Analytical Methods of Business Environment

Synthesis of External and Internal Factors of Business Environment

9. lecture

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BUSINESS ENVIRONMENT

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- Must be made to systematize knowledge from internal and external environment analysis.

- One approach is to create Industry matrix which is followed up forms in the form of systematization **IFAS, EFAS tables.**

- Thereafter we generate **SFAS Matrix** and find a **Propitious Niche.**

- In conclusion, inecessary to generate alternative strategies by using a **TOWS Matrix**.

Synthesis of External Factors

1. Using key success factors to create an ***industry matrix*** - within any industry there are usually *certain variables* - ***key success factors*** - that a company's management must understand in order to be successful.
   - Key success factors are variables that can significantly affect the overall competitive positions of companies within any particular industry.
   - An industry matrix summarizes the key success factors within a particular industry. The matrix gives a **weight for each factor** based on how important that factor is for success within the industry.
   - The matrix also specifies **how well various competitors in the industry are responding to each factor**.
   - To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

Synthesis of External Factors

- To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:
    1. **In Column 1 (*Key Success Factors*),** list the 8 to 10 factors that appear to determine success in the industry.
    2. **Column 2 (*Weight*),** assign a weight to each factor, from 1.0 (Most Important) to 0.0 (Not Important) based on that factor's probable impact on the overall industry's current and future success. (All weights must sum to 1.0 regardless of the number of strategic factors.)

Key Success Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
	1	2	3	4	5	6
Total	1.00		___		___

EFAS Table

Synthesis of External Factors

- To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

  3. In Column 3 *(Company A Rating)*, examine a particular company within the industry.

  - for example, Company A. Assign a rating to each factor from 5 (Outstanding) to 1 (Poor) based on Company A's current response to that particular factor. Each rating is a judgment regarding how well that company is specifically dealing with each key success factor.

Key Success Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
	1	2	3	4	5	6
Total	1.00				

Synthesis of External Factors

- To generate an industry matrix using two industry competitors (called A and B), complete the following steps for the industry being analyzed:

    4. **In Column 4 (*Company A Weighted Score*)**, multiply the weight in Column 2 for each factor by its rating in Column 3 to obtain that factor's weighted score for Company A**.**

    5. **In Column 5 (*Company B Rating*)**, examine a second company within the industry – in this case, Company B.

        4. Assign a rating to each key success factor from 5.0 (Outstanding) to 1.0 (Poor), based on Company B's current response to each particular factor.

    6. **In Column 6 (*Company B Weighted Score*)**, multiply the weight in Column 2 for each factor times its rating in Column 5.

    7. **The total weighted score indicates** how well each company is responding to current and expected key success factors in the industry's environment.

Synthesis of External Factors – EFAS

- Using an **EFAS** (*External Factors Analysis Summary*) **Table** is one way to *organize the external factors* into the generally accepted categories of opportunities and threats as well as to analyze how well a particular company's management (rating) is responding to these specific factors in light of the perceived importance (weight) of these factors to the company.

External Factors	Weight	Rating	Weighted Score	Comments
	1	2	3	4	5
Opportunities				
▪ Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
▪ Demographics favor quality appliances	.10	5.0	.50	Maytag quality
▪ Economic development of Asia	.05	1.0	.05	Low Maytag presence
▪ Opening of Eastern Europe	.05	2.0	.10	Will take time
▪ Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
▪ Increasing government regulations	.10	4.3	.43	Well positioned
▪ Strong U.S. competition	.10	4.0	.40	Well positioned
▪ Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
▪ New product advances	.05	1.2	.06	Questionable
▪ Japanese appliance companies	.10	1.6	.16	Only Asian presence in Australia
Total Scores	1.00		3.15	

Synthesis of Internal Factors

- This **IFAS** (*Internal Factor Analysis Summary*) **Table** is one way to *organize the internal factors* into the generally accepted categories of strengths and weaknesses as well as to analyze how well a particular company's management is responding to these specific factors in light of the perceived importance of these factors to the company.

- Use the **VRIO framework** (Value, Rareness, Imitability, & Organization) to assess the importance of each of the factors that might be considered strengths.

- Except for its internal orientation, this *IFAS Table is built the same way as the EFAS Table.*
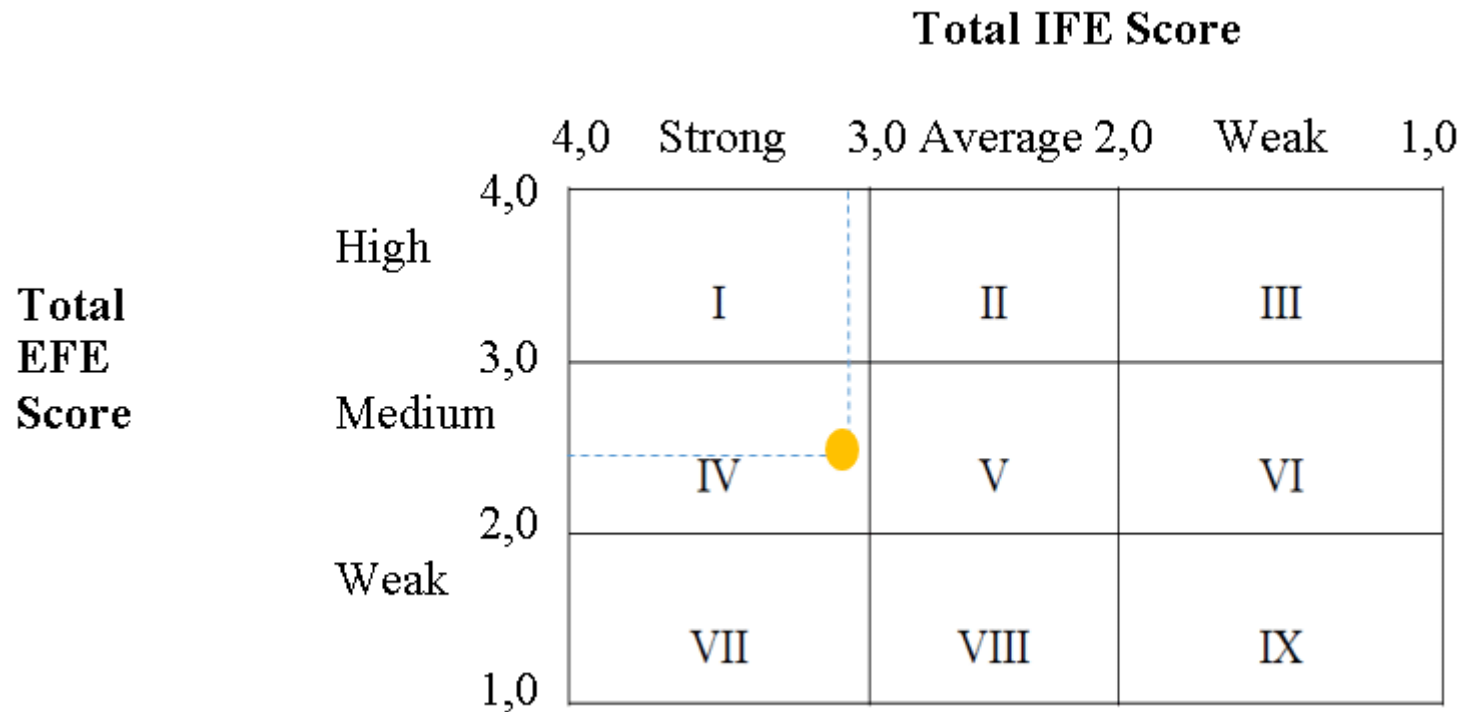
Synthesis of Internal Factors

Example of Internal Factor Analysis Summary (IFAS Table)

Internal Factors		Weight	Rating	Weighted Score	Comments
	1	2	3	4	5
Strengths					
▪ Quality Maytag culture		.15	5.0	.75	Quality key to success
▪ Experienced top management		.05	4.2	.21	Know appliances
▪ Vertical integration		.10	3.9	.39	Dedicated factories
▪ Employer relations		.05	3.0	.15	Good, but deteriorating
▪ Hoover's international orientation		.15	2.8	.42	Hoover name in cleaners
Weaknesses					
▪ Process-oriented R&D		.05	2.2	.11	Slow on new products
▪ Distribution channels		.05	2.0	.10	Superstores replacing small dealers
▪ Financial position		.15	2.0	.30	High debt load
▪ Global positioning		.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
▪ Manufacturing facilities		.05	4.0	.20	Investing now
Total Scores		1.00		3.05	

- The **IE Matrix** is a strategic management tool which is used to analyze the current position of the divisions and suggest the strategies for the future.
- The Internal-External (**IE**) **Matrix** is based on an analysis of internal and external business factors which are combined into one suggestive model.

Total IFE Score

	4,0 Strong	3,0 Average 2,0	Weak 1,0
High	I	II	III
Medium	IV	V	VI
Weak	VII	VIII	IX

Total EFE Score

Generating a Strategic Factors Analysis Summary SFAS Matrix

- The EFAS and IFAS Tables plus the SFAS Matrix have been developed to deal with the criticisms of SWOT analysis.

- When used together, they are a ***powerful analytical set of tools*** for strategic analysis.

- The **SFAS** (Strategic Factors Analysis Summary) **Matrix** summarizes an organization's strategic factors by combining the external factors from the EFAS Table with the internal factors from the IFAS Table.

Generating a Strategic Factors Analysis Summary SFAS Matrix

- The SFAS Matrix requires a strategic decision maker to condense these strengths, weaknesses, opportunities, and threats into fewer than 10 strategic factors.

- This is done by reviewing and revising the weight given each factor. The revised weights reflect the priority of each factor as a determinant of the company's future success.

- The highest-weighted EFAS and IFAS factors should appear in the SFAS Matrix.

Generating a Strategic Factors Analysis Summary SFAS Matrix – can create following these steps:

1. **In Column 1 (*Strategic Factors*),** list the most important EFAS and IFAS items.
   After each factor, indicate whether it is a Strength (S), Weakness (W), an Opportunity (O), or a Threat (T).

2. **In Column 2 (*Weight*),** assign weights for all of the internal and external strategic factors. This means that the weights calculated earlier for EFAS and IFAS will probably have to be adjusted.

3. **In Column 3 (*Rating*),** assign a rating of how the company's management is responding to each of the strategic factors.
   These ratings will probably (but not always) be the same as those listed in the EFAS and IFAS Tables.

4. **In Column 4 (*Weighted Score*),** multiply the weight in Column 2 for each factor by its rating in Column 3 to obtain the factor's rated score.

5. **In Column 5 (*Duration*),** indicate short-term (less than one year), intermediate-term (one to three years), or long-term (three years and beyond).

6. **In Column 6 (*Comments*),** repeat or revise your comments for each strategic factor from the previous EFAS and IFAS Tables. The total weighted score for the average firm in an industry is always 3.0.

Internal Strategic Factors		Weight	Rating	Weighted Score	Comments	
	1	2	3	4		5
Strengths						
S1 Quality Maytag culture		.15	5.0	.75	Quality key to success	
S2 Experienced top management		.05	4.2	.21	Know appliances	
S3 Vertical integration		.10	3.9	.39	Dedicated factories	
S4 Employee relations		.05	3.0	.15	Good, but deteriorating	
S5 Hoover's international orientation		.15	2.8	.42	Hoover name in cleaners	
Weaknesses						
W1 Process-oriented R&D		.05	2.2	.11	Slow on new products	
W2 Distribution channels		.05	2.0	.10	Superstores replacing small dealers	
W3 Financial position		.15	2.0	.30	High debt load	
W4 Global positioning		.20	2.1	.42	Hoover weak outside the United Kingdom and Australia	
W5 Manufacturing facilities		.05	4.0	.20	Investing now	
Total Scores		1.00		3.05		

External Strategic Factors		Weight	Rating	Weighted Score	Comments	
	1	2	3	4		5
Opportunities						
O1 Economic integration of European Community		.20	4.1	.82	Acquisition of Hoover	
O2 Demographics favor quality appliances		.10	5.0	.50	Maytag quality	
O3 Economic development of Asia		.05	1.0	.05	Low Maytag presence	
O4 Opening of Eastern Europe		.05	2.0	.10	Will take time	
O5 Trend to "Super Stores"		.10	1.8	.18	Maytag weak in this channel	
Threats						
T1 Increasing government regulations		.10	4.3	.43	Well positioned	
T2 Strong U.S. competition		.10	4.0	.40	Well positioned	
T3 Whirlpool and Electrolux strong globally		.15	3.0	.45	Hoover weak globally	
T4 New product advances		.05	1.2	.06	Questionable	
T5 Japanese appliance companies		.10	1.6	.16	Only Asian presence is Australia	
Total Scores		1.00		3.15		

		1	2	3	4	Duration			5	6
Strategic Factors (Select the most important opportunities/threats from EFAS, Table 4–5 and the most important strengths and weaknesses from IFAS, Table 5–2)		Weight	Rating	Weighted Score	S H O R T	I N T E R M E D I A T E	L O N G		Comments	
S1	Quality Maytag culture (S)	.10	5.0	.50			X		Quality key to success	
S5	Hoover's international orientation (S)	.10	2.8	.28	X	X			Name recognition	
W3	Financial position (W)	.10	2.0	.20	X	X			High debt	
W4	Global positioning (W)	.15	2.2	.33		X	X		Only in N.A., U.K., and Australia	
O1	Economic integration of European Community (O)	.10	4.1	.41			X		Acquisition of Hoover	
O2	Demographics favor quality (O)	.10	5.0	.50		X			Maytag quality	
O5	Trend to super stores (O + T)	.10	1.8	.18	X				Weak in this channel	
T3	Whirlpool and Electrolux (T)	.15	3.0	.45	X				Dominate industry	
T5	Japanese appliance companies (T)	.10	1.6	.16			X		Asian presence	
Total Scores		1.00		3.01						

- The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors involved in making a business decision.

- This method was created in the 1960s by Albert Humphrey of the Stanford Research Institute, during a study conducted to identify why corporate planning consistently failed. Since its creation, SWOT has become one of the most useful tools for business owners to start and grow their companies.

- A SWOT analysis is a compilation of company's strengths, weaknesses, opportunities and threats.

- The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors involved in making a business decision.

- A SWOT (strengths, weaknesses, opportunities and threats) analysis is a planning process that helps company overcome challenges and determine what new leads to pursue.

SWOT Analysis

Strengths (S) and **weaknesses (W)** refer to **internal factors**, which are the resources and experience readily available to you. These are some commonly considered internal factors:
- financial resources (funding, sources of income and investment opportunities);
- physical resources (location, facilities and equipment);
- human resources (employees, volunteers and target audiences);
- access to natural resources, trademarks, patents and copyrights;
- current processes (employee programs, department hierarchies and software systems).

External forces influence and affect every company, organization and individual. Whether these factors are connected directly or indirectly to an **opportunity (O)** or **threat (T)**, it is important to note and document each one. External factors are typically things you or your company do not control, such as the following:
- market trends (new products, technology advancements and shifts in audience needs);
- economic trends (local, national and international financial trends);
- funding (donations, legislature and other sources);
- Demographics;
- relationships with suppliers and partners;
- political, environmental and economic regulations.

Generating Alternative Strategies by Using a TOWS Matrix

- The **TOWS Matrix** (TOWS is just another way of saying SWOT) illustrates how the external opportunities and threats facing a particular corporation can be matched with that company's internal strengths and weaknesses to result in four sets of possible strategic alternatives.

- This is a good way to *use brainstorming to create alternative strategies* that might not otherwise be considered.

- It forces strategic managers to *create various kinds of growth as well as retrenchment strategies*. It can be used to generate corporate as well as business strategies.

TOWS Matrix

	Strengths (S)	Weaknesses (W)
INTERNAL FACTORS (IFAS) / **EXTERNAL FACTORS (EFAS)**	List 5 – 10 *internal* strengths here	List 5 – 10 *internal* weaknesses here
Opportunities (O) List 5 – 10 *external* opportunities here	**SO Strategies** Generate strategies here that use **strengths** to take **advantage** of **opportunities**	**WO Strategies** Generate strategies here that take **advantage** of **opportunities** by **overcoming weaknesses**
Threats (T) List 5 – 10 *external* threats here	**ST Strategies** Generate strategies here that use **strengths** to **avoid threats**	**WT Strategies** Generate strategies here that **minimize weaknesses** and **avoid threats**

Top build a TOWS Matrix, take the following steps:

Generate a series of possible strategies for the company or business unit under consideration based on particular combinations of the four sets of factors:

- **SO Strategies** are generated by thinking of ways in which a company or business unit could use its strengths to take advantage of opportunities.
- **ST Strategies** consider a company's or unit's strengths as a way to avoid threats.
- **WO Strategies** attempt to take advantage of opportunities by overcoming weaknesses.
- **WT Strategies** are basically defensive and primarily act to minimize weaknesses and avoid threats.

TOWS Matrix

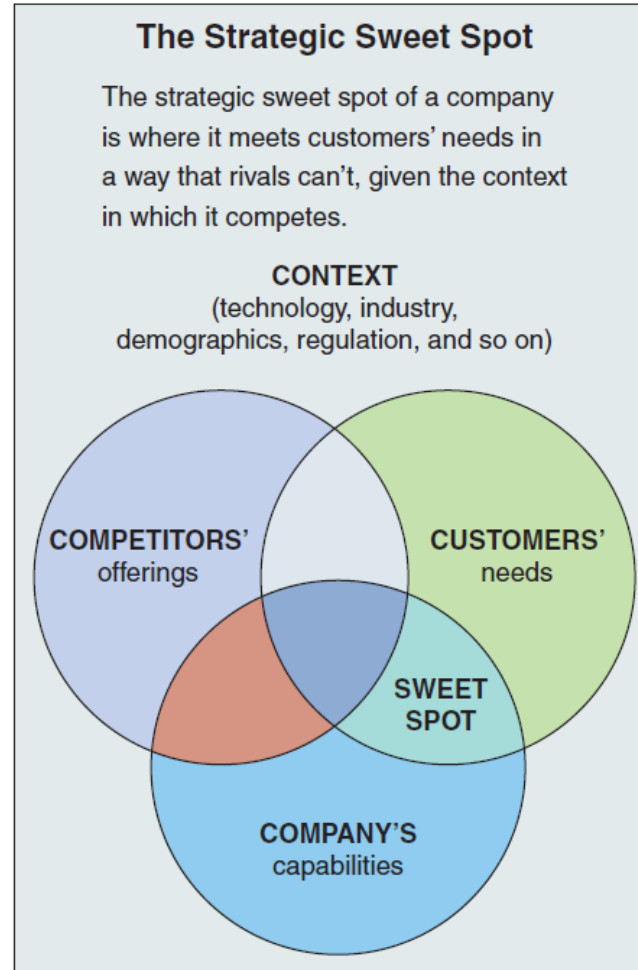Some of the primary criticisms of SWOT analysis are:

- It generates lengthy lists.

- It uses no weights to reflect priorities.

- It uses ambiguous words and phrases.

- The same factor can be placed in two categories (e.g., a strength may also be a weakness).

- There is no obligation to verify opinions with data or analysis.

- It requires only a single level of analysis.

- There is no logical link to strategy implementation.

- Using the **TOWS Matrix** to identify a propitious niche is one way to develop a sustainable competitive advantage using those strategic factors.

- The goal is to find a **propitious niche** - an extremely favorable niche - that is so well suited to the firm's internal and external environment that other corporations are not likely to challenge or dislodge it.

- A niche is propitious to the extent that it currently is just large enough for one firm to satisfy its demand. After a firm has found and filled that niche, it is not worth a potential competitor's time or money to also go after the same niche.

- Such a niche may also be called a **strategic sweet spot** where a ***company is able to satisfy customers' needs in a way that rivals cannot***, given the context in which it operates.

Finding a Propitious Niche - The strategic sweet spot

The Strategic Sweet Spot

The strategic sweet spot of a company is where it meets customers' needs in a way that rivals can't, given the context in which it competes.

CONTEXT
(technology, industry, demographics, regulation, and so on)

COMPETITORS' offerings

CUSTOMERS' needs

SWEET SPOT

COMPANY'S capabilities

SPACE Matrix

- 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.

- The SPACE matrix can be used as a basis for other analyses, such as the SWOT analysis, BCG matrix model, industry analysis, or assessing strategic alternatives (IE 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 and competitive advantage CA), external strategic dimensions (environmental stability ES and industry strength (IS).

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

SPACE Matrix

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, Axis Y

SPACE Matrix