

Synthesis of External and Internal Factors of Business Environment



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SWOT Analysis

- 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.
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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



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

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.

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:
 - Column 1 (*Key Success Factors*)**, list the 8 to 10 factors that appear to determine success in the industry.
 - 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		<u>1.00</u>				=				=	

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:
 - 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>				=				=	

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	<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 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*.

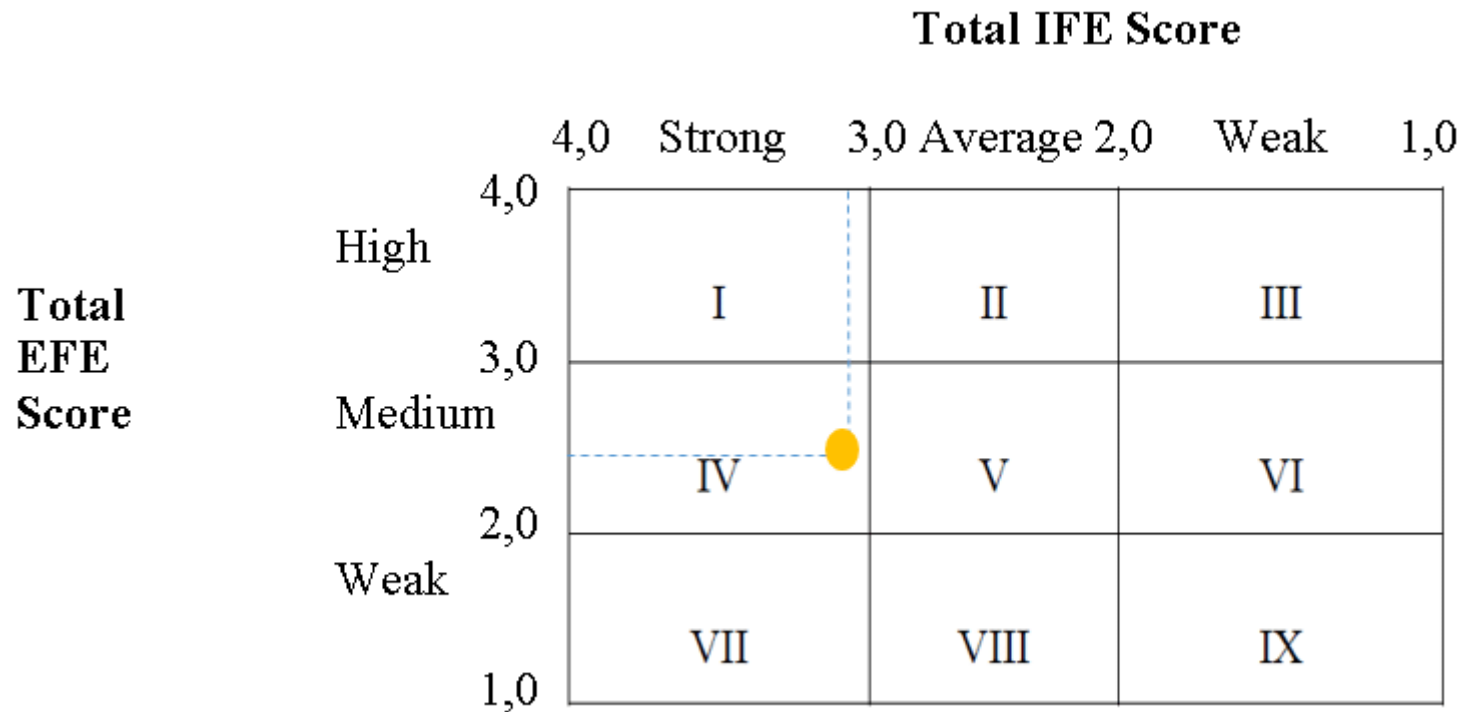
Synthesis of Internal Factors

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

IE Matrix

- 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 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.

SFAS Matrix – Summary SFAS Matrix



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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		

SFAS Matrix – 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 R M E D I U M T E R M 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>					

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.

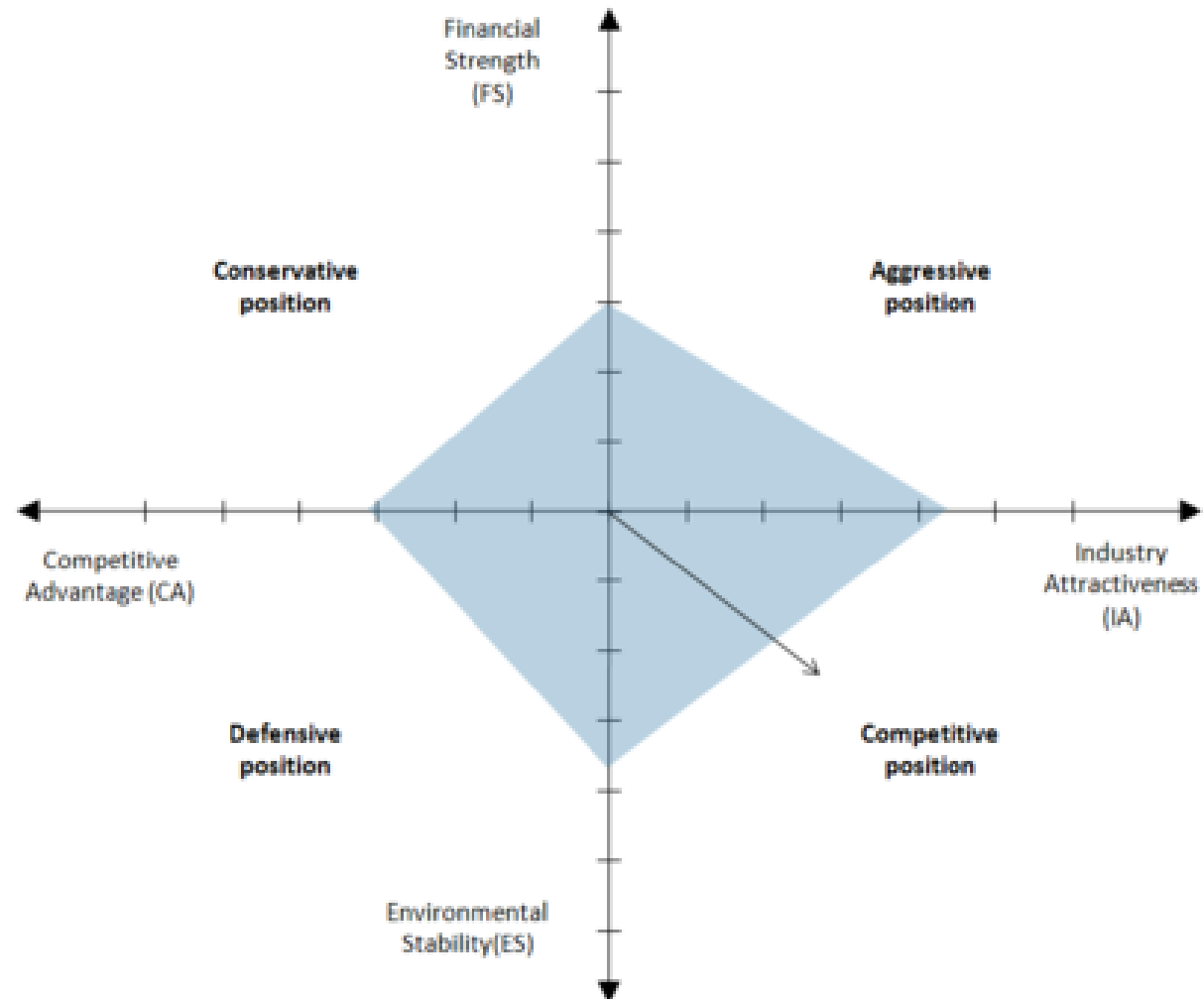
SPACE Matrix

Internal Strategic Position			External Strategic Position	
Axis X	Competitive (CA)		Industry (IS)	
	(-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				
Axis Y	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				

SPACE Matrix



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Review of Mission and Objectives

- A **reexamination of an organization's current mission and objectives** must be made before alternative strategies can be generated and evaluated.
- Even when formulating strategy, **decision makers tend to concentrate on the alternatives** - the action possibilities - rather than on a mission to be fulfilled and objectives to be achieved.
- The end result is that **we often choose strategies that set our objectives for us** rather than having our choices incorporate clear objectives and a mission statement.
- The mission does not provide a common thread (a unifying theme) for a corporation's businesses, managers may be unclear about where the company is heading. Objectives and strategies might be in conflict with each other. Divisions might be competing against one another rather than against outside competition.