CHAPTER 4. STRATEGIC ANALYSIS AND CHOICE

(ALLOCATION OF RESOURCES)

Strategy Analysis and Choice is a process that reconciles strategic actions, market opportunities, corporate strengths and resources, values of managers, and legal requirements and social responsibilities to select a "best" mission, strategic thrust, and set of strategic actions.

Strategy formulating techniques can be integrated into a three-stage decision making frame work.

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        INPUT STAGE          MATCH STAGE


               DECISIVE STAGE
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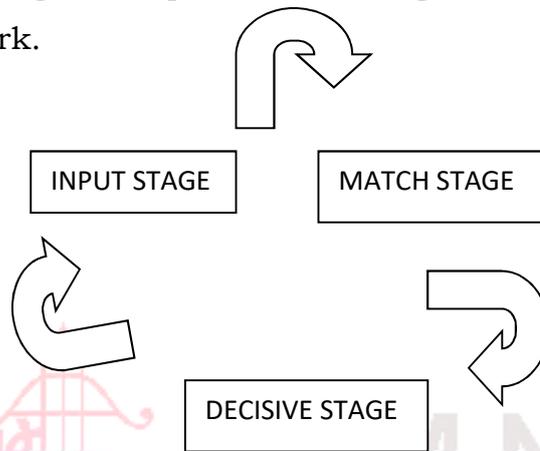
INTERNAL FACTOR EVALUATION MATRIX (IFE)

Internal Factor Evaluation (IFE) matrix is a strategic management tool for auditing or evaluating major strengths and weaknesses in functional areas of a business.

The **IFE Matrix** together with the EFE matrix is a strategy-formulation tool that can be utilized to evaluate *how a company is performing* in regards to identified *internal strengths and weaknesses* of a company. The IFE matrix method conceptually relates to the Balanced Scorecard method.

How to create the IFE matrix?
The IFE matrix can be created using the following five steps:
1. Key internal factors...
Conduct internal audit and identify both strengths and weaknesses in all your business areas. Identify 10 to 20 internal factors, but the more you can provide for the IFE matrix, the better. It is wise to be as specific and

objective as possible. (You can for example, express in percentages, ratios, and comparative numbers.)

2. Weights...

Having identified strengths and weaknesses, the core of the IFE matrix, assign a weight that ranges from 0 to 100 scale .After you assign weight to individual factors, make sure the sum of all weights equals 100.

The weight assigned to a given factor indicates the relative importance of the factor to being successful in the firm's industry. *Weights are industry based.*

3.   Rating...

Assign a 1 to 4 rating to each factor. Your rating scale can be per your preference. If you use the rating scale 1 to 4, then strengths must receive a 4 or 3 rating and weaknesses must receive a 1 or 2 rating.

Rating 1=a major weakness.

Rating 2 = a minor weakness.

Rating 3=a minor strength.

Rating 4= a major strength.

Note: the weights determined in the previous step are industry based. Ratings are company based.

4. Multiply...

Now we can get to the IFE matrix math. Multiply each factor's weight by its rating. This will give you a **weighted score** for each factor.

5. Sum...

The last step in constructing the IFE matrix is to sum the weighted scores for each factor. This provides the **total weighted score** for your business.

Example of IFE matrix

The following table provides an example of an **IFE matrix**.

Internal Strengths	Weight	Rating	Weighted Score
1. Largest manufacturer in the market	10 %	4	0.40
2. Supplies major airlines	12 %	4	0.48
3. Good reputation and image	4 %	3	0.12
4. Close proximity to the airport	8 %	4	0.32
5. Strong management team	4 %	3	0.12
6. Increasing cash flow	5 %	3	0.15
7. Loyal employees	4 %	3	0.12
8. Access to cheap and reliable financing	3 %	4	0.12
9. History of minimal service complaints	4 %	3	0.12
10. Financial ratios	5 %	4	0.20
Internal Weaknesses			
1. Saturated market	10 %	1	0.10
2. Sensitive to oil prices	15 %	2	0.30
3. Little diversification	8 %	2	0.16
4. Absence of strategic partner	4 %	1	0.04
5. Limited access to international markets	4 %	1	0.04
major weakness (1), minor weakness (2), minor strength (3), major strength (4)			
TOTAL WEIGHTED SCORE	100 %		**2.79**

Weights times ratings equal weighted score.

What values does the IFE matrix take?

Regardless of how many factors are included in an IFE Matrix, the total weighted score can range from a low of 1.0 to a high of 4.0 (assuming you used the 1 to 4 rating scale). The average score you can possibly get is 2.5.Total weighted scores well **below 2.5** point to **internally weak** business. Scores significantly **above 2.5** indicate a **strong internal** position.

It is important to note that a thorough understanding of individual factors included in the IFE matrix is still more important than the actual numbers.

EXTERNAL FACTOR EVALUATION MATRIX (EFE)

External Factor Evaluation (EFE) matrix method is a strategic-management tool often used for assessment of current business conditions. *The EFE matrix is a good tool to visualize and prioritize the opportunities and threats that a business is facing.*

The *EFE matrix* is very similar to the IFE matrix. The major difference between the EFE matrix and the IFE matrix is the type of factors that are included in the model. While the IFE matrix deals with *internal* factors, the EFE matrix is concerned solely with *external* factors.

External factors assessed in the EFE matrix are the ones that are subjected to the will of social, economic, political, legal, and other external forces.

How to create the EFE matrix?

1. ***List factors.....***
   The first step is to gather a list of external factors. Divide factors into two groups: opportunities and threats.

2. ***Assign weights.........***
   Assign a weight to each factor. The value of each weight should be between 0 and 100. The total value of all weights together should equal 1 or 100.

3. ***Rate factors.....***
   Assign a rating to each factor. Rating should be between 1 and 4. Rating indicates how effective the firm's current strategies respond to the factor.
   1 = the response is poor.
   2 = the response is below average.
   3 = above average.
   4 = superior.
   Note: the weights determined in the previous step are industry based. Ratings are company based.

4. ***Multiply weights by ratings.....***
   Multiply each factor weight with its rating. This will calculate the weighted score for each factor.

5. ***Total all weighted scores....***
   Add all weighted scores for each factor. This will calculate the **total weighted score** for the company.

EFE matrix example

Opportunities	Weight	Rating	Weighted Score
1. Industry Consolidation	11 %	4	0.44
2. Increase in air travel in Mexico	12 %	3	0.36
3. Privatization in CE countries	10 %	2	0.20
4. Growth of low-cost sector	8 %	4	0.32
5. Increased demand in Chiana	16 %	3	0.48
Threats			
1. Declining margins	10 %	1	0.10
2. Government oversight	5 %	3	0.15
3. Climbing prices of key inputs	8 %	2	0.16
4. New security tax	5 %	2	0.10
5. Economic downturn	15 %	1	0.15
poor (1), below average (2), above average (3), superior (4)			
TOTAL WEIGHTED SCORE	**100 %**		**2.46**

Total weighted score of 2.46 indicates that the business has slightly less than average ability to respond to external factors.

What should I include in the EFE matrix?

Now that we know how to construct or create the EFE matrix, let's focus on factors. External factors can be grouped into the following groups:

- Social, cultural, demographic, and environmental variables:
- Economic variables
- Political, government, business trends, and legal variables

Below you can find examples of some factors that capture aspects external to your business. (Not all apply to a business, but one can use this listing as a starting point...)

- Aging population, Per-capita income, Education

- Trends in housing, shopping, careers, business

- Number of births and/or deaths

- Immigration & emigration rates

Economic factors...

- Growth of the economy

- Level of savings, investments, and capital spending

- Inflation

- Foreign exchange rates

- Stock market trends
- - Product life cycle ....etc

COMPETITIVE MATRIX

Definition: *A chart that compares your product or service to your competitor(s)*

A competitive matrix is an analysis tool that helps you establish your company's competitive advantage. It provides an easy-to-read portrait of your competitive landscape and your position in the marketplace. The matrix can be just a simple chart. In the left column, you list the main features and benefits of your product or service. On the top row, you list your company and the names of your competitors. Then fill in the chart with the appropriate information for each company. For example, if you own a dry cleaning service, you might list the different services you offer or the quick turnaround you provide on items (24 hours), and then note how your competitors fail at these features.

The matrix can be shared with customers as a sales tool, or you can develop the matrix solely for in-house purposes to keep abreast of the competition.

Internal-External (IE) matrix

The **Internal-External (IE) matrix** is another strategic management tool used to analyze working conditions and strategic position of a business. The Internal External Matrix or short IE matrix is based on an analysis of internal and external business factors which are combined into one suggestive model.

The IE matrix is a continuation of the EFE matrix and IFE matrix models.

How does the Internal-External IE matrix work?
The IE matrix belongs to the group of strategic portfolio management tools. In a similar manner like the BCG matrix, the IE matrix positions an organization into a nine cell matrix.
The IE matrix is based on the following two criteria:

1. Score from the **EFE matrix** -- this score is plotted on the y-axis
2. Score from the **IFE matrix** -- plotted on the x-axis

The IE matrix works in a way that you plot the **total weighted score** from the EFE matrix on the y axis and draw a horizontal line across the plane. Then you take the score calculated in the IFE matrix, plot it on the x axis, and draw a vertical line across the plane. The point where your horizontal line meets your vertical line is the determinant of your strategy. This point shows the strategy that your company should follow.

On the x axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position. A score of 2.0 to 2.99 is considered average. A score of 3.0 to 4.0 is strong.

On the y axis, an EFE total weighted score of 1.0 to 1.99 is considered low. A score of 2.0 to 2.99 is medium. A score of 3.0 to 4.0 is high.

IE matrix example...

Let us take a look at an example. We calculated IFE matrix for an anonymous company on the IFE matrix page. The total weighted score calculated on this page is 2.79 which points at a company with an above-average internal strength.

We also calculated the EFE matrix for the same company on the EFE matrix page. The total weighted score calculated for the EFE matrix is 2.46 which suggests a slightly less than average ability to respond to external factors.

Now we plot these values on axes in the IE matrix.
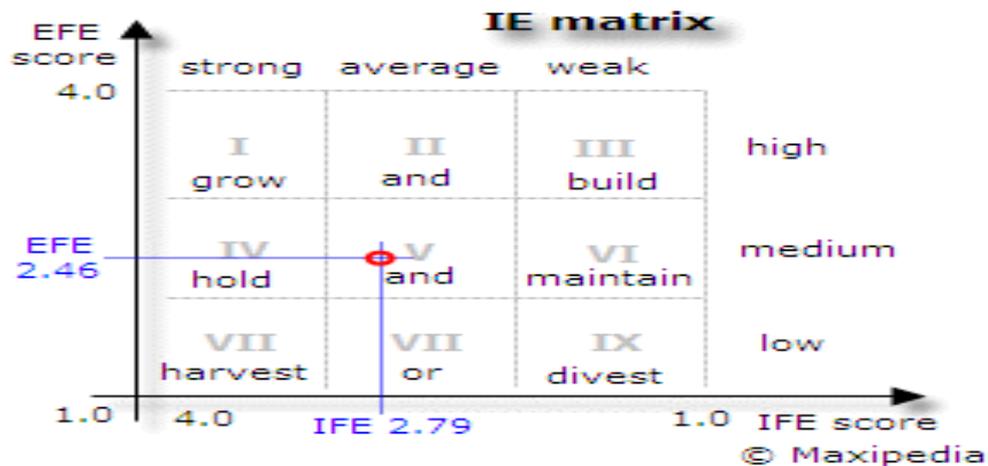
This IE matrix tells us that our company should *hold and maintain* its position. The company should pursue strategies focused on increasing market penetration and product development

What does the IE matrix tell me?

Your horizontal and vertical lines meet in one of the nine cells in the IE matrix. You should follow a strategy depending on in which cell those lines intersect.

The IE matrix can be divided into **three** major regions that have different strategy implications.

Cells I, II, and III suggest the **grow and build strategy**. This means intensive and aggressive tactical strategies. Your strategies should focus on market penetration, market development, and product development. From the operational perspective, a backward integration, forward integration, and horizontal integration should also be considered.

Cells IV, V, and VI suggest the **hold and maintain strategy**. In this case, your tactical strategies should focus on market penetration and product development.

Cells VII, VIII, and IX are characterized with the **harvest or exit strategy**. If costs for rejuvenating the business are low, then it should be attempted to

revitalize the business. In other cases, aggressive cost management is a way to play the end game.

MATCHING STAGE

"TOWS" matrix

A TOW is inverted SWOT …… An acronym for the internal **strengths** and **weaknesses** of business and environmental **opportunities** and **threats** facing that business. TOWS or SWOT analysis is a systematic identification of the factors and the strategy that reflects the best match between them. It is based on the logic that an effective strategy maximizes the business's strengths and opportunities but at the same time minimizes its weaknesses threats.

	Internal strengths(S) …………………………… … …………………………… … …………………………… …	Internal weakness (W) …………………………… . …………………………… . …………………………… .
Externalopportunities(O) …………………………… …………………………… ……………………………	SO (Maxi- Maxi) Strategy (maximize strengths and opportunities)	WO(Mini-Mini) Strategy (minimize weakness and maximize opportunities)
External Threats(T) …………………………… …………………………… ……………………………	ST (Maxi- Maxi) Strategy (maximize strengths and opportunities)	WT (Mini – Mini) Strategy (minimize weakness and threats)

SPACE MATRIX

The **SPACE matrix** is a management tool used to analyze a company. It is used to determine what type of a strategy a company should undertake.

The **Strategic Position & ACtion Evaluation matrix** or short a *SPACE matrix* is a strategic management tool that focuses on strategy formulation especially as related to the competitive position of an organization.

What is the SPACE matrix strategic management method?

To explain how the SPACE matrix works, it is best to reverse-engineer it. First, let's take a look at what the outcome of a SPACE matrix analysis can be, take a look at the picture below. The SPACE matrix is broken down to four quadrants where each quadrant suggests a different type or a nature of a strategy:

- Aggressive
- Conservative
- Defensive
- Competitive

This is what a completed SPACE matrix looks like:
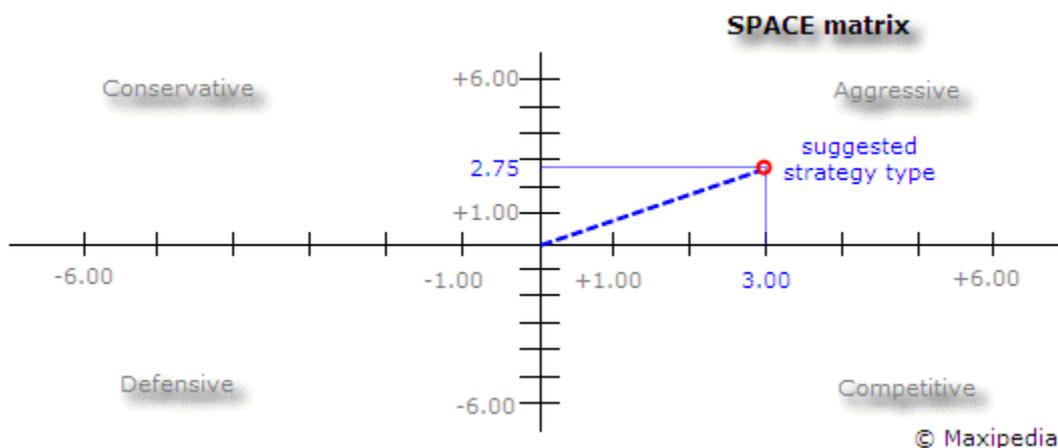
This particular SPACE matrix tells us that our company should pursue an *aggressive strategy.* Our company has a strong competitive position it the

market with rapid growth. It needs to use its internal strengths to develop a market penetration and market development strategy. This can include product development, integration with other companies, acquisition of competitors, and so on.

Now, how do we get to the possible outcomes shown in the SPACE matrix? The SPACE Matrix analysis functions upon two internal and two external strategic dimensions in order to determine the organization's strategic posture in the industry. The SPACE matrix is based on four areas of analysis.

Internal strategic dimensions:

> Financial strength (FS)

> Competitive advantage (CA)

External strategic dimensions:

> Environmental stability (ES)

> Industry strength (IS)

There are many SPACE matrix factors under the **internal strategic dimension**. These factors analyze a business internal strategic position. The financial strength factors often come from company accounting. These SPACE matrix factors can include for example return on investment, leverage, turnover, liquidity, working capital, cash flow, and others. Competitive advantage factors include for example the speed of innovation by the company, market niche position, customer loyalty, product quality, market share, product life cycle, and others.

Every business is also affected by the environment in which it operates. SPACE matrix factors related to business **external strategic dimension** are for example overall economic condition, GDP growth, inflation, price elasticity, technology, barriers to entry, competitive pressures, industry growth potential, and others.

The SPACE matrix calculates the importance of each of these dimensions and places them on a Cartesian graph with X and Y coordinates.

The following are a few model technical assumptions:

➢ By definition,CA and IS values in SPACE matrix are plotted on X axis.
➢ CA values can range from -1 to -6.
➢ IS values can take +1 to +6.
➢ The FS and ES dimensions of the model are plotted on the Y axis.
➢ ES values can be between -1 and -6.
➢ FS values range from +1 to +6.

How do I construct a SPACE matrix?

The SPACE matrix is constructed by plotting calculated values for the competitive advantage (CA) and industry strength (IS) dimensions on the X axis. The Y axis is based on the environmental stability (ES) and financial strength (FS) dimensions. The SPACE matrix can be created using the following seven steps:

Step 1: Choose a set of variables to be used to gauge the competitive advantage (CA), industry strength (IS), environmental stability (ES), and financial strength (FS).

Step 2: Rate individual factors using rating system specific to each dimension. Rate competitive advantage (CA) and environmental stability (ES) using rating scale from -6 (worst) to -1 (best). Rate industry strength (IS) and financial strength (FS) using rating scale from +1 (worst) to +6 (best).

Step 3: Find the *average scores* for competitive advantage (CA), industry strength (IS), environmental stability (ES), and financial strength (FS).

Step 4: Plot values from step 3 for each dimension on the SPACE matrix on the appropriate axis.

Step 5: Add the average score for the competitive advantage (CA) and industry strength (IS) dimensions. This will be your final point on axis X on the SPACE matrix.

Step 6: Add the average score for the SPACE matrix environmental stability (ES) and financial strength (FS) dimensions to find your final point on the axis Y.

Step 7: Find intersection of your X and Y points. Draw a line from the center of the SPACE matrix to your point. This line reveals the *type of strategy the company should pursue.*

SPACE matrix example

The following table shows what values were used to create the SPACE matrix displayed   above.

Internal Strategix Position		External Strategix Position	
Competitive (CA)		**Industry (IS)**	
(-6 worst, -1 best)		*(+1 worst, +6 best)*	
-1	Product quality	+6	Barriers to entry
-1	Market share	+4	Growth potential
-3	Brand & image	+4	Access to financing
-2	Product life cycle	+5	Consolidation
Average -1.75		Average +4.75	
Total axis X score: 3.00			
Financial (FS)		**Environmental (ES)**	
(+1 worst, +6 best)		*(-6 worst, -1 best)*	
+5	ROA	-2	Inflation
+4	Leverage	-1	Technology
+6	Liquidity	-2	Demand elasticity
+5	Cash flow	-4	Taxation
Average +5.00		Average -2.25	
Total axis Y score: 2.75			

Axis X (left label for top half), Axis Y (left label for bottom half)

Each factor within each strategic dimension is rated using appropriate rating scale. Then averages are calculated. Adding individual strategic dimension averages provides values that are plotted on the axis X and Y.
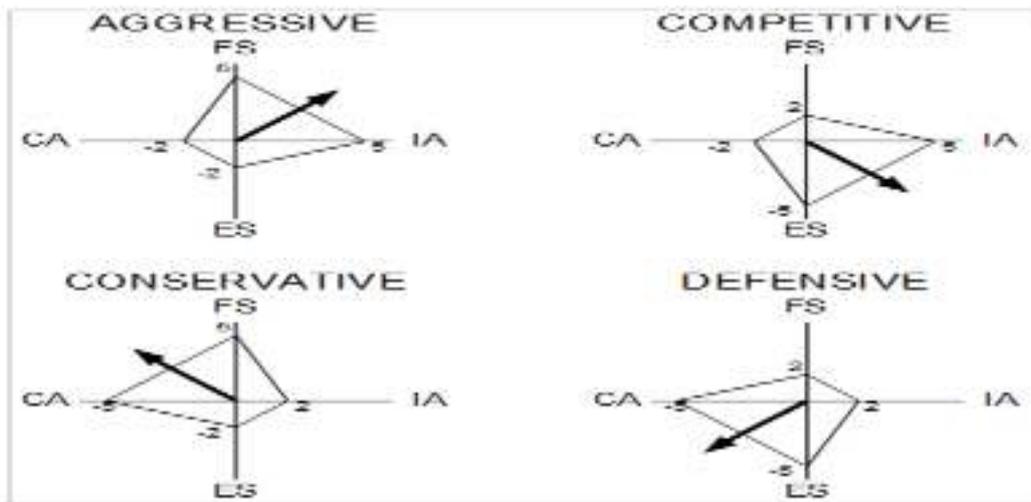
BOSTON CONSULTING GROUP (BCG) MATRIX

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in its portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU's (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share = SBU Sales this year-leading competitors sales.

Market Growth Rate = Industry sales this year - Industry Sales last year.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. using the Boston Consulting Group approach, a company classifies all its SBUs according to the growth-share matrix. By dividing the growth-share matrix as indicated, four types of SBUs can be distinguished:

1. **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows lose their appeal and move towards deterioration, then a retrenchment policy may be pursued.

3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, and then they have potential of becoming stars.

4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share

because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.

This four-celled approach is considered as to be too simplistic.

As time passes, SBUs change their positions in the growth-share matrix. Each SBU has a life cycle. Many SBUs start out as question marks and move into the star category if they succeed. They later become cash rows as market growth falls, then finally die off or turn into dogs toward the end of their life cycle. The company needs to add new products and units continuously so that some of them will become stars and, eventually, cash cows that will help finance other SBUs.

BCG Growth-Share Matrix

QUESTION MARKS
remainder divested ← → select a few

Low Market Share & High Market Growth
The opportunities no one knows what to do with. These opportunities need serious thought as to whether increased investment is warranted.

STARS

High Market Share & High Market Growth
you're well-established, and these are fantastic opportunities

invest ↓

DOGS
← liquidate

Low Market Share & Low Market Growth
your market presence is weak. It's going to be difficult to make a profit.

CASH COWS

High Market Share & Low Market Growth
you're well-established. However, the market isn't growing and your opportunities are limited.

Market Growth: high / low

Market Share: low → high

GRAND STRATEGY MATRIX (GSM)

Grand strategies, often called master or business strategies provide basic direction for strategic actions. They are the basis of coordinated and sustained efforts directed toward achieving long-term business objectives. Grand strategies indicate the time period over which long-range objectives are to be achieved. Thus, a grand strategy can be defined as a comprehensive general approach that guides a firm's major actions. Grand Strategy Matrix has become an effective tool in devising alternative strategies. The matrix is based on the following four important elements.

- ➢ Rapid market growth
- ➢ Slow market growth
- ➢ Strong competitive position
- ➢ Weak competitive position.

The above four elements form a *four quadrant matrix* wherein every organization can be placed in a way the identification and selection of appropriate strategy becomes an easy task. With the result, the matrix can be adapted to choose the best strategy based on the current growth and competitive state of the company. A huge company with many divisions can also plot its divisions in these four quadrants Grand Strategy Matrix by formulating the best strategy for each division.

The management must select the strategy that is cohesive with the market and competitive position. Broadly speaking the four elements of GSSM can be described as two evaluative dimensions of **market growth and competitive position.**

Quadrant 1: This quadrant is meant for companies that are in **strong competitive position and flourishing with market growth**. The companies have an excellent strategic position and should focus on current markets and product and its development strategy. With resources they can also expand in backward, forward, or horizontal integration. A single product company here should diversify to avert risks with the slender product line. Companies in this quadrant can afford to exploit external opportunities and enhance their financial muscle.

Quadrant II: Companies in this quadrant of the GSSM have **weak competitive position in a fast growing market.** Companies here are in growing market but they

are competing ineffectively. An intensive and effective strategy must be adopted. Companies can adapt to horizontal integration. If they cannot have a suitable strategy, then divestiture of some divisions can be considered. As a last resort, liquidation can be considered and another business can be acquired.

Quadrant III: Here companies are in a **slow growth industry with weak competition**. Drastic changes are required. The management must change its philosophy and new approaches to governance are the need. Overall revamping at a cost may be warranted. Strategic asset reduction, retrenchment may be the best option. Diversifying by shifting the resources may be another option. Final option could be divestiture or liquidation.

Quadrant IV: The companies are in **strong competitive position, but in a slow growth industry.** Companies must look for promising growth areas and to exploit opportunities in the growing markets as they have the strength. These companies have limited requirement of funds for internal growth and enjoy high cash flow due to a strong competitive position. They can look for related or unrelated diversification with cash flow and funds; they can also look for joint ventures.

Model of Grand Strategy Cluster

Rapid market growth

Quadrant I (Strong Competitive positioning, Rapid market growth):

- ❖ Concentrated growth
- ❖ Market Development
- ❖ Product development
- ❖ Vertical Integration (acquiring firms that supply it with inputs or are customers for its outputs)
- ❖ Concentric diversification (creating a portfolio of related businesses by acquisition based on creating product-market synergies)
- ❖ Innovation (creation of a new device or process based upon study, research and experimentation)

Quadrant II (Weak Competitive positioning, Rapid market growth):

- ❖ Concentrated growth (increasing market share in existing markets)
- ❖ Market Development (selling present products or services in new markets)
- ❖ Product development (substantial modification of existing products or developing new products for currently served markets and customers)
- ❖ Horizontal Integration (acquiring firms in current markets or in new markets to eliminate competitors and provide the acquiring firm with access to new markets)
- ❖ Divestiture
- ❖ Liquidation

Strong Competitive positioning — I | II — Weak Competitive positioning

IV | III

Quadrant IV (Strong Competitive positioning, Slow market growth):

- ❖ Concentric diversification
- ❖ Conglomerate diversification (acquiring a portfolio of businesses based on financial performance criteria)
- ❖ Joint Venture (creating complementary synergies)

Quadrant III (Weak Competitive positioning, Slow market growth):

- ❖ Turnaround or retrenchment (cost reduction and asset reduction to improve profitability)
- ❖ Concentric diversification
- ❖ Conglomerate diversification
- ❖ Divestiture (selling a major component of a firm or the entire firm)
- ❖ Liquidation (selling parts of a firm or the entire firm at auction or to a private buyer for its tangible asset value)

Slow market growth

QUANTITATIVE STRATEGIC PLANNING MATRIX (QSPM)

Quantitative Strategic Planning Matrix (**QSPM**) is a high-level strategic management approach for evaluating possible strategies. Quantitative Strategic Planning Matrix or a QSPM provides an *analytical method* for comparing feasible alternative actions. The QSPM method falls within so-called stage 3 of the strategy formulation analytical framework.

When company executives think about what to do, and which way to go, they usually have a *prioritized list* of strategies. If they like one strategy over another one, they move it up on the list. This process is very much intuitive and subjective. The **QSPM method** introduces some numbers into this approach making it a little more "*expert*" technique.

What is a Quantitative Strategic Planning Matrix or a QSPM?

The *Quantitative Strategic Planning Matrix* or a *QSPM* approach attempts to objectively select the best strategy using input from other management techniques and some easy computations. In other words, the QSPM method uses inputs from stage 1 analyses, matches them with results from stage 2 analyses, and then decides objectively among alternative strategies.

What does a QSPM look like and what does it tell me?

First, let us take a look at a sample Quantitative Strategic Planning Matrix QSPM, see the picture below. This QSPM compares two alternatives. Based on strategies in the stage 1 (IFE, EFE) and stage 2 (BCG, SPACE, IE), company executives determined that this company XYZ needs to pursue an ***aggressive strategy*** aimed at development of new products and further penetration of the market.

They also identified that this strategy can be executed in two ways. One strategy is *acquiring a competing company*. The other strategy is to *expand internally*. They are now asking which option is the better one.

QSPM (Quantitative Strategic Planning Matrix) for XYZ company						
	Alternative 1 – *Acquire Competitor*			**Alternative 2 –** *Expand Internally*		
Key Factors	Weight	Attractiveness Scores	**Total Attractiveness Score**	Weight	Attractiveness Scores	**Total Attractiveness Score**
Strengths						
Unique product	0.11	2	**0.22**	0.08	1	**0.08**
Location of your business	0.09	3	**0.27**	0.06	2	**0.12**
Worker's unique skill set	0.15	1	**0.15**	0.13	4	**0.52**
Quality of product	0.11	4	**0.44**	0.15	4	**0.60**
Increasing work productivity	0.09	0	**0.00**	0.12	3	**0.36**
Weaknesses						
Lack of quality and customer service	0.10	4	**0.40**	0.13	3	**0.39**
Poor marketing and sales	0.15	2	**0.30**	0.10	1	**0.10**
Undifferentiated product	0.08	3	**0.24**	0.17	0	**0.00**
Negatively sensitive to globalization	0.12	1	**0.12**	0.06	1	**0.06**
Sum Weights	100%			100%		
Opportunities						
A new emerging or developing marke	0.09	4	**0.36**	0.12	0	**0.00**
Possible acquisition of a competitor	0.14	4	**0.56**	0.08	2	**0.16**
Membership in trade alliance	0.16	0	**0.00**	0.10	1	**0.10**
Threats						
Increasing competition in the market	0.08	4	**0.32**	0.12	1	**0.12**
Price war	0.10	3	**0.30**	0.14	0	**0.00**
Competitor oligopoly	0.18	2	**0.36**	0.09	1	**0.09**
US dollar exchange rate	0.09	0	**0.00**	0.20	0	**0.00**
Infavorable taxes	0.16	0	**0.00**	0.15	0	**0.00**
Sum Weights	100%			100%		
Sum Total Attractiveness Score			**4.04**	>		**2.70**

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(Attractiveness Score: 1 = not acceptable; 2 = possibly acceptable; 3 = probably acceptable; 4 = most acceptable; 0 = not relevant)

Doing some easy calculations in the Quantitative Strategic Planning Matrix QSPM, we came to a conclusion that acquiring a competing company is a better option. This is given by the *Sum Total Attractiveness Score* figure. The acquisition strategy yields higher score than the internal expansion strategy. The acquisition strategy has a score of 4.04 in the QSPM shown above whereas the internal expansion strategy has a smaller score of 2.70.

<u>How do I construct a QSPM?</u>

You can see a sample Quantitative Strategic Planning Matrix QSPM above. The left column of a QSPM consists of key external and internal factors (identified in stage 1). The left column of a QSPM lists factors obtained directly from the EFE matrix and IFE matrix. The top row consists of feasible alternative strategies (provided in stage 2) derived from the SWOT analysis, SPACE matrix, BCG matrix, and IE matrix. The first column with numbers includes weights assigned to factors. Now let us take a look at detailed steps needed to construct a QSPM.

STEP 1...

Provide a list of internal factors -- *strengths* and *weaknesses*. Then generate a list of the firm's key external **factors** -- *opportunities* and *threats*. These will be included in the left column of the QSPM. You can take these factors from the EFE matrix and the IFE matrix.

STEP 2... strategic management tools...

After we identify and analyze key strategic factors as inputs for QSPM, we can formulate the type of the strategy we would like to pursue. This can be done using the stage 2 strategic management tools, for example the SWOT analysis (or TOWS), SPACE matrix analysis, BCG matrix model, or the IE matrix model.

STEP 3...

Having the factors ready, identify **strategy alternatives** that will be further evaluated. These strategies are displayed at the top of the table. Strategies evaluated in the QSPM should be mutually exclusive if possible.

STEP 4...

Each key external and internal factor should have some **weight** in the overall scheme. You can take these weights from the IFE and EFE matrices again. You can find these numbers in our example in the column following the column with factors.

STEP 5...

Attractiveness Scores (AS) in the QSPM indicate how each factor is important or attractive to each alternative strategy. Attractiveness Scores are

determined by examining each key external and internal factor separately, one at a time, and asking the following question:

Does this factor make a difference in our decision about which strategy to pursue?

If the answer to this question is yes, then the strategies should be compared relative to that key factor. The range for Attractiveness Scores is *1 = not attractive, 2 = somewhat attractive, 3 = reasonably attractive,* and *4 = highly attractive.* If the answer to the above question is no, then the respective key factor has no effect on our decision. If the key factor does not affect the choice being made at all, then the Attractiveness Score would be 0.

STEP 6...

Calculate the **Total Attractiveness Scores** (TAS) in the QSPM. Total Attractiveness Scores are defined as the product of multiplying the weights (step 3) by the Attractiveness Scores (step 4) in each row.

The Total Attractiveness Scores indicate the relative attractiveness of each key factor and related individual strategy. The higher the Total Attractiveness Score, the more attractive the strategic alternative or critical factor.

STEP 7...

Calculate the **Sum Total Attractiveness Score** by adding all Total Attractiveness Scores in each strategy column of the QSPM.

The QSPM Sum Total Attractiveness Scores reveal which strategy is most attractive. Higher scores point at a more attractive strategy, considering all the relevant external and internal critical factors that could affect the strategic decision.