Chapter Six: The Strategy Analysis and Choice

Introduction

"Strategic management is not a box of tricks or a bundle of techniques. It is analytical thinking and commitment of resources to action. But quantification alone is not planning. Some of the most important issues in strategic management cannot be quantified at all." **Peter Drucker**

"When a crisis forces choosing among alternatives, most people will choose the worst possible one." **Rudin's Law**

Dear learners! Strategy analysis and choice largely involve making subjective decisions based on objective information. This chapter includes important concepts that can help strategists generate feasible alternatives, evaluate those alternatives, and choose a specific course of action.

Learning Objectives

At the end of this chapter you should be able

- Describe the role of IFEM, EFEM & CPM in strategy analysis & choice
- Describe a three-stage framework for choosing among alternative strategies.
- Explain how to develop & use a SWOT Matrix, SPACE Matrix, BCG Matrix, IE Matrix, GS matrix and QSPM to generate & evaluate alternative strategies.
- Discuss the role of intuition in strategic analysis and choice.

Key concepts

- The three stage frame work
- IFEM, EFEM & CPM
- SWOT, SPACE, BCG, IE, GS Matrices
- QSPM

6.1 The Nature of Strategic analysis & Choice

The strategy analysis & choice focuses on generating and evaluating alternative strategies, as well as selecting strategies to pursue. Strategy analysis and choice seek to determine alternative courses of action that could best enable the firm to achieve its mission and objectives. The firm's present strategies, objectives, and mission, coupled with the external and internal audit information, provide a basis for generating and evaluating feasible alternative strategies.

Unless a desperate situation confronts the firm, alternative strategies will likely represent incremental steps that move the firm from its present position to a desired future position.

Alternative strategies do not come out of a wild dream; they are derived from the firm's vision, mission, objectives, external audit, and internal audit; they are consistent with, or build on, past strategies that have worked well or failed to be as intended before.

1.2 The process of Generating & Selecting Strategies

The strategy generation & selection involves the following steps

i) Establishing a strategy selection team: the first step in strategy generation & selection is the establishment of strategic team. This team must involve many of the managers & employees in the organization. Representatives from each department & divisions must be included. Such involvements increase understanding of strategic directions & challenges of sister departments as well as commitment to achieve organizational goals.

ii) Enable the team with sufficient information: the participants should be equipped with the internal & external assessment results as well as the vision & mission of the organization. This will help strategists to generate alternative strategies that will use internal strengths to capitalize over the external opportunities and/ or strategies which will minimize the impacts of external threats & internal weaknesses.

iii) Develop long term objectives: strategies are pursued to achieve long term objectives. Hence, before we select a strategy or strategies it is logical to set long term objectives of the organization. Objectives are desired results expected from pursuing certain strategies. Objectives should be quantitative, measurable, realistic, understandable, challenging, hierarchical, attainable & congruent among organizational goals. Objectives can be set in terms of growth in asset, market share, profitability, earning per share, sales, nature & degree of diversification, integration & social responsibility.

Clearly established objectives offer the following benefits

- Provides direction
- Allows synergy
- Aid evaluation
- Stimulates exertion
- Establish priorities
- Reduce uncertainty
- Minimizes conflict
- Aid resource allocation
- Aid job design

iv) Develop list of most attractive strategies: strategists never consider all feasible alternative strategies because there are an infinite number of possible actions & an infinite number of ways to implement these actions. Therefore, only a manageable set of most attractive strategies must be developed.

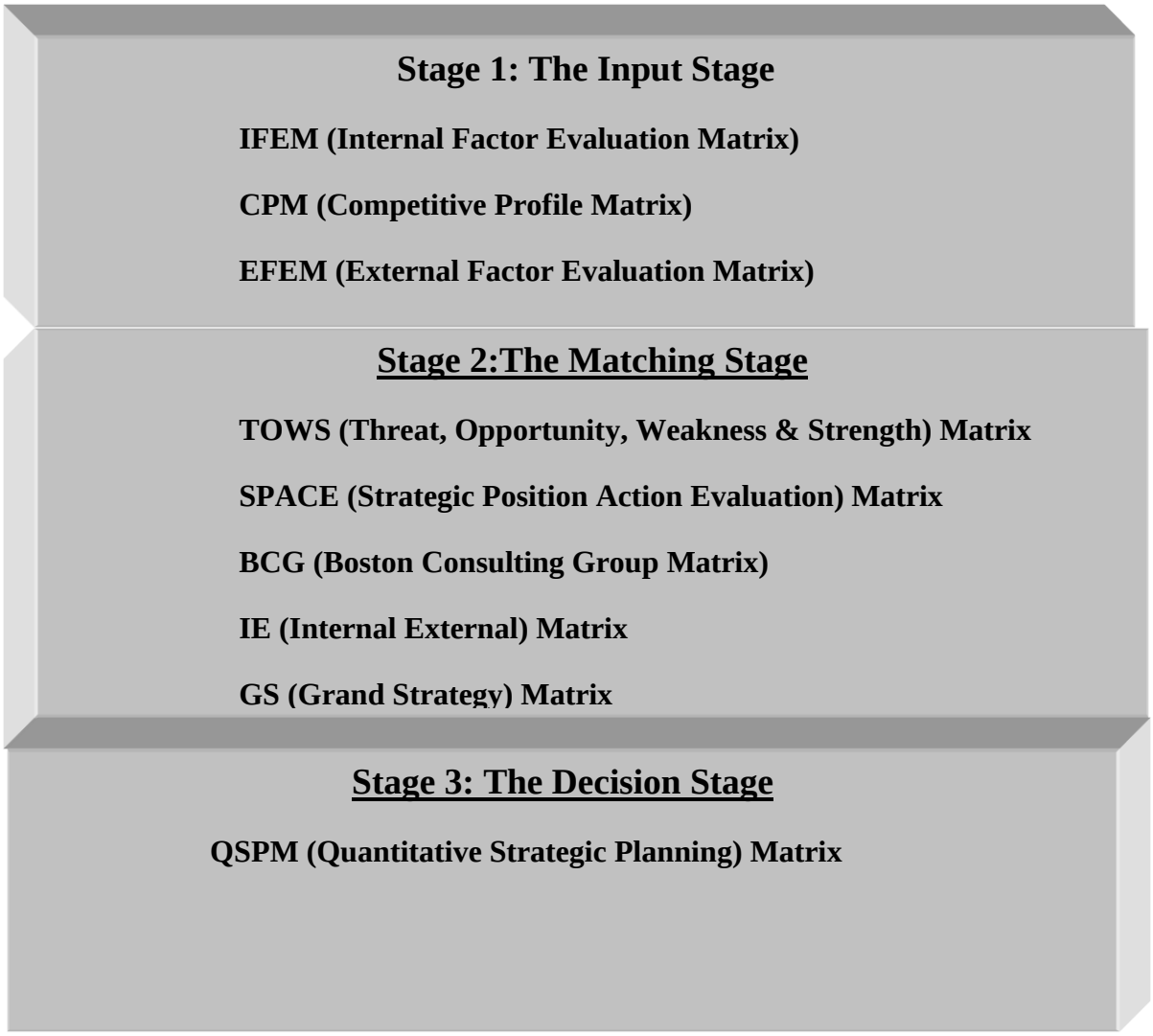
v) Evaluate the strategies: the list of strategies generated by the team must be evaluated as to their advantages, disadvantages, costs, benefits & trade-offs. These strategies must be presented for discussion in a meeting & series of meetings. This will result in a prioritized list of strategies that reflect the collective wisdom of the group.

vi) Select the best alternative/s: the team must select those strategies which enable the firm to use its internal strengths to exploit external opportunities as well as avoid the impact of both internal weaknesses & external threats.

6.3. A Comprehensive Strategy-Formulation Framework

Important strategy-formulation techniques can be integrated into a three-stage decision-making framework called a **Comprehensive Strategy-Formulation Framework.** The tools presented in this framework are applicable to all sizes and types of organizations and can help strategists identify, evaluate, and select strategies.

Figure 6.1 Strategy Formulations Analytical Frame Work



Stage 1 of the formulation framework consists of the EFE Matrix, the IFE Matrix, and the Competitive Profile Matrix. Called the ***Input Stage***, Stage 1 summarizes the basic input information needed to formulate strategies. **Stage 2,** called the ***Matching Stage***, focuses upon generating feasible alternative strategies by aligning key external and internal factors. Stage 2 techniques include the Threats-Opportunities- Weaknesses-Strengths (TOWS) Matrix, the Strategic Position and Action Evaluation (SPACE) Matrix, the Boston Consulting Group (BCG) Matrix, the Internal-External (IE) Matrix, and the Grand Strategy Matrix. **Stage 3,** called the ***Decision Stage***, and involves a single technique, the Quantitative Strategic Planning

Matrix (QSPM). A QSPM uses input information from Stage 1 to objectively evaluate feasible alternative strategies identified in Stage 2. A QSPM reveals the relative attractiveness of alternative strategies and, thus, provides an objective basis for selecting specific strategies.

All nine techniques included in the ***strategy-formulation framework*** require integration of intuition and analysis. Autonomous divisions in an organization commonly use strategy-formulation techniques to develop strategies and objectives. Divisional analyses provide a basis for identifying, evaluating, and selecting among alternative corporate-level strategies.

Strategists themselves, not analytic tools, are always responsible and accountable for strategic decisions. The shift from a words-oriented to a numbers-oriented planning process can give rise to a false sense of certainty; it can reduce dialogue, discussion, and argument as a means to explore understandings, test assumptions and foster organizational learning. Strategists, therefore, must be wary of this possibility and use analytical tools to facilitate, rather than diminish, communication. Without objective information and analysis, personal biases, politics, emotions, personalities, and ***halo error*** (the tendency to put too much weight on a single factor) unfortunately may play a dominant role in the strategy-formulation process.

6.4. The Input Stage (Stage I)

Procedures for developing an EFE Matrix, an IFE Matrix, and a Competitive Profile Matrix were presented in the previous two chapters. The information derived from these three matrices provides basic input information for the matching and decision stage matrices described latter in this chapter.

The input tools require strategists to quantify subjectivity during early stages of the strategy formulation process. Making small decisions in the input matrices regarding the relative importance of external and internal forces allows strategists to generate and evaluate alternative strategies more effectively. Good intuitive judgment is always needed in determining appropriate weights and ratings.

6.5. The Matching Stage (Stage II)

Strategy is sometimes defined as the match an organization makes between its internal resources & skills and the opportunities and risks created by its external factors. The matching stage of the strategy formulation frame work consists of five techniques that can be used in any sequence: the TOWS Matrix, the SPACE Matrix, the BCG Matrix, the IE Matrix and the GS Matrix. These tools rely upon information derived from the input stage to match external opportunities and threats with internal strengths and weaknesses. Matching external and internal critical success factors is the key to effectively generate feasible alternative strategies.

6.5.1. Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix

The ***TOWS* Matrix** is also named as **SWOT** analysis. This Matrix is an important matching tool that helps managers to develop **four types of strategies: SO** Strategies (strength-opportunities), **WO** Strategies (weakness- opportunities), **ST** Strategies (strength-threats), and **WT** Strategies (weakness-threats). The most difficult part of TOWS matrix is to match internal and external factor.

SO Strategies: Every firm desires to obtain benefit from its resources; such benefit can only be obtained if a firm utilizes its strength to take advantage of external opportunity. Therefore, SO Strategies use a firm's strengths to exploit external opportunities. For example a firm enjoying a good financial position which is strength for the firm and externally growing demand of a product creates an opportunity to expand business. The matched strategy is known as SO strategy.

WO Strategies: WO Strategies developed to match weakness with opportunities of the firm. WO strategy is very useful if the firm take advantage to external opportunities in order to overcome the weakness. For example the firm is in the critical financial problems that is weakness and firm is availing merger with Multinational Corporation.

ST Strategies: ST Strategies is an important strategy to overcome external threats. This does not mean that a strong organization should always meet threats in the external environment head-on. This strategy is adopted by various colleges by opening new branches in order to overcome competitive threat.

WT Strategies: Every firm has a desire to overcome its weakness and reducing threats. This type of strategy is helpful when weaknesses are removed to overcome external threats. It is difficult to target WT strategy.

6.5.1.1. Steps for Developing Strategies

A schematic representation of the TOWS Matrix is provided in Figure 6.2. Note that a TOWS matrix is composed of nine cells. As shown in the figure, there are four key factor cells, four strategic cells, and one cell that is always left blank (the upper left cell). The four strategy cells, labeled SO, WO, ST, and WT are developed after completing four key factor cells labeled S, W, O, and T. There are six steps involved in constructing a TOWS Matrix:

1) List the firm's key external opportunities & threats on the left column
2) List the firm's key internal strength & weaknesses on the top raw
3) Match internal strengths with external opportunities and record the resultant SO Strategies in the appropriate cell.

4) Match internal weaknesses with external opportunities and record the resultant WO Strategies in the appropriate cell.
5) Match internal strengths with external threats and record the resultant ST Strategies.
6) Match internal weaknesses with external threats and mention the resultant WT strategies.

Figure 6.2: The TOWS Matrix

Always Leave Blank	**Strengths–S** 1. Excess working capital 2. Strong R & D capacity	**Weaknesses – W** 1. Insufficient capacity 2. Poor employ moral
Opportunities – O **1.** 20% Annual growth in the cell phone industry **2.** Exit of 2 major competitors	**SO-Strategies** Acquire a cell phone Inc. (Opportunity 1 + Strength 1)	**WO-Strategies** Pursue horizontal integration by buying competitor/s (opportunity 2 + weakness 1)
Threats – T **1.** Decreasing number of young adults **2.** Strong union pressure	**ST-Strategies** Develop a new product for older adults (Strength 2 + Threat 1)	**WT-Strategies** Design new fringe benefit (Weakness 2 + Threat 2)

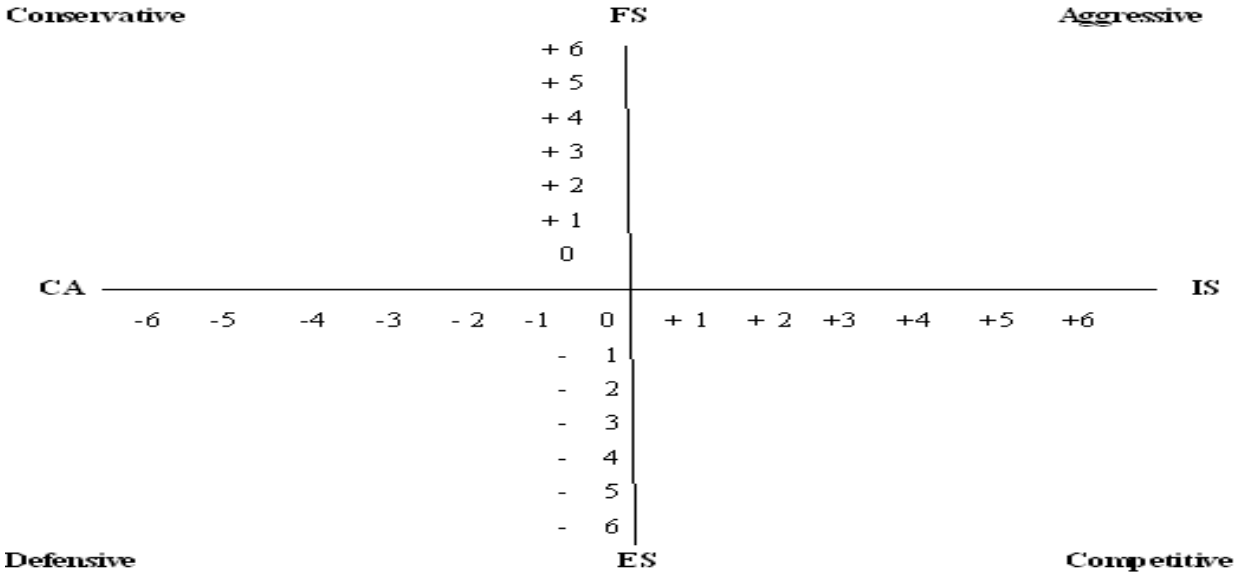
The purpose of each stage 2 matching tool is to generate alternative strategies not to select or determine which strategies are best! Not all of the strategies developed in the TOWS matrix, therefore, will be selected for implementation.

6.5.2. The Strategic Position and Action Evaluation (SPACE) Matrix

The Strategic Position and Action Evaluation (SPACE) Matrix is another important Stage 2 matching tool of formulation framework, is illustrated in Figure 6.3. It explains that what is our strategic position and what possible action can be taken. It is not closed matrix. It is prepared on graph. It contains four-quadrant named aggressive, conservative, defensive, or competitive strategies.

The axes of the SPACE Matrix represent two internal dimensions (financial strength [FS] and competitive advantage [CA]) and two external dimensions (environmental stability [ES] and industry strength [IS]). These four factors are the most important determinants of an organization's overall strategic position.

Figure 6.3: The SPACE Matrix



It is divided into two internal and external dimensions which are as follow (Internal dimensions) financial strength, competitive advantage, (External dimensions) environment stability and industry strength. This sequence is convention to be followed as graphed above. This frame work determines appropriate set of strategies for each quadrant. First quadrant is aggressive the firm fall in this quadrant that follows the aggressive strategy. Second quadrant is conservative all those firms that fall in this quadrant must follow conservative strategy and the third & fourth quadrants are defensive & competitive respectively; firms fall in each respective cells need to use those strategies under the cell fall in.

Depending upon the type of organization, numerous variables could comprise each of the dimensions represented on the axes of the SPACE Matrix. Factors earlier included in the firm's IFEM and EFEM should be considered in developing a SPACE Matrix.

Examples of Factors That Might Comprise the SPACE Matrix Axes

Internal Strategic Position	**External Strategic Position**
Financial Strength (FS)	**Environmental Stability (ES)**
Risk involved in business	Impact of technology
Debt to equity ratio	Price range of competing products
Working capital condition	Price elasticity of demand
Leverage	Rate of inflation
Liquidity Demand variability	Competitive pressure
Cash flow statement	

Return on investment

Ease of exit from market

Competitive Advantage (CA)	**Industry Strength (IS)**
Access to the market	Growth potential
Market share	Resource utilization
Demand and supply factors	Profit potential
Quality of product and services	Financial stability
Product life cycle	Technological know-how
Customer loyalty	Productivity, capacity utilization
Capacity, location and layout	Capital intensity
Technological know-how	Ease of entry into market
Backward and forward integration	

Steps for the preparation of SPACE Matrix

The steps required to develop a SPACE Matrix are presented as follows:

1. Select a set of variables to comprise financial strength (FS), competitive advantage (CA), environmental stability (ES), and industry strength (IS).
2. Assign a numerical value ranging from +1 (worst) to +6 (best) to each of the variables that make up the financial strength (FS) and industry strength (IS) dimensions. Assign a numerical value ranging from - 1 (best) to -6 (worst) to each of the variables that make up the environmental stability and competitive advantage dimensions.
3. Compute an average score for FS, CA, ES, and IS by summing the values given to the variables of each dimension and dividing by the number of variables included in the respective dimension.
4. Plot the average scores for financial strength (FS), competitive advantage (CA), environmental stability (ES), and industry strength (IS) on the appropriate axis in the SPACE Matrix.
5. Add the two scores on the x-axis and plot the resultant point on X. Add the two scores on the y axis and plot the resultant point on Y. Plot the intersection of the new x y point.
6. Draw a directional vector from the origin of the SPACE Matrix through the new intersection point. This vector reveals the type of strategies recommended for the organization: aggressive, competitive, defensive, or conservative.

Financial Strength (FS)	**Rating**
High Return on investment	1.0
Large amount of capital	1.0
Consistently increasing revenue	3.0
Working capital condition	4.0
	9.0
Industry Strength (IS)	
Demand and supply factors	4.0
Resource utilization	2.0
Profit potential	4.0
	10.0
Environmental Stability (ES)	
Rate of inflation	-4.0
Price elasticity of demand	-5.0
Impact of technology	-4.0
	-13.0
Competitive Advantage (CA)	
Technological know	-2.0
Quality of product and services	-5.0
Access to the market	-2.0
	-9.0

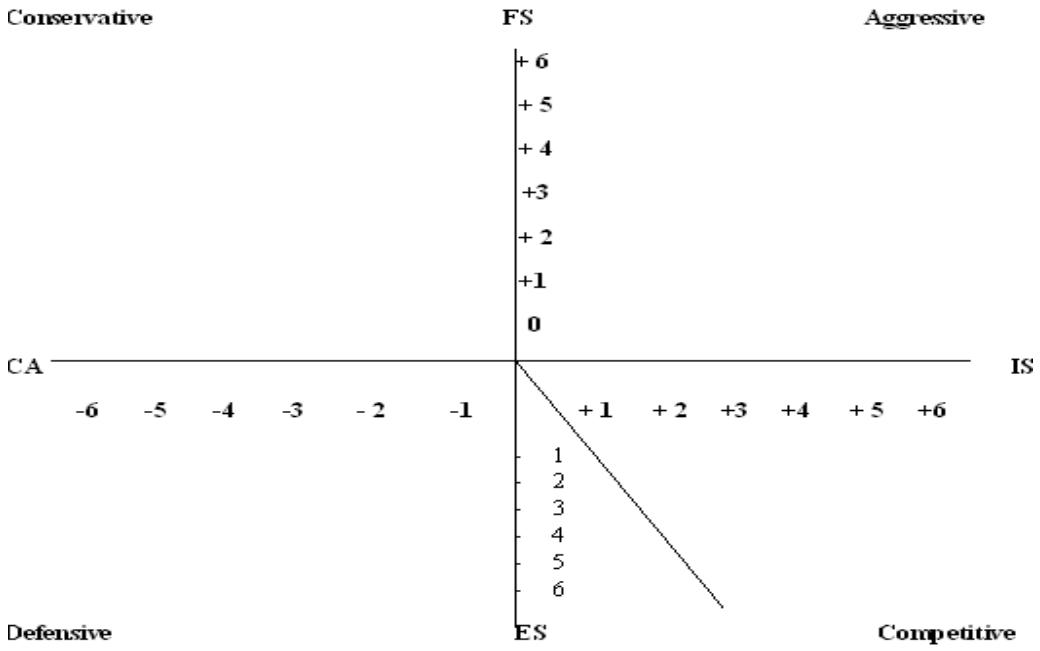
Conclusion

ES Average is -13.0 ÷ 3= - 4.33 **IS Average is + 10.0 ÷3 = 3.33**

CA Average is -9.0 ÷ 3= - 3.00 **FS Average is + 9.0 ÷4 = 2.25**

Directional vector coordinates: X -axis: -3.00 + (+3.33) = + 0.33

Y- axis: - 4.33 + (+ 2.25) = -2.08



The graph indicates that the firm shall use **Competitive** strategy

6.5.3. Boston Consulting Group (BCG) Matrix

The Boston Consulting Group (BCG) is a management consulting firm founded by Harvard Business School alum Bruce Henderson in 1963. The **growth-share matrix** is a chart created by the group in 1970 to help corporation analyze their business units or product lines, and decide where to allocate cash. It was popular for two decades, and is still used as an analytical tool. To use the chart, corporate analysts would plot a scatter graph of their business units, ranking their relative market shares and the growth rates of their respective industries. Relative market share position is defined as the share held own division by the share held by the largest competitor.

$$\text{Relative Market Share} = \frac{\boldsymbol{own\ share}}{\boldsymbol{largest\ competitor's\ share}}$$

In addition to this industry growth rate can be obtained as

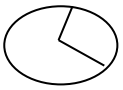
$$\text{Industry Growth Rate} = \frac{Current\ year\ industry\ sales - Last\ year\ industry\ sales}{Last\ year\ indutry\ sales}$$

This led to a categorization of four different types of businesses. Relative market share position is given on the *x*-axis of the BCG Matrix. The midpoint on the *x*-axis usually is set at .50, corresponding to a division that has half the market share of the leading firm in the industry. The *y*-axis represents the industry growth rate in sales, measured in percentage terms. The growth rate percentages on the *y*-axis could range from -20 to +20 percent, with 0.0 being the

midpoint. The average annual increase in revenues for several leading firms in the industry would be a good estimate of the value. These numerical ranges on the *x*- and *y*-axes are often used, but other numerical values could be established as deemed appropriate for particular organizations, such as –10 to +10 percent.

In a BCG matrix each circle represents a separate division. The size of the circle corresponds to the proportion of corporate revenue generated by that business unit, and the pie slice indicates the proportion of corporate profits generated by that division. Divisions located in Quadrant I of the BCG Matrix are called "Question Marks," those located in Quadrant II are called "Stars," those located in Quadrant III are called "Cash Cows," and those divisions located in Quadrant IV are called "Dogs."

Relative Market Share

		High 1.0	Medium .05	Low 0.0
Industry Sales Growth Rate (%)	High +20	**Stars** **II** 	**Question Marks** **I** 	
	Medium 0	**Cash cows** 	**Dogs** 	
	Low -20	**III**	**IV**	

Question marks: Units with low market share in a fast-growing industry. Such business units require large amounts of cash to grow their market share. The corporate goal must be to grow the business to become a star. Otherwise, when the industry matures and growth slows, the unit will fall down into the dog's category. For divisions positioned in quadrant I, the firm must decide either to strengthen by pursuing intensive strategies or to divest (sell them out).

Stars: Units with a high market share in a fast-growing industry. The hope is that stars become the next cash cows. Sustaining the business unit's market leadership may require extra cash,

but this is worthwhile if that's what it takes for the unit to remain a leader. When growth slows, stars become cash cows if they have been able to maintain their category leadership. For divisions positioned in quadrant II, intensive & integration strategies are best to be implemented.

Cash cows Units positioned in quadrant III have a high market share in a slow-growing industry. Called **Cash Cows** because they generate cash in excess of the amount of cash needed to maintain the business. They are regarded as staid and boring, in a "mature" market, and every corporation would be thrilled to own as many as possible. They are to be "milked" continuously with as little investment as possible, since such investment would be wasted in an industry with low growth. For these divisions, product development, concentric diversification & when they get weaker retrenchment, divestiture & liquidation can be applied.

Dogs: More charitably called pets, units with low market share in a mature, slow-growing industry. These units typically "break even", generating barely enough cash to maintain the business's market share. Though owning a break-even unit provides the social benefit of providing jobs and possible synergies that assist other business units, from an accounting point of view such a unit is worthless, not generating cash for the company. They depress a profitable company's return on assets ratio, used by many investors to judge how well a company is being managed. Dogs, it is thought, should be sold off. As a particular industry matures and its growth slows, all business units become either cash cows or dogs. Divestiture & liquidation are the best strategies for divisions located in quadrant IV of the BCG matrix

The overall goal of this ranking was to help corporate analysts decide which of their business units to fund, and how much; and which units to sell. Managers were supposed to gain perspective from this analysis that allowed them to plan with confidence to use money generated by the cash cows to fund the stars and, possibly, the question marks. As the BCG stated in 1970:

Only a diversified company with a balanced portfolio can use its strengths to truly capitalize on its growth opportunities. The balanced portfolio has:

- Stars whose high share and high growth assure the future;
- Cash cows that supply funds for that future growth; and
- Question marks to be converted into stars with the added funds.

Limitations

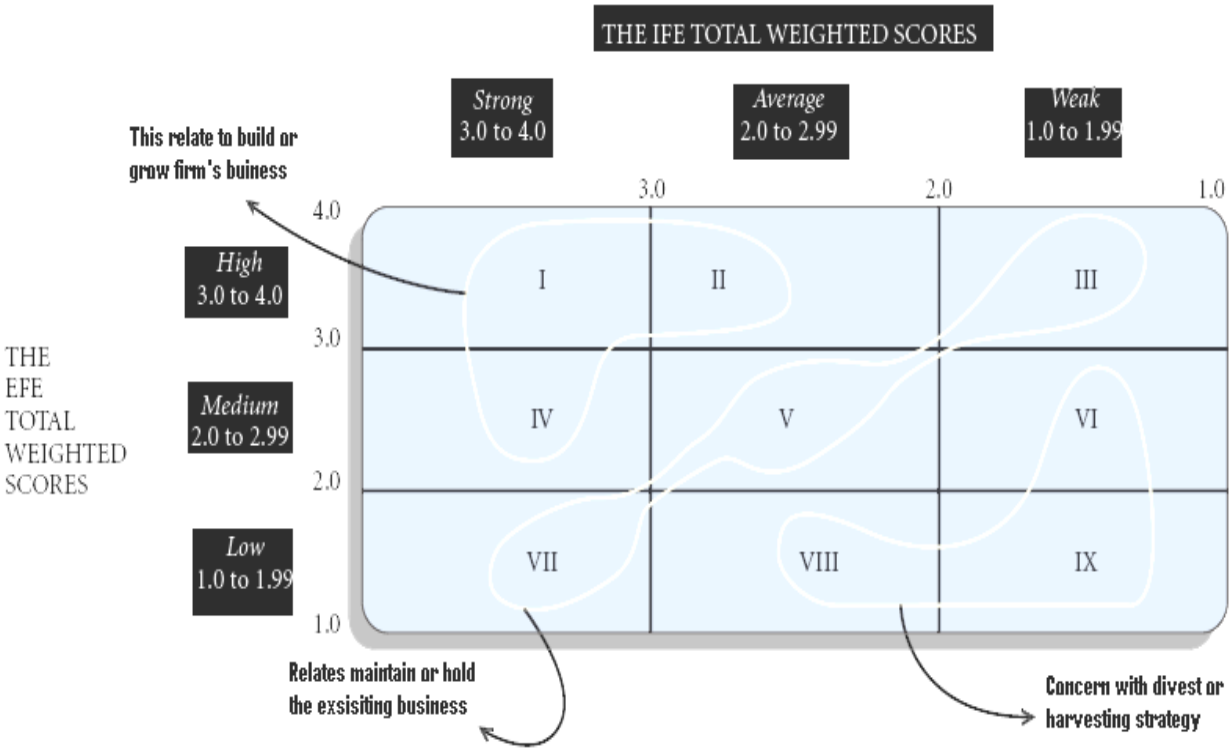
1. Viewing every business as a star, cash cow, dog, or question mark is overly simplistic.
2. Many businesses fall right in the middle of the BCG matrix and thus are not easily classified.
3. The BCG matrix does not reflect whether or not various divisions or their industries are growing over time.
4. Other variables besides relative market share position and industry growth rate in sales are important in making strategic decisions about various divisions.

6.5.4. The Internal-External (IE) Matrix

This is also an important matrix of matching stage of strategy formulation. It is a nine cell display that schematically displays organizational division based on EFE Total Weighted Score & IFE Total Weighted Scores. Its characteristics is a s follow

- Positions an organization's various divisions in a nine-cell display.
- Similar to BCG Matrix except the IE Matrix:
  - ✓ Requires more information about the divisions
  - ✓ Strategic implications of each matrix are different
- It is based on two key dimensions
  - ✓ The IFE total weighted scores on the x-axis
  - ✓ The EFE total weighted scores on the y-axis

The Internal-External (IE) Matrix



Steps for the development of IE matrix

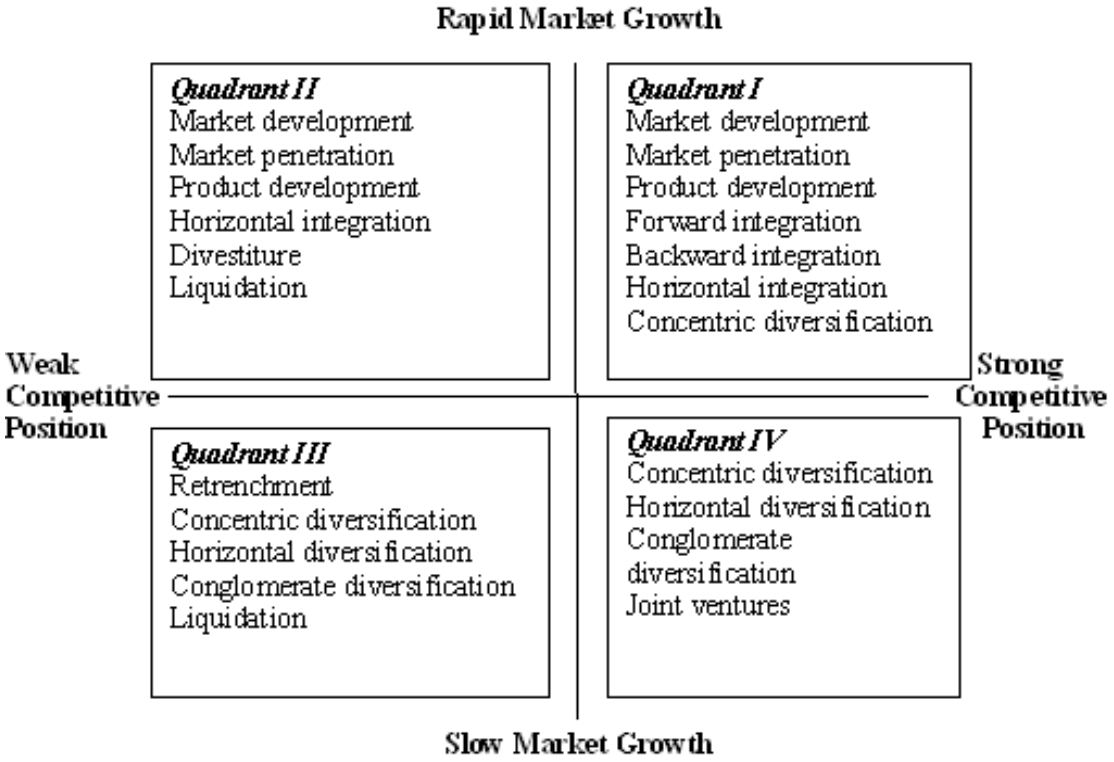
1. Plot IFE total weighted scores on the *x*-axis and the EFE total weighted scores on the *y* axis
2. On the *x*-axis of the IE Matrix, an IFE total weighted score of 1.0 to 1.99 represents a weak internal position; a score of 2.0 to 2.99 is considered average; and a score of 3.0 to 4.0 is strong.
3. 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; and a score of 3.0 to 4.0 is high.
4. IE Matrix divided into three major regions.
   - Grow and build – Cells I, II, or IV: for divisions which lies on this region integration & intensive strategies are most attractive
   - Hold and maintain – Cells III, V, or VII: market penetration & product development are the best strategies for divisions lied on this region.
   - Harvest or divest – Cells VI, VIII, or IX: divisions on these cells have no future current capacity to generate income for the firm. Therefore, they shall be harvested & divested

6.5.5. Grand Strategy Matrix

This is also an important matrix of strategy formulation frame work. Grand strategy matrix is popular tool for formulating alternative strategies. Any organization should be placed in any one of the four quadrants. Appropriate strategies for an organization to consider are listed in sequential order of attractiveness in each quadrant of the matrix.

It is based two major dimensions

1. Market growth: a market growing by more than 5% is considered as having rapid market growth & below which as slow market growth.
2. Competitive position: this requires developing a competitive profile matrix; here, the total weighted score of the competitive profile matrix indicates whether a firm has strong or weak competitive position. In a competitive profile matrix 2.5 is an average and a total weighted score below this average point is considered as weak competitive position & a total weighted score above this average score is considered as a strong competitive position.



Qurdant-1 contains those companies having strong competitive position and rapid market growth. Firms located in Quadrant I of the Grand Strategy Matrix are in an excellent strategic position. These firms must focus on current market and appropriate to follow market

penetration, market development and products development strategies. In addition to this forward, backward & horizontal integration strategies are best. When firms want to diversify their risks concentric diversification can be applied.

Qurdant-2 contains those companies having weak competitive position and rapid market growth. Firms positioned in Quadrant II need to evaluate their present approach to the marketplace seriously. Although their industry is growing, they are unable to compete effectively, and they need to determine why the firm's current approach is ineffectual and how the company can best change to improve its competitiveness. Because Quadrant II firms are in a rapid-market-growth industry, an intensive strategy (as opposed to integrative or diversification) is usually the first option that should be considered.

Qurdant-3 contains those companies with weak competitive sposition and slow market growth. The firms fall in this quadrant compete in slow-growth industries and have weak competitive positions. These firms must make some drastic changes quickly to avoid further demise and possible liquidation. Extensive cost and asset reduction (retrenchment) should be pursued first. An alternative strategy is to shift resources away from the current business into different areas. If all else fails, the final options for Quadrant III businesses are divestiture or liquidation.

Qurdant-4 contains those companies with strong competitive position and slow market growth. Quadrant IV businesses have a strong competitive position but are in a slow-growth industry. These firms have the strength to launch diversified programs into more promising growth areas. Quadrant IV firms have characteristically high cash flow levels and limited internal growth needs and often can pursue concentric, horizontal, or conglomerate diversification successfully. Quadrant IV firms also may pursue joint ventures.

1.6The decision Stage (Stage III)

At this stage firms try to evaluate alternative strategies generated at stage 2 and then select the best alternative strategy that will help the firm take advantage of its strengths & opportunities & minimize the impact of weaknesses & threats. In this regard the firm has two options. The first option is using managerial intuition to evaluate & select the best strategy. However, entirely depending on intuition may lead to subjectivity & personal biases. To avoid this, the second option is using the quantitative strategic planning matrix (QSPM).

6.6.1 The Quantitative Strategic Planning Matrix (QSPM)

The last stage of strategy formulation is decision stage. In this stage it is decided that which way is most appropriate or which alternative strategy should be select. This stage contains QSPM that is the only technique designed to determine the relative attractiveness of feasible alternative action. This technique objectively indicates which alternative strategies are best. The QSPM uses input from Stage 1 analyses and matching results from Stage 2 analyses to decide objectively among alternative strategies. That is, the EFE Matrix, IFE Matrix, and Competitive Profile Matrix that make up Stage 1, coupled with the TOWS Matrix, SPACE Analysis, BCG Matrix, IE Matrix, and Grand Strategy Matrix that make up Stage 2, provide the needed information for setting up the QSPM (Stage 3).

Steps in preparation of QSPM: developing a QSPM is a six step process

1. Make a list of the firm's key external opportunities/threats and internal strengths & weaknesses in the left column of the QSPM. This information should be taken directly from the EFE Matrix and IFE Matrix. A minimum of 10 external key success factors and 10 internal key success factors should be included in the QSPM.
2. Assign weights to each key external and internal factor. These weights are identical to those in the EFE Matrix and the IFE Matrix. The weights are presented in a straight column just to the right of the external and internal critical success factors.
3. Examine the Stage 2 (matching) matrices, and identify alternative strategies that the organization should consider implementing. Record these strategies in the top row of the QSPM. Group the strategies into mutually exclusive sets if possible.
4. Determine the Attractiveness Scores (AS) defined as numerical values that indicate the relative attractiveness of each strategy in a given set of alternatives. Attractiveness Scores (AS) are determined by examining each key external or internal factor, one at a time, and asking the question "Does this factor affect the choice of strategies being made?" If the answer to this question is yes, then the strategies should be compared relative to that key factor. Specifically, Attractiveness Scores should be assigned to each strategy to indicate the relative attractiveness of one strategy over others, considering the particular factor. The range for Attractiveness Scores is 1 = not attractive, 2 = somewhat attractive, 3 = reasonably attractive, and 4 = highly attractive. By attractive, we mean the extent that one strategy, compared to others, enables the firm to either capitalize on the strength, improve on the weakness, exploit the opportunity, or avoid the threat. Work row by row in developing a QSPM. If the answer

to the previous question is *no,* indicating that the respective key factor has no effect upon the specific choice being made, then do not assign Attractiveness Scores to the strategies in that set. Use a dash to indicate that the key factor does not affect the choice being made. *Note:* If you assign an AS score to one strategy, then assign AS score(s) to the other. In other words, if one strategy receives a dash, then all others must receive a dash in a given row.

5. ***Compute the Total Attractiveness Scores.*** *Total Attractiveness Scores (TAS)* are defined as the product of multiplying the weights (Step 2) by the Attractiveness Scores (Step 4) in each row. The Total Attractiveness Scores indicate the relative attractiveness of each alternative strategy, considering only the impact of the adjacent external or internal critical success factor. The higher the Total Attractiveness Score, the more attractive the strategic alternative (considering only the adjacent critical success factor).
6. ***Compute the Sum Total Attractiveness Score.*** Add Total Attractiveness Scores in each strategy column of the QSPM. The *Sum Total Attractiveness Scores (STAS)* reveal which strategy is most attractive in each set of alternatives. Higher scores indicate more attractive strategies, considering all the relevant external and internal factors that could affect the strategic decisions. The magnitude of the difference between the Sum Total Attractiveness Scores in a given set of strategic alternatives indicates the relative desirability of one strategy over another.

Key External Factors	Wei	Strategy 1		Strategy 2		Strategy 3	
Opportunities	ght	AS	TAS	AS	TAS	AS	TAS
Globally untapped smokeless tobacco market	.15	4	0.60	3	0.45	1	0.15
Increased demand caused by public banning	.05	1	0.05	2	0.10	2	0.10
Astronomical Internet advertising growth	.05	3	0.15	2	0.10	3	0.15
More social pressure to quit smoking	.10	2	0.20	1	0.10	2	0.20
Threats							
Legislation against the tobacco industry	.10	3	0.30	4	0.40	3	0.30
Production limits on tobacco	.05	3	0.15	3	0.15	2	0.10
Smokeless tobacco market is concentrated	.05	4	0.20	2	0.10	1	0.05
Bad media exposure from the FDA	.10	4	0.40	4	0.40	4	0.40
Clinton administration	.20	1	0.20	4	0.80	2	0.40
Internal Strengths							
Largest casino company in the United States	.10	4	0.40	1	0.10	4	0.40
95% Room occupancy rates in Las Vegas	.05	2	0.10	3	0.15	2	0.10
Increasing free cash flows	.15	2	0.30	3	0.45	2	0.30
Owns one mile on Las Vegas Strip	.05	3	0.15	2	0.10	1	0.05
Strong management team	.05	4	0.20	4	0.20	1	0.05
Internal Weaknesses							
Most properties are located in Las Vegas	.05	1	0.05	2	0.10	2	0.10
Little diversification	.05	2	0.10	4	0.20	1	0.05
Family reputation, not high rollers	.05	3	0.15	4	0.20	2	0.10
Laughlin properties	.10	3	0.30	3	0.30	3	0.30
Recent loss of joint ventures	.10	4	0.40	2	0.20	4	0.40
TOTAL			**4.4**		**4.6**		**3.7**

A sample QSPM table

Limitations: 1. Requires intuitive judgments and educated assumptions

2. Only as good as the prerequisite inputs
3. Only strategies within a given set are evaluated relative to each other

Advantages: 1. Sets of strategies considered simultaneously or sequentially

3. Integration of pertinent external and internal factors in the decision making process