- **Competitive Advantages (CA):** Refer to the advantages which organization or company has compared to its competitors.

- **Environmental Stability (ES):** Refer to the level of the stability in general and task environments (Political Stability, Economic Stability, Inflation Rate...etc.).

- **Industry Strength (IS):** Refer to the strength of particular industry in which the organization or company competes.
The steps to develop a SPACE Matrix

1. Select a set of variables to define financial strength (FS), competitive advantage (CA), environmental stability (ES), and industry strength (IS).

2. Assign a numerical value ranging from 1 (worst) to 6 (best) for the variables that make up the FS and IS dimensions. Assign a number between –1 (best) to –6 (worst) for variables that make up the ES and CA dimensions. On the FS and CA axes, make comparison to competitors. On the IS and ES axes, make comparison to other industries.
The steps to develop a SPACE Matrix

3. Compute an average score for FS, CA, IS, and ES by summing the values given to the variables and dividing by the number of variables included in each dimension.

4. Plot the average scores for FS, IS, ES, and CA on the appropriate axis in the SPACE Matrix.

5. Add the two scores on the x-axis and plot the resultant point on X.

6. Add the two scores on the y-axis and plot the resultant point on Y. Plot the intersection of the new XY point.

7. 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: concentration, vertical and horizontal integration, concentric and conglomerate diversification or combination strategies.

Competitive: vertical and horizontal integration, concentration and joint venture.

Defensive: turnaround, divest, liquidation and concentric diversification

Conservative: concentration and concentric diversification
BCG Matrix

- Ratio of a division’s own market share in an industry to the market share held by the largest rival firm in that industry.

- The BCG Matrix graphically portrays differences among divisions (of a firm) in terms of relative market share position and industry growth rate.
BCG Matrix

Relative Market Share Position

<table>
<thead>
<tr>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>.50</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Industry Sales Growth Rate

<table>
<thead>
<tr>
<th>High</th>
<th>Medium</th>
<th>Low</th>
</tr>
</thead>
<tbody>
<tr>
<td>+20</td>
<td>0</td>
<td>-20</td>
</tr>
</tbody>
</table>

- **Stars** (High market share, High growth)
- **Question Marks** (High growth, Low market share)
- **Cash Cows** (Low growth, High market share)
- **Dogs** (Low growth, Low market share)
BCG Matrix (Question Marks)

- Low relative market share – compete in high-growth industry
- Cash needs are high
- Case generation is low
- Decision to strengthen (intensive strategies) or divest
BCG Matrix (Stars)

- High relative market share and high growth rate
- Best long-run opportunities for growth & profitability
- Substantial investment to maintain or strengthen dominant position
- Integration strategies, intensive strategies, joint ventures
BCG Matrix (Cash Cows)

- High relative market share, competes 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 weakens—retrenchment or divestiture
BCG Matrix (Dogs)

- Low relative market share & compete in slow or no market growth
- Weak internal & external position
- Liquidation, divestiture, retrenchment
The IE Matrix

- The IE Matrix positions an organization’s various divisions in a nine-cell display
- The IE Matrix is similar to the BCG Matrix in that both tools involve plotting organization divisions in a schematic diagram; this is why they are called portfolio matrices.
Steps to develop I E Matrix

1. Record your organization's IFE Total Score on the X axis. If your organization has several divisions (different businesses / product), then calculate a separate IFE score for each business and plot the total for each product on the X axis.

2. Record your organization's EFE Total Score on the Y axis. If your organization has several divisions, then calculate a separate EFE score for each business and plot the total for each business / product on the Y axis.

3. Plot the location of your company (or divisions) in the appropriate sector (from I to IX).
IE = Internal - External Matrix

IFE Total Score

<table>
<thead>
<tr>
<th></th>
<th>IFE Total Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Strong</td>
</tr>
<tr>
<td>II</td>
<td>Average</td>
</tr>
<tr>
<td>III</td>
<td>Weak</td>
</tr>
<tr>
<td>IV</td>
<td>Strong</td>
</tr>
<tr>
<td>V</td>
<td>Average</td>
</tr>
<tr>
<td>VI</td>
<td>Weak</td>
</tr>
<tr>
<td>VII</td>
<td>Strong</td>
</tr>
<tr>
<td>VIII</td>
<td>Average</td>
</tr>
<tr>
<td>IX</td>
<td>Weak</td>
</tr>
</tbody>
</table>

IFE = Internal - External Matrix

STM: Nhek Sokun, Senior Lecturer
IE Matrix: (Recommended Strategies)

– Sectors I, II, IV: Recommended strategies:
  ♦ Grow and Build \((\text{concentration, integration})\)

– Sectors III, V, VII: Recommended strategies:
  ♦ Hold and Maintain \((\text{concentration})\)

– Sectors VI, VIII, IX: Recommended strategies:
  ♦ Harvest or Divest \((\text{restructuring})\)
Grand Strategy Matrix

- Tool for formulating alternative strategies
- Based on two dimensions
- Competitive position
- Market growth
RAPID MARKET GROWTH

**Quadrant II**
1. Market development
2. Market penetration
3. Product development
4. Horizontal integration
5. Divestiture
6. Liquidation

**Quadrant I**
1. Market development
2. Market penetration
3. Product development
4. Forward integration
5. Backward integration
6. Horizontal integration
7. Concentric diversification

**Quadrant III**
1. Retrenchment
2. Concentric diversification
3. Horizontal diversification
4. Conglomerate diversification
5. Liquidation

**Quadrant IV**
1. Concentric diversification
2. Horizontal diversification
3. Conglomerate diversification
4. Joint ventures

SLOW MARKET GROWTH

WEAK COMPETITIVE POSITION

STRONG COMPETITIVE POSITION