

Analytical Methods of Business Environment 3

Synthesis of External and Internal Factors
of Business Environment

Lecture 9

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Learning objectives

- Synthesis of External Factors
- Synthesis of Internal Factors
- SFAS Matrix
- SWOT analysis
- TOWS analysis
- SPACE Matrix



Introduction

- Companies use various business planning tools to help them decide on market and industry positioning.
- One approach of strategic planning is to create Industry matrix in the form of IFAS and EFAS tables.
- Based on the IFAS and EFAS tables, we generate SFAS Matrix and find a Propitious Niche.
- Lastly, it is necessary to generate alternative strategies using TOWS matrix.

Synthesis of External Factors

- 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:

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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 add up to 1.0 for all factors.)

Key Success Factors	Weight	Company A Rating	Company A Weighted Score	Company B Rating	Company B Weighted Score
	1	2	3	4	5
Total	<u>1.00</u>				

Synthesis of External Factors

- 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	<u>1.00</u>		<u> </u>		<u> </u>	

Synthesis of External Factors

- 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.
 - 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

- 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	<u>1.00</u>		<u>3.15</u>		

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 analyse 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.

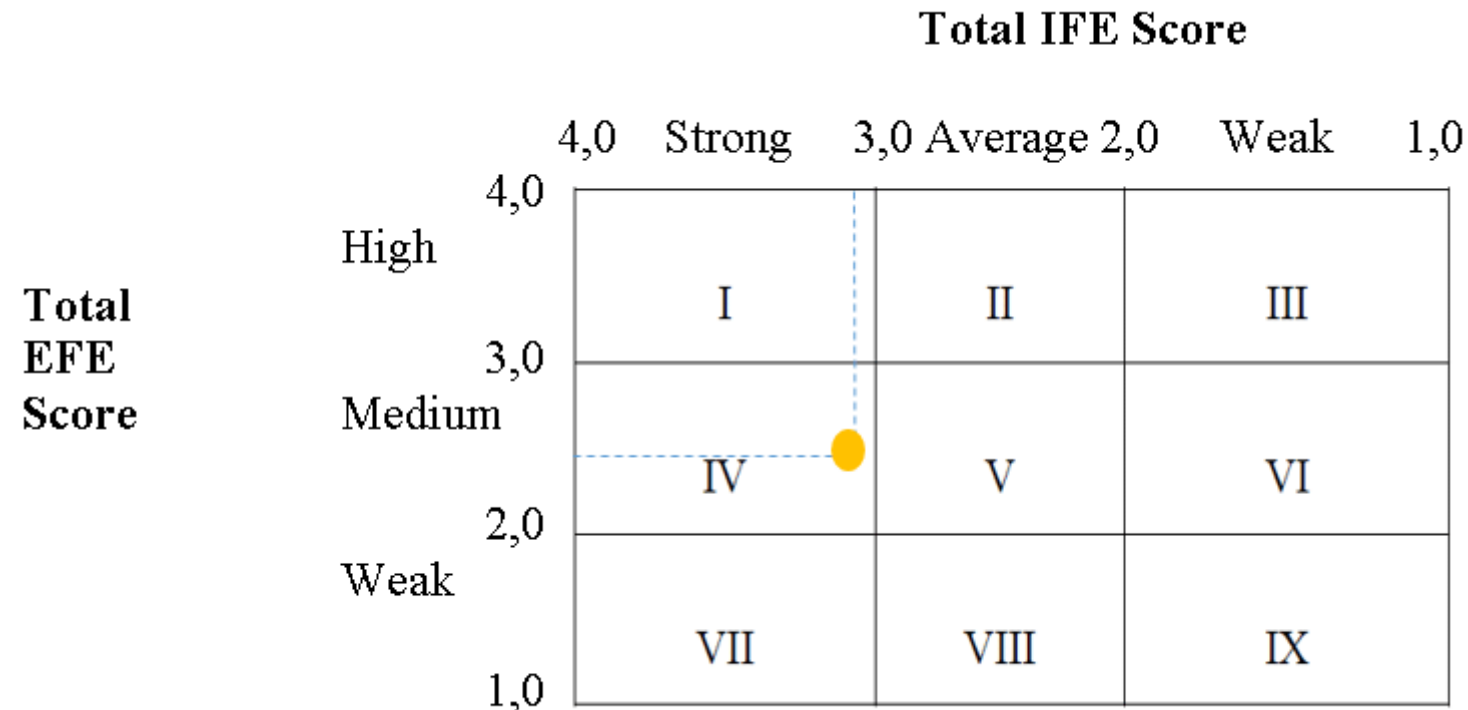
Synthesis of Internal Factors

- **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		<u>1.00</u>			<u>3.05</u>		

VRIO analysis

- 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.



Generating 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 – the steps to create

- 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.

Summary of SFAS Matrix

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	<u>1.00</u>			<u>3.05</u>			

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	<u>1.00</u>			<u>3.15</u>			

Generating SFAS matrix

		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 E		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		<u>1.00</u>		<u>3.01</u>					

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 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.

TOWS Analysis

- Was developed by Weihrich.
- The TOWS matrix lists not only the strengths, weaknesses, opportunities and threats, but also links them together.
- Such links bring additional knowledge and create a good basis for identifying strategic challenges.
- It is intelligent SWOT analysis.
- The link of strengths and weaknesses to the opportunities and threats can be done by analytical way or a verbal qualitative way.

TOWS Analysis

EXTERNAL FACTORS (EFAS) / INTERNAL FACTORS (IFAS)	Strengths (S) List 5 – 10 <i>internal</i> strengths here	Weaknesses (W) List 5 – 10 <i>internal</i> weaknesses here
Opportunities (O) List 5 – 10 <i>external</i> 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 <i>external</i> threats here	ST Strategies Generate strategies here that use strengths to avoid threats	WT Strategies Generate strategies here that minimize weaknesses and avoid threats

TOWS Analysis

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 Analysis

The TOWS analysis was developed on the basis of the criticism SWOT analysis:

- 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.

TOWS Analysis – Case study

Linking Strengths and Weaknesses with Opportunities and Threats in a Wine Trading Company

Vino Ltd. is a well-known wine trading company in the Swiss Alps:

- Wholesaling is the main activity. Vino Ltd. selects domestic and foreign wines, and its own sales force sells them to hotels and restaurants, as well as to retailers. In addition to independent retailers, customers include a retail chain. Long-standing relationships have been established with some of the suppliers. However, every year, Vino Ltd. tries to include new wines from new suppliers in the range.
- Vino Ltd. is also active at the retail level thanks to its own stores and direct marketing. The stores are located in regional centers in the Swiss Foothills and Alps. Direct marketing includes mailings and telemarketing. Vino Ltd. has succeeded in building a loyal customer base. Its regular customers live mostly in the Alps and are mainly retired.
- A few years ago, a long-standing supplier could be taken over. It is a large Portuguese winery, whose name is well known in Switzerland, due to the efforts of Vino Ltd.

Vino Ltd. covers a price range—in retail prices—of 12–60 Swiss francs.

The following figure shows the main strengths, weaknesses, opportunities and threats of Vino Ltd. and their links. As the figure shows, useful relations only arise when several strengths and weaknesses or several opportunities and threats are considered at the same time.

TOWS Analysis - Case study

Linking strengths and weaknesses
with opportunities and threats

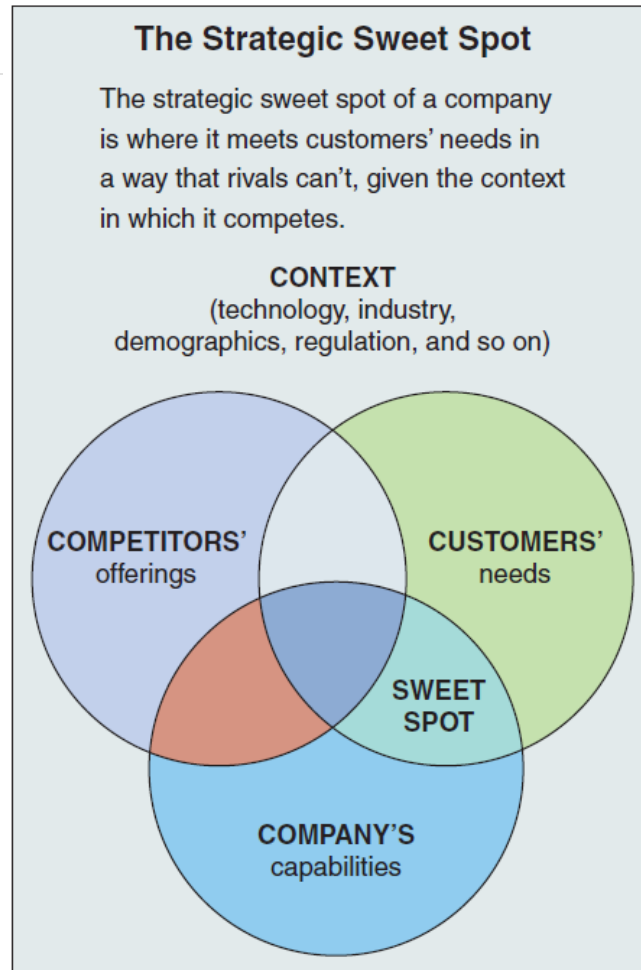
Internal elements \ External elements	S ₁ Positive synergies between the businesses	S ₂ Strong position in the alpine region	S ₃ Strong Portuguese wine brand	W ₁ Weak position among younger wine consumers	W ₂ No offers in the large submarket of 6 to 12 Swiss francs
T ₁ The retail chains strengthen their position in the alpine region	L ₁ Increasing market share and productivity in wholesaling	L ₂ Defending the strong position in the upper price segment in the alpine region			L ₃ Building of a wine brand and an offer in the medium price segment; targeting young consumers and gastronomy in the low and medium price segment
T ₂ Wine traders increase efforts towards hotels and restaurants					
O ₁ Above average population growth in the alpine region					
O ₂ Increasing brand orientation of wine customers					
O ₃ Growing segment of young wine consumers					

S = Strength O = Opportunity L = Link
W = Weakness T = Threat

Using the TOWS Matrix to identify a propitious niche

- 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.

Using the TOWS Matrix to identify a propitious niche



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 Strategic Position		External Strategic Position	
Axis X		Competitive (CA)		Industry (IS)	
		<i>(-6 worst, -1 best)</i>		<i>(+1 worst, +6 best)</i>	
		-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					
Axis Y		Financial (FS)		Environmental (ES)	
		<i>(+1 worst, +6 best)</i>		<i>(-6 worst, -1 best)</i>	
		+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					

SPACE matrix

