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Strategic Management Process:

Strategy formulation 3.

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PhD, MBA

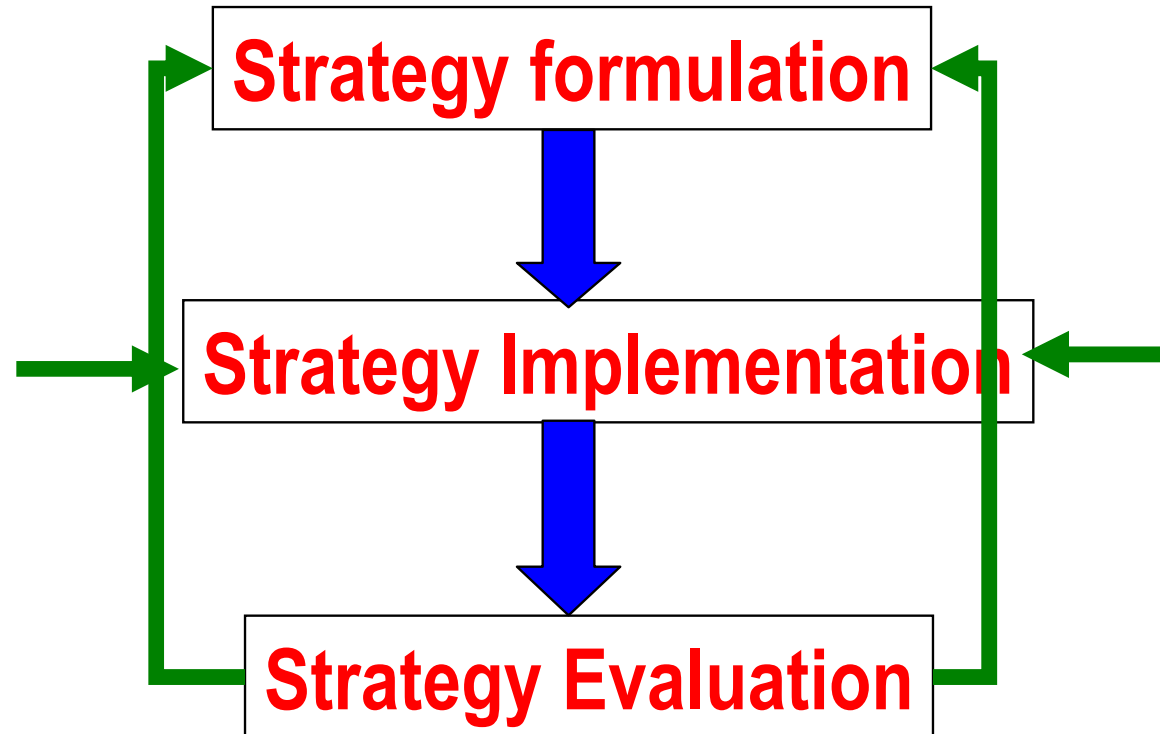
University of Debrecen
Faculty of Ag. Economics and Rural Development
Dept.: Business Management and Marketing
HUNGARY



Tasks of strategic management

Outline

- Tasks of strategic management
- Strategy analysis and choice
- Input stage
- Matching stage
- SWOT, SPACE, BCG, IE, GSM
- Decision stage
- QSPM





First stage of the strategic management

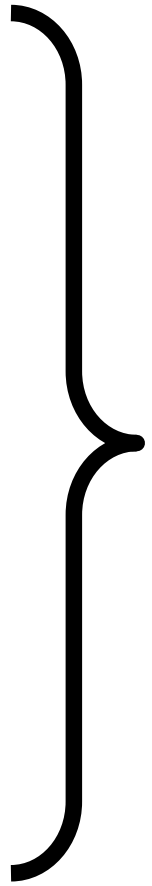
Outline

- **Tasks of strategic management**
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- QSPM

Develop
Vision and
Mission
Statements

Establish
long term
objectives

Generate,
evaluate,
and select
strategies



Strategy formulation

(Strategic planning)



Outline

- **Tasks of strategic management**

- Strategy analysis and choice

- Input stage

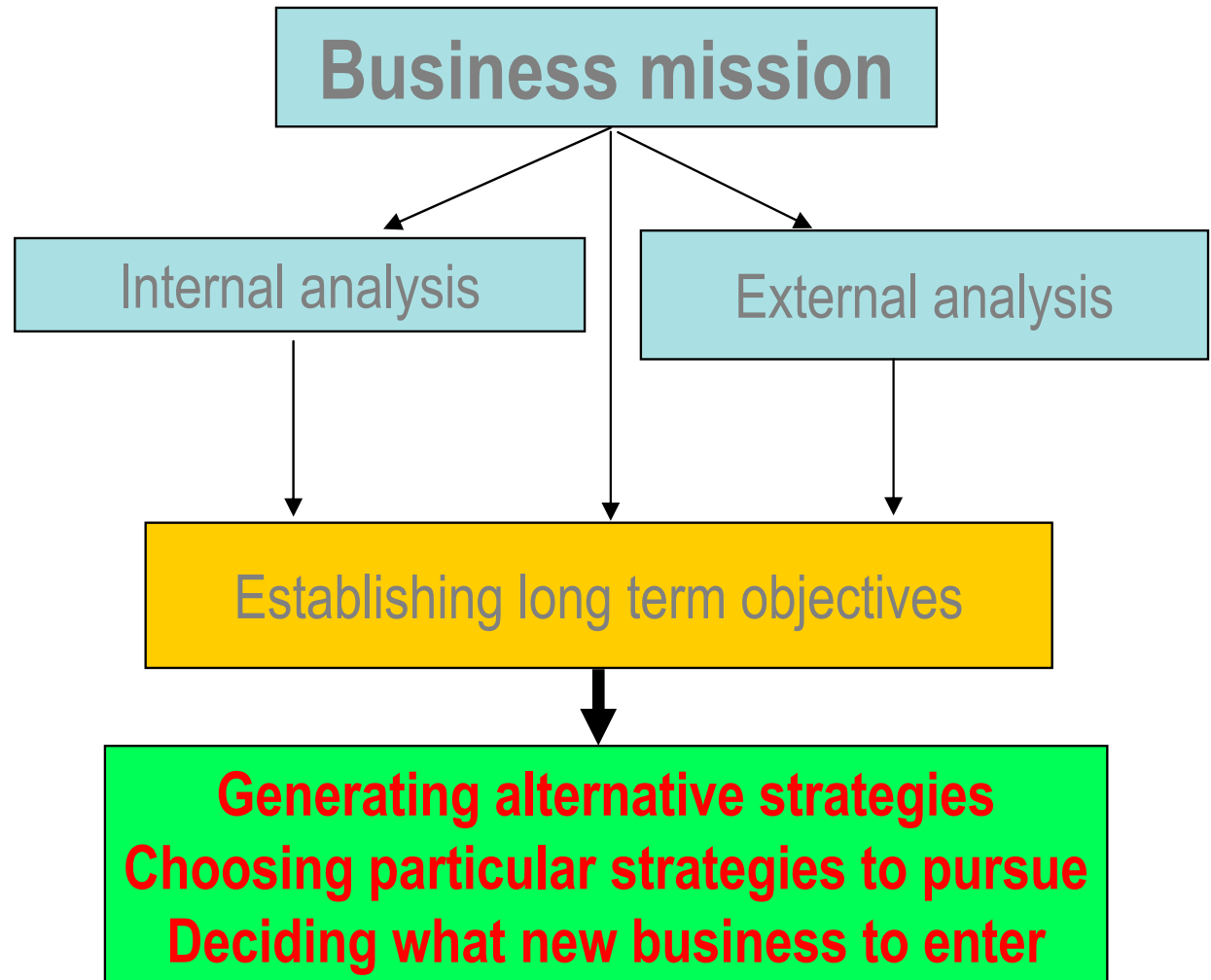
- Matching stage

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Strategy formulation





Outline

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Types of strategies

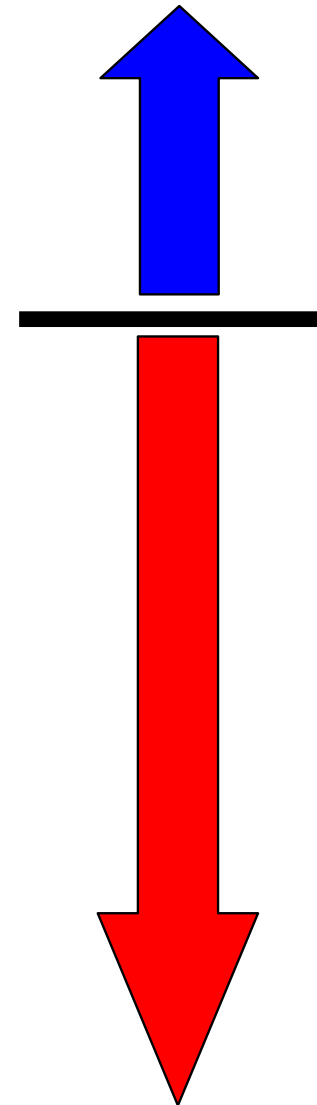
Defensive

- Retrenchment
- Divestiture
- Liquidation

Do nothing

Offensive

- Integration
 - Forward
 - Backward
 - Horizontal
- Intensive
 - Market penetration
 - Market development
 - Product Development
 - Diversification

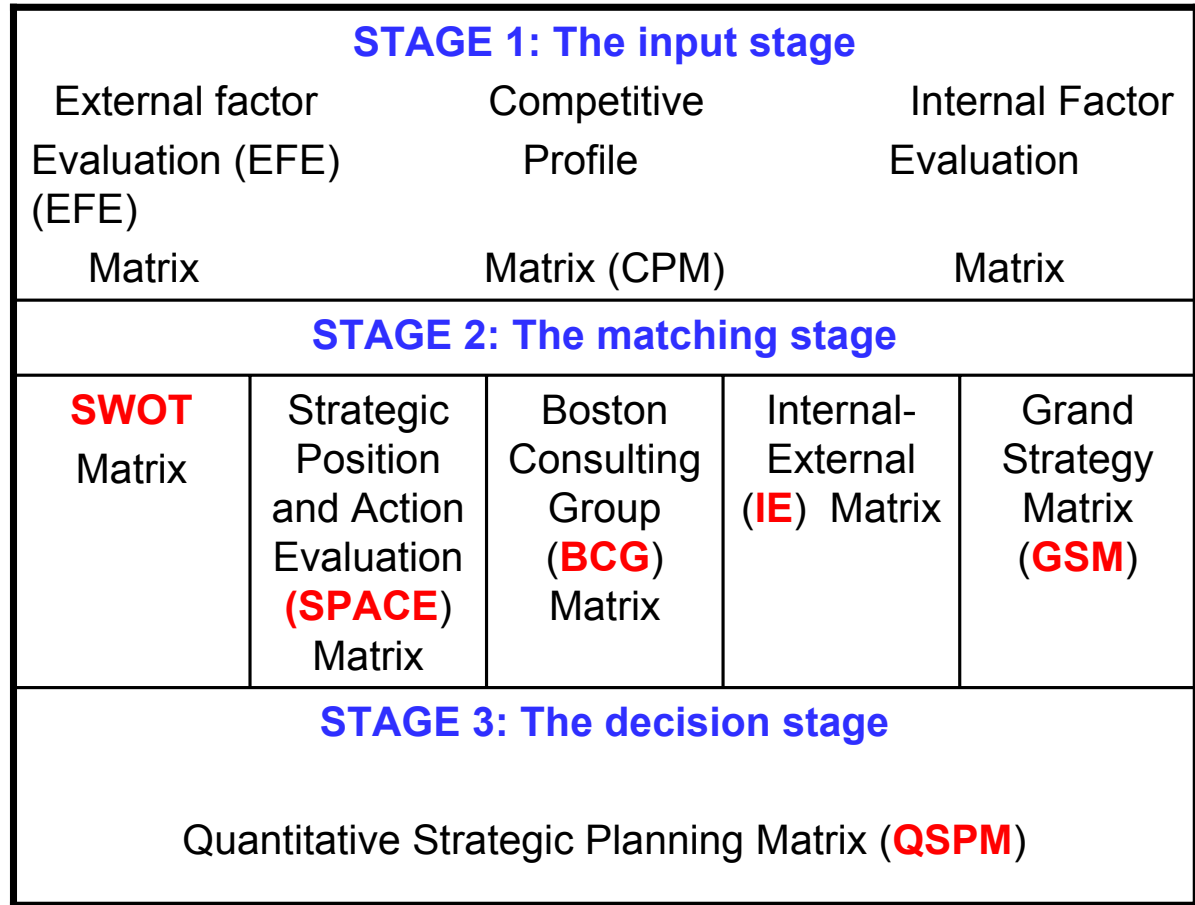




Strategy Analysis and Choice

Outline

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Strategy Analysis Input stage

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Key external factors	Weight	Rating	Weighted score
Opportunities			
1. Demand for prepared food increasing 10 % annually	0,07	4	0,28
2. Packaging technology offers 15 % annual cost savings	0,03	2	0,06
3 . >>>>9 or 10 items			
Threats			
1. Increasing governmental regulation in the industry	0,04	2	0,08
2. Leading rival firms are more fully integrated	0,07	1	0,07
3. >>>>9 or 10 key items			
Total	1,00		Σ (1 to 4)

External Factor Evaluation Matrix (EFE)



Strategy Analysis Input stage

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Internal and External		AVON		Procter&Gamble	
Critical Success Factors	Weight	Rating	Score	Rating	Score
Advertising	0,20	1	0,2	3	0,60
Product quality	0,10	4	0,4	3	0,30
Price competitiveness	0,10	3	0,3	4	0,40
Management	0,10	4	0,4	3	0,30
Financial position	0,15	4	0,6	3	0,45
Customer loyalty	0,10	4	0,4	2	0,20
Global expansion	0,20	4	0,8	2	0,40
Market share	0,05	1	0,05	3	0,15
TOTAL	1,00		3,15		2,80

Competitive Profile Matrix (CPM)



Strategy Analysis Input stage

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Key internal factors	Weight	Rating	Weighted score
Strengths			
1. Our company provide 24-hour, 7 day services	0,08	3	0,24
2. Our company has 50 subsidiary in Europe and Asia	0,06	4	0,24
3 . >>>>.....9 or 10 items			
Weaknesses			
1. Our company total dept to equity ratio is 0,36 compared to the industry average of 0,9	0,03	2	0,06
2. 86 % of the trade revenues come from Europe	0,07	1	0,07
3. >>>>9 or 10 key items			
Total	1,00		Σ (1 to 4)

Internal Factor Evaluation (IFE) Matrix



Strategy Analysis Matching Stage

Vision + Mission



Outline

- Tasks of strategic management

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- Input stage

- **Matching stage**

- **SWOT**, SPACE, BCG, IE, GSM

- Decision stage

- QSPM

Name	Strengths	Weaknesses	Opportunities	Threats
Resources Finance Infrastructure Management Environment Market share	Internal Present		External Future	



Strategy Analysis Matching Stage

Outline

- Tasks of strategic management

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- Input stage

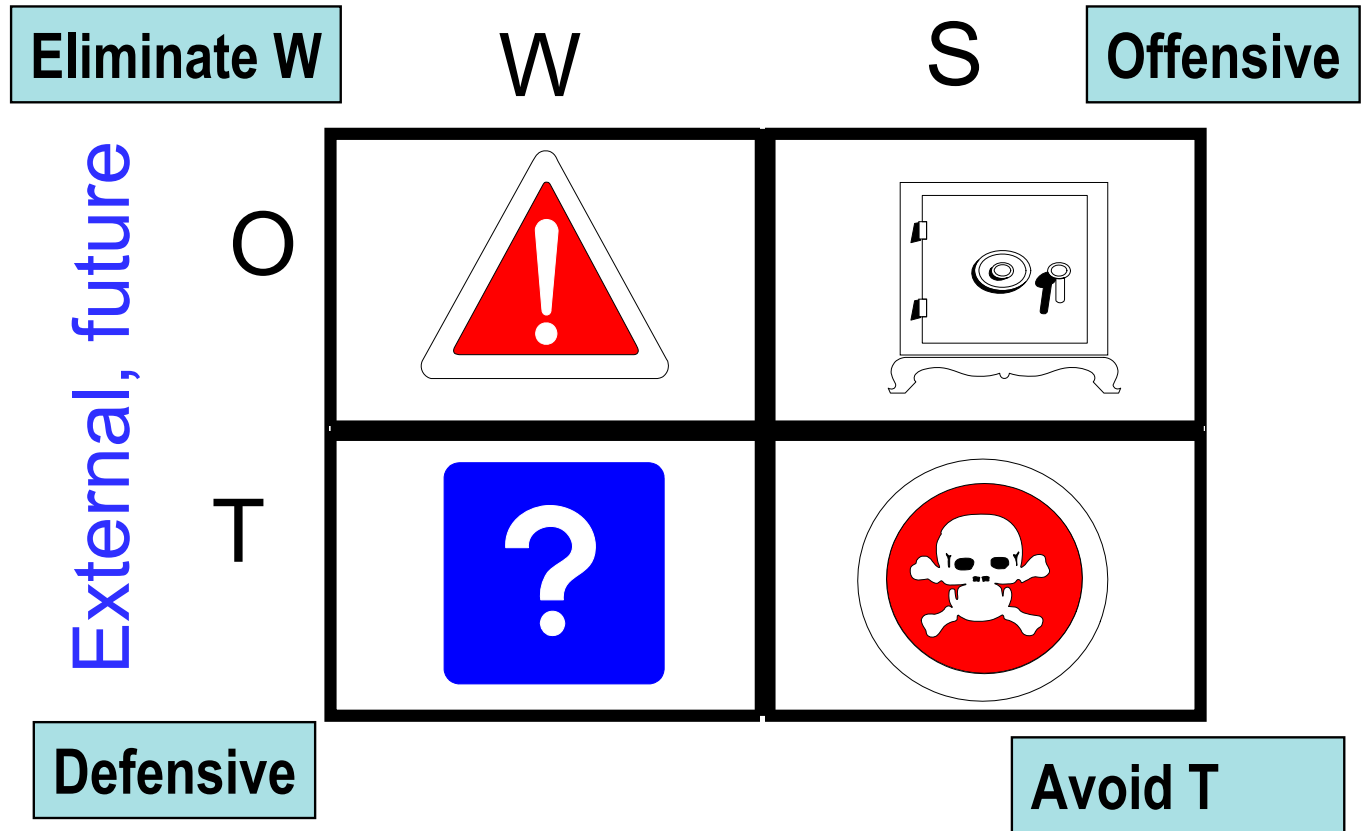
- Matching stage

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Internal, present

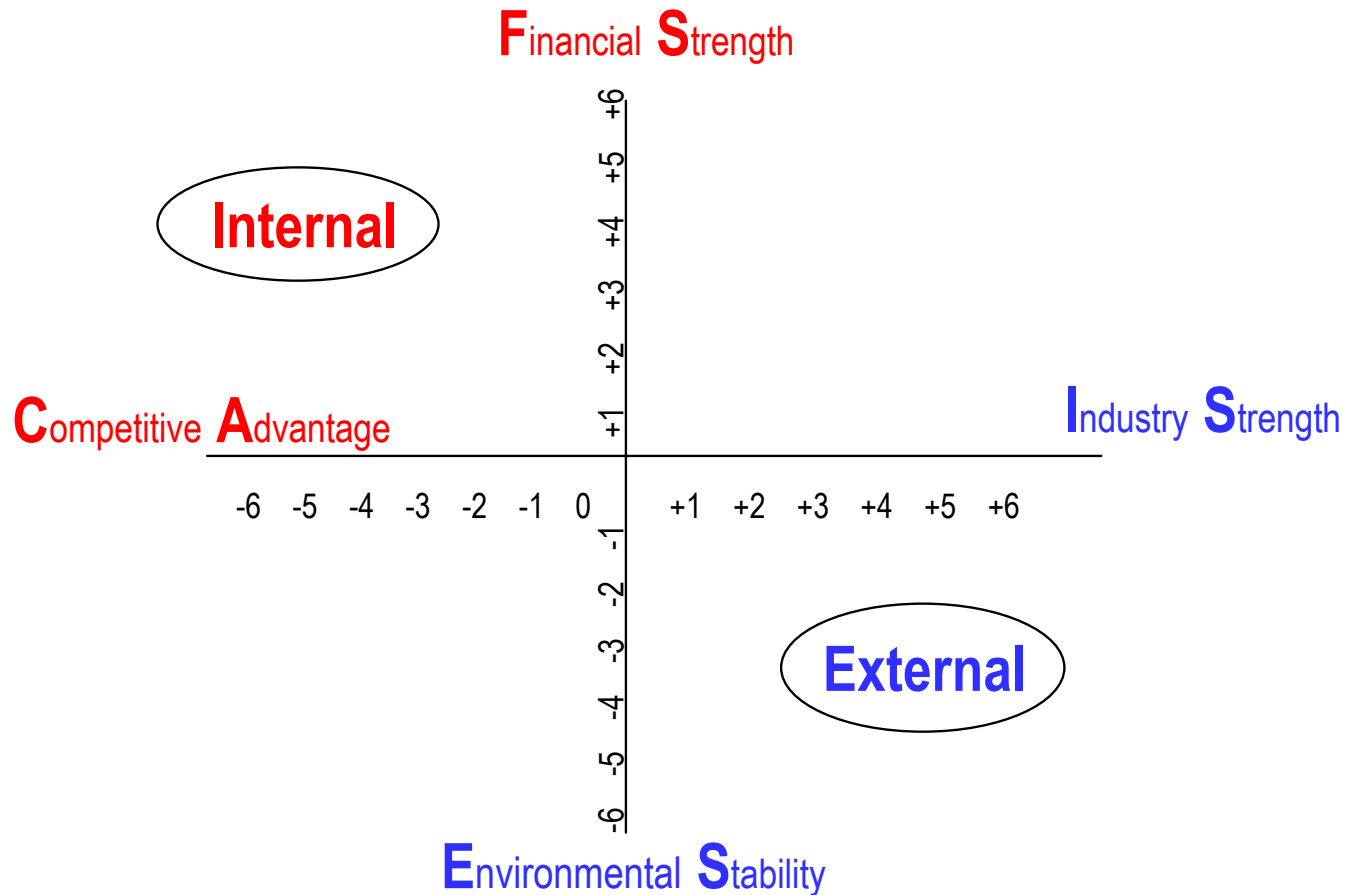




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Strategy Analysis Matching Stage



The Strategic Position and Action Evaluation Matrix



Strategy Analysis Matching Stage

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INTERNAL STRATEGIC POSITION	EXTERNAL STRATEGIC POSITION
<p>Financial Strength (FS)</p> <ul style="list-style-type: none"> Return on investment Leverage Liquidity Working Capital Cash flow 	<p>Environmental Stability (ES)</p> <ul style="list-style-type: none"> Technological change Rate of inflation Demand variability Price range of competing products Barriers to entry market Risk involved in business Easy of exit market
<p>Competitive Advantage (CA)</p> <ul style="list-style-type: none"> Market share Product quality Product life cycle Consumer royalty Technological know how Control over suppliers and distributors 	<p>Industry strengths (IS)</p> <ul style="list-style-type: none"> Growth potential Profit potential Financial stability Resource utilization Easy of entry into market Productivity, capacity



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Strategy Analysis Matching Stage

SPACE allows strategists to summarize and evaluate strategy profile in **one vector.**

1. Select variables to define FS, CA, ES, and IS.
2. Assign to each variables ranging from **+1 (worst) to +6 (best)** to **FS and IS** quadrant. Assign to each variables ranging from **-1 (best) to -6 (worst)** to **CA and ES** quadrant. On the **FS-CA** axes make **comparison to competitors**, **IS-ES** make **comparison to other industries**.
3. Compute each quadrant average. ES-CA negative, IS-FS positive.
4. Add two scores respectively to determine directional vector of x-axis and y axis. CA+IS and ES + FS.
5. Vector reveals the type of strategies recommended: aggressive, competitive, defensive, or conservative.



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INTERNAL STRATEGIC POSITION	EXTERNAL STRATEGIC POSITION
<p>Financial Strength (FS)</p> <ul style="list-style-type: none"> Return on investment Leverage +1...+6 Liquidity Working Capital Cash flow 	<p>Environmental Stability (ES)</p> <ul style="list-style-type: none"> Technological change Rate of inflation -1...-6 Demand variability Price range of competing products Barriers to entry market Risk involved in business Easy of exit market
<p>Competitive Advantage (CA)</p> <ul style="list-style-type: none"> Market share -1...-6 Product quality Product life cycle Consumer royalty Technological know how Control over suppliers and distributors 	<p>Industry strengths (IS)</p> <ul style="list-style-type: none"> Growth potential +1...+6 Profit potential Financial stability Resource utilization Easy of entry into market Productivity, capacity



Strategy Analysis Matching Stage

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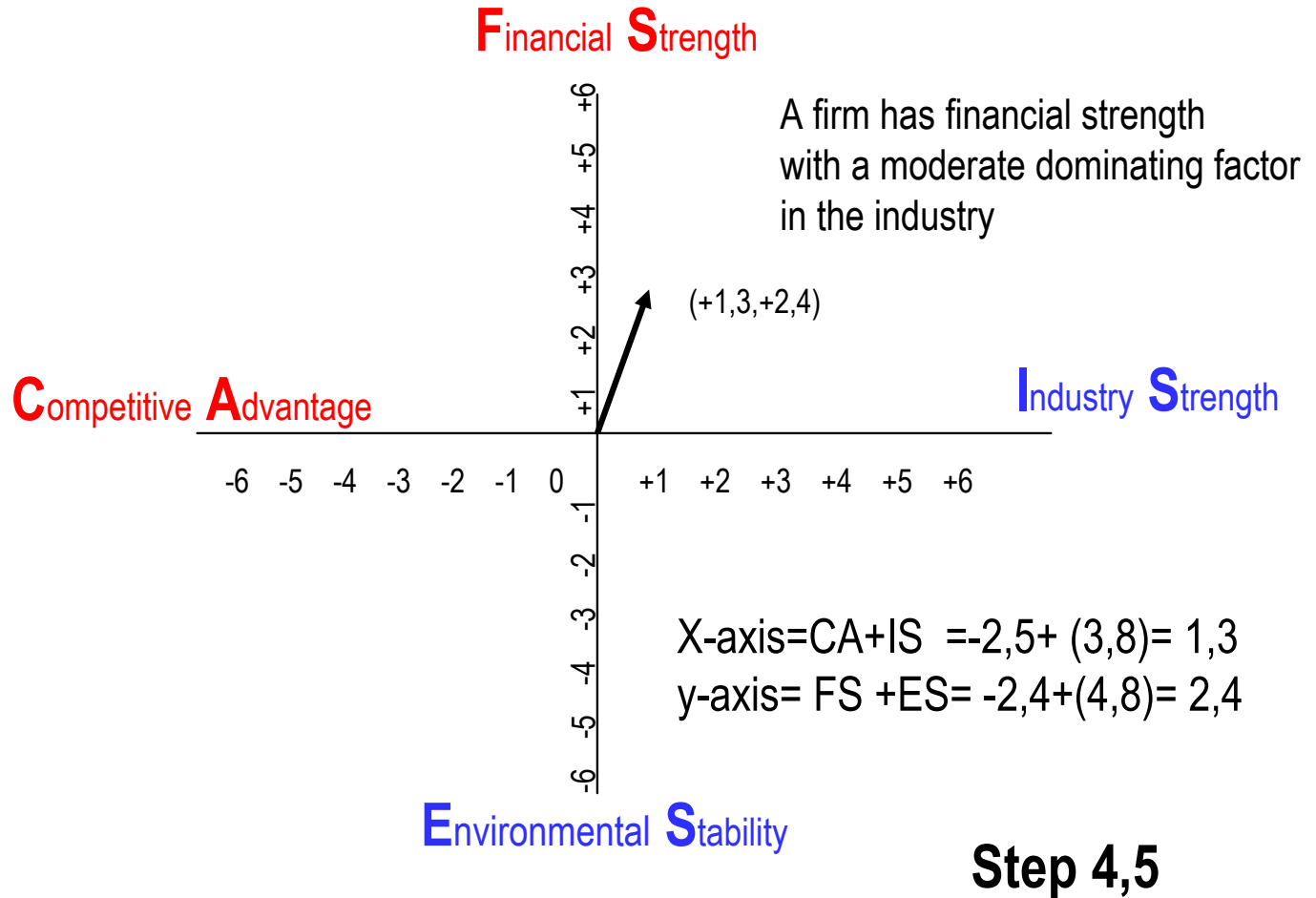
INTERNAL STRATEGIC POSITION		EXTERNAL STRATEGIC POSITION	
Financial Strength (FS) Rate Return on investment 4 Leverage 5 Liquidity 6 Working Capital 4 Cash flow 5 AVERAGE 4,8		Environmental Stability (ES) R Technological change -2 Rate of inflation -1 Demand variability -3 Price range of competing products -6 Barriers to entry market -3 Risk involved in business -1 Easy of exit market -1 AVERAGE -2,4	
Competitive Advantage (CA) Rate Market share -4 Product quality -1 Product life cycle -2 Consumer royalty -2 Technological know how -1 Control over suppliers and distributors -5 AVERAGE -2,5		Industry strengths (IS) R Growth potential 4 Profit potential 5 Financial stability 1 Resource utilization 4 Easy of entry into market 6 Productivity, capacity 3 AVERAGE 3,8	



Strategy Analysis Matching Stage

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The **S**trategic **P**osition and **A**ction **E**valuation Matrix



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Strategy Analysis Matching Stage

Business portfolio analysis

BCG Matrix graphically portrays differences among divisions in term of **relative market share** and industry **growth rate**.

Relative market share is the ratio of a division's own market share to the market share of the **largest rival firm** in that industry.

The growth rate % on the y axis range from -20 to + 20 %.

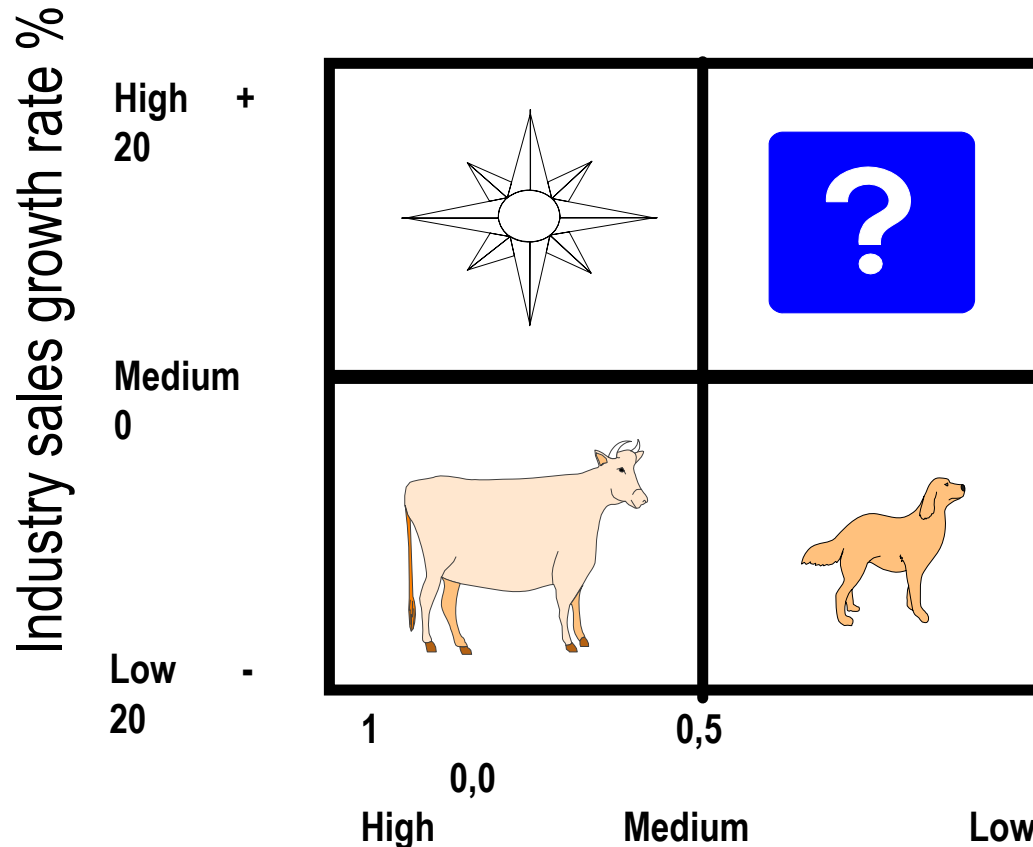


Strategy Analysis Matching Stage

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Relative market share position





Strategy Analysis Matching Stage

Outline

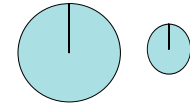
- Tasks of strategic management
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Division	Market share	IG rate %
1	0,8	15
2	0,4	10
3	0,1	-1
4	0,6	-18

PERCENT PROFIT



REVENUES

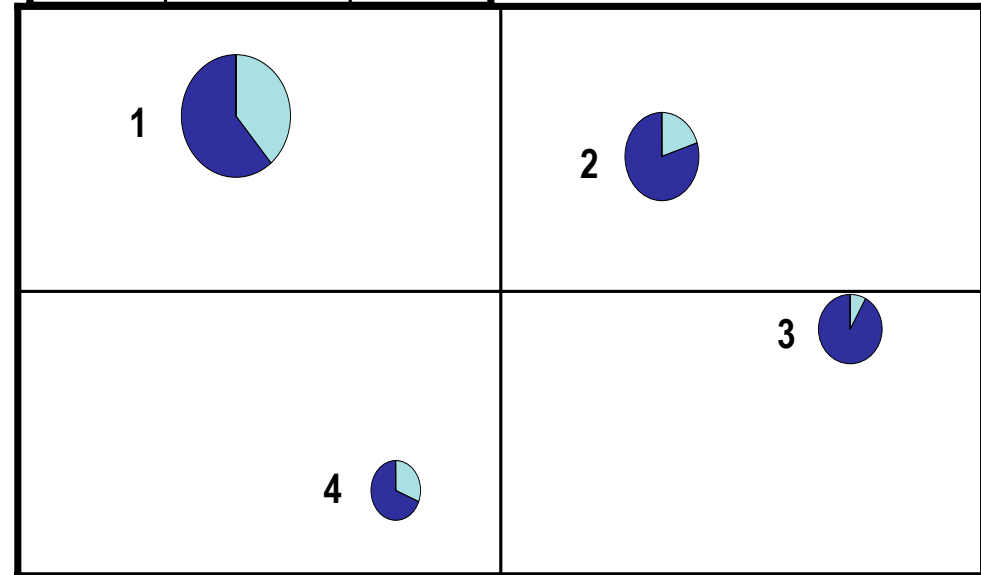


Industry sales growth rate

High +
20

Medium
0

Low -
20



1

0,5

0,0

High

Medium

Relative market share position



Strategy Analysis Matching Stage

The Internal-External Matrix (IE) was developed from GE Business Screen Matrix (GE)

The total IFE weighted scores

The total EFE weighted Scores

	<i>Strong</i> 3,0 to 4,0	<i>Average</i> 2,0 to 2,99	<i>Weak</i> 1,0 to 1,99
<i>High</i> 3,0, to 4			
<i>Medium</i> 2,0 to 2,99			
<i>Low</i> 1,0 to 1,99			

Combine of External Factor Evaluation and Internal Factor Evaluation

Outline

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Strategy Analysis Matching Stage

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IE Matrix

Grow and build

The total IFE weighted scores

The total EFE weighted Scores		<i>Strong</i> 3,0 to 4,0	<i>Average</i> 2,0 to 2,99	<i>Weak</i> 1,0 to 1,99
	<i>High</i> 3,0, to 4			
	<i>Medium</i> 2,0 to 2,99			
	<i>Low</i> 1,0 to 1,99			

Hold or maintain

Harvest or divest



Strategy Analysis Matching Stage

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Rapid market growth

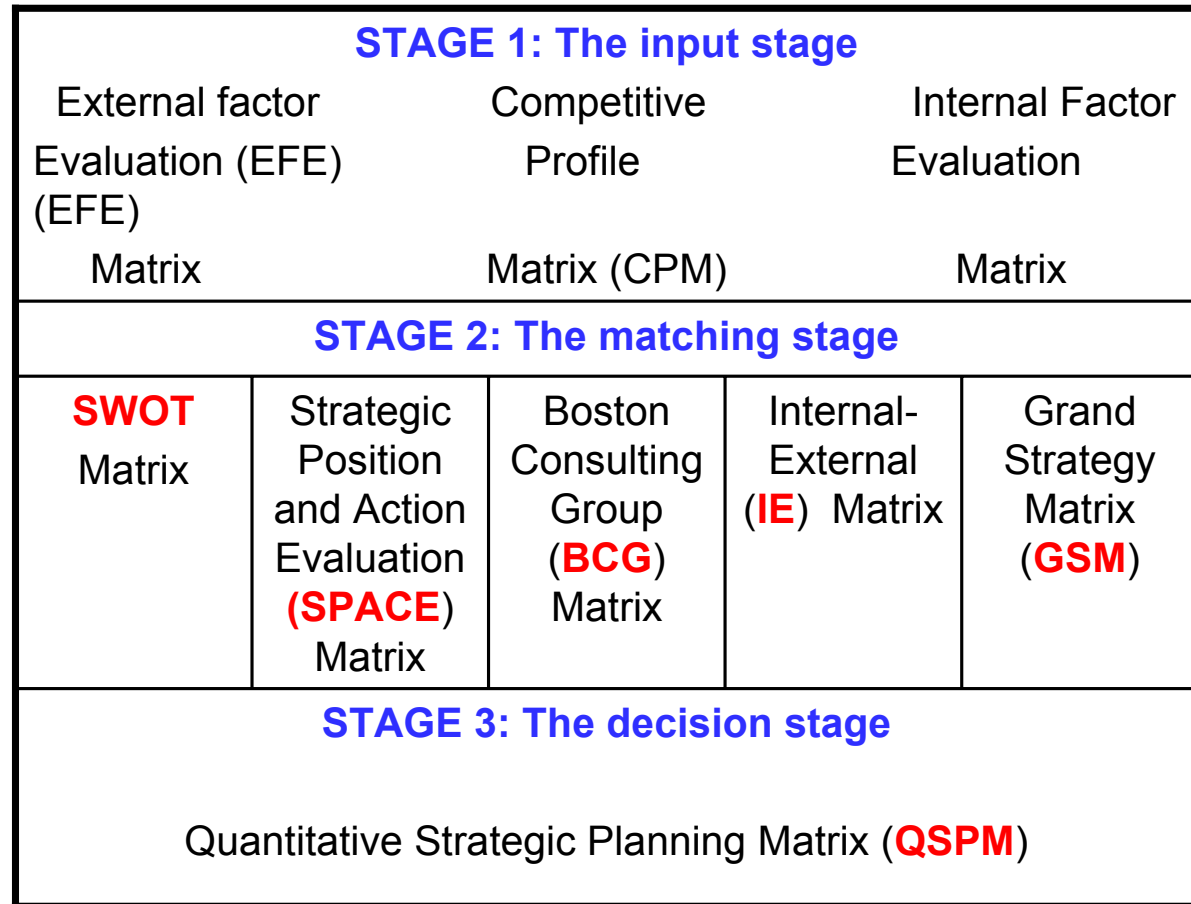




Strategy Analysis and Choice

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- Tasks of strategic management
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Quantitative Strategic Planning Matrix

Outline

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- Input stage
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- SWOT, SPACE, BCG, IE, GSM
- **Decision stage**
- QSPM

QSPM is a tool that allows strategists to evaluate alternative strategies objectively but it requires good intuitive judgment.



The Quantitative Strategic Planning Matrix

Outline

- Tasks of strategic management

- **Strategy analysis and choice**

- Input stage

- Matching stage

- SWOT, SPACE, BCG, IE, GSM

- **Decision stage**

- **QSPM**

Name		Strategic alternatives					
		STR1		STR2		STR3	
Key Factors	Weight	AS TA		AS TA		AS TA	
Key external factors (O/T) Social/cultural/demographic Technological Economy Political/legal Competitive							
Key internal factors (S/W) Management Marketing Finance/accounting Production/operations R&D MIS							
	2,00		1-8		1-8		1-8
TOTAL		Attractiveness scores: 1 not, 2 somewhat, 3 reasonably 4 high					



Strategy choice at STR 1 Backward

Outline

- Tasks of strategic management

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- **Decision stage**

- QSPM

Key external factors	Weight	Attractiveness	Total attr.
Opportunities			
1. Demand for prepared food increasing 10 % annually	0,07	1	0,07
2. Packaging technology offers 15 % annual cost savings	0,03	1	0,03
3 . >>>>.....9 or 10 items			
Threats			
1. Increasing governmental regulation in the industry	0,04	4	0,28
2. Leading rival firms are more fully integrated	0,07	3	0,21
3. >>>>9 or 10 key items			
Total	1,00		
Key internal factors			
Strengths			
1. Our company provide 24-hour, 7 day services	0,08	1	0,08
2. Our company has 50 subsidiary in Europe and Asia	0,06	1	0,06
3 . >>>>.....9 or 10 items			
Weaknesses			
1. Our company total dept to equity ratio is 0,36 compared to the industry average of 0,9	0,03	2	0,06
2. 86 % of the trade revenues come from Europe	0,07	1	0,07
3. >>>>9 or 10 key items			
Total	1,00		Σ (1 to 8)



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Strategy choice at STR 2 Forward

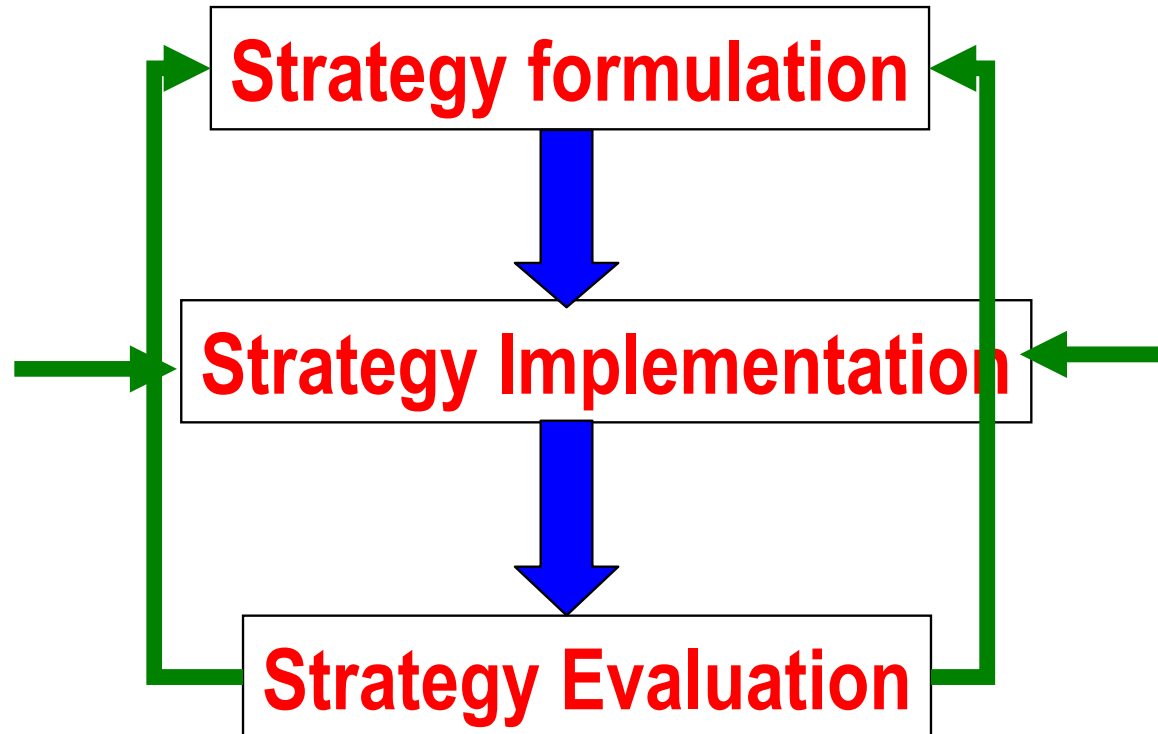
Key external factors	Weight	Attractiveness	Total attr.
Opportunities			
1. Demand for prepared food increasing 10 % annually	0,07	4	0,28
2. Packaging technology offers 15 % annual cost savings	0,03	3	0,09
3 . >>>>.....9 or 10 items			
Threats			
1. Increasing governmental regulation in the industry	0,04	3	0,12
2. Leading rival firms are more fully integrated	0,07	4	0,28
3. >>>>9 or 10 key items			
Total	1,00		
Key internal factors			
Strengths			
1. Our company provide 24-hour, 7 day services	0,08	3	0,24
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Tasks of strategic management

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Tasks of strategic management

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STRATEGY IMPLEMENTATION

- Establish annual objectives
- Devise policies
- Motivate employees
- Allocate resources
- Developing strategy-supportive culture
- Creating organizational structure
- Redirecting marketing efforts
- Preparing budgets
- Developing information system

Part of the business planning



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Tasks of strategic management

STRATEGY EVALUATION

All strategies are subject to future modification because external and internal factors are constantly changing!

- **Reviewing external and internal factors**
- **Measuring performance**
- **Taking corrective actions**



Thank you for your kind attention!

Outline

1. Vision
2. Mission
3. External
4. Internal
5. Long term objectives
6. Analysis
7. Choice

