

Strategic Management

Lecture Seven: Strategy Analysis and Choice

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Introduction

In our previous week, we explored strategy formulation, which we noted as the process of crafting potential strategies based on the insights gathered from internal and external environmental scanning. We emphasized the importance of aligning strategy with an organization's vision, mission, and strategic objectives.

In the current lecture, we move from formulating strategies to analyzing and selecting the most appropriate one. Strategy analysis and choice is where realism meets ambition—it's about choosing the path that is not only **desirable** but also **achievable**.

Learning Outcomes

By the end of this session, learners should be able to:

1. Explain the purpose and process of strategy analysis and choice.
2. Compare different analytical tools used in evaluating strategic alternatives.
3. Apply decision-making criteria to select among strategic options.

Opening Story: "A local Coffee Co-op's Dilemma"

A rural coffee cooperative in Murang'a, Kenya has identified two potential strategic options: (1) invest in premium organic certification to sell directly to international markets, or (2) diversify into value-added coffee products like flavored cold brew for the urban market.

Both options seem promising. But with limited resources and time, how should they decide? What factors should they consider—capabilities, market demand, partnerships, or risks?

This dilemma reflects the heart of this week's lecture: how organizations analyze and choose the best path forward.

Case Study: Southwest Airlines (from Morris & Hodges, 2019, Ch. 6)

Southwest Airlines faced choices about expansion, differentiation, and cost leadership. Their strategic analysis focused on consistency with their core competencies (e.g., low-cost operations) and market positioning. The firm chose a clear, disciplined focus strategy—prioritizing short-haul, high-frequency routes with no frills.

This example highlights how firms evaluate options not just based on opportunity, but on internal strengths, risk, and sustainability.

What is Strategy Analysis and Choice?

- According to Morris & Hodges (2019), strategy analysis involves evaluating alternative strategies using decision criteria to select the most appropriate course of action.
- It is the bridge between formulation and implementation.
- Think about it this way, if you have a destination to get to more often than not you will have more than one way/means to get there. It will therefore require you to decide from the options presented. This decision will require you to use a given criterion

Key Evaluation Criteria

- **Suitability:** Does the strategy fit with the external environment?
- **Feasibility:** Can we afford and operationalize it?
- **Acceptability:** Will stakeholders support it?

Tools for Strategy Analysis

There are various tools that your venture can use to make a decision. Some of which we have looked at in our previous lectures. In this current lecture, we will focus more on those tools that we have not talked about.

Here are the main tools available for firms to analyze their strategies

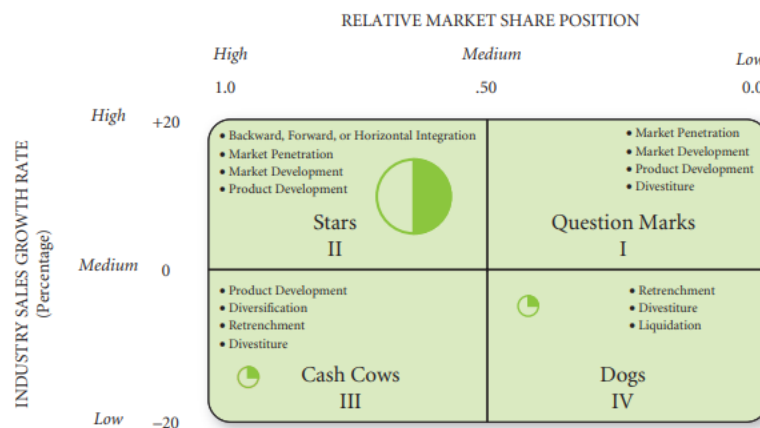
- **SWOT Matrix:** Matches internal strengths and weaknesses with external opportunities and threats.
- **TOWS Matrix:** Develops strategic alternatives from SWOT elements.
- **BCG Matrix:** Analyzes business units/products based on market growth and share.
- **GE/McKinsey Matrix:** Assesses business units using industry attractiveness and business strength.

- **QSPM (Quantitative Strategic Planning Matrix):** Provides an objective basis for strategy comparison.

Boston Consulting Group (BCG) Matrix

- This framework was developed by the consulting group in 1978.
- It is useful for a firm that has more than one portfolio, which is to say it is competing in different industries.
- Which means each product or product line competing in different market require a different strategy
- Therefore, the matrix is useful for firms to enhance multidivisional firm's effort to formulate strategies
- The matrix gives four quadrants based on two dimensions: Market growth rate (external/industry attractiveness) and Relative market share (internal competitive strength) as shown in Figure 1 and explained in table 1
- **Y-Axis:** Industry Attractiveness (High, Medium, Low)
- **X-Axis:** Business Strength/Competitive Position (Strong, Medium, Weak)

Figure 1: BCG Matrix



Source: David and David (2015)

Table 1: The quadrants explained

Quadrant	Description	Strategy Implication
Stars	High market growth, high market share.	Invest heavily to maintain/grow dominance (e.g., R&D, marketing).
Cash Cows	Low market growth, high market share.	“Milk” profits to fund Stars or Question Marks (minimal investment).
Question Marks	High market growth, low market share.	Make a decision either: Invest to grow market share (turn into Stars) or divest if unprofitable.
Dogs	Low market growth, low market share.	Divest, liquidate, or reposition (unless they serve a strategic purpose, e.g., niche).

Advantaged of BCG Matrix

- A simple and visual tool that is easy to use as a manager
- It focuses on resource allocation, helping in prioritizing scarce resources
- Encourage dynamic portfolio management, showcasing how a unit may evolve over time
- It encourages a balance of long-term and short-term goals
- It promotes a balanced portfolio hence spreading the risks

Shortcoming of BCG Matrix

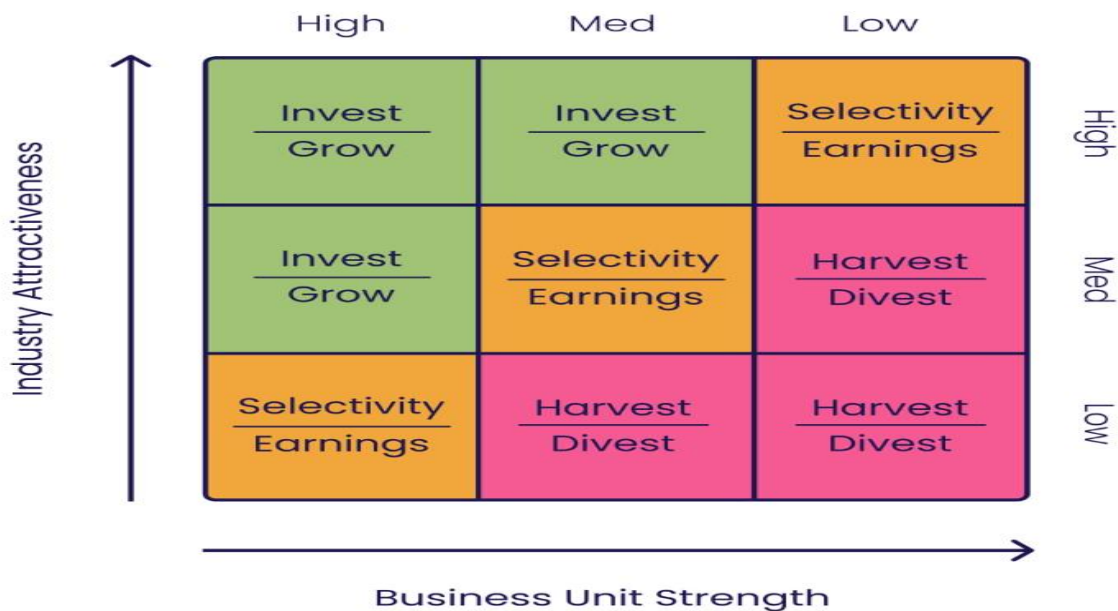
- It oversimplifies how you look at divisions in a business, it is possible to have some falling in the middle
- It is a snapshot of the industries but doesn't capture the temporal situations in those industries
- Besides the two variables used there are others that need to be considered for strategy choices to be made
- It assumes market share equals profitability which may not always be the case
- It does not account for synergies among business units
- Works best for tangible products, but not a good fit for services

General Electric (GE) Matrix

- This was developed by General Electric and McKinsey & Company

- It is a tool used to prioritize investment among portfolio of business units and products
- It helps a firm decide: Where to **invest, hold (selectively), divest**.
- It uses two dimensions
- Industry Attractiveness (Y-axis)
- Business Unit Strength (X-axis)
- It builds on BCG, and instead of four quadrants this has 3*3 hence 9 quadrants this is captured in **Figure 2**.
- Strategy to pursue is dependent on where the product or business unit falls in
- There are three quadrants on growth, three on hold (selective growth) and three on divest/harvest

Figure 2: GE Matrix



Source: <https://www.cascade.app/blog>

Industry Attractiveness

- Evaluated using factors such as market size, growth rate, profitability, competitive intensity, regulatory environment, and technological trends.
- Factors are weighted based on their importance to the organization.

Competitive Strength

- Assessed through variables like market share, brand equity, customer loyalty, cost structure, innovation capability, and distribution networks.
- Each factor is scored and weighted to reflect the business unit's position relative to competitors.

Strengths of the GE Matrix

1. Comprehensive Analysis

- Considers multiple factors, offering a more detailed view than simpler models like BCG.
- Customizable criteria allow adaptation to different industries or organizational priorities.

2. Visual Clarity

- Simplifies complex data into an intuitive grid, aiding strategic discussions and resource allocation.

3. Flexibility

- Applicable to diverse industries, products, or services by adjusting evaluation criteria.

4. Balanced Portfolio Management

- Helps companies allocate resources to high-potential units while phasing out weaker ones.

Shortcoming of GE Matrix

1. Subjectivity in Factor Selection

- Weighting and selecting factors can vary between analysts, leading to inconsistent outcomes.

2. Data-Intensive Process

- Requires significant data collection and analysis, which can be time-consuming and costly.

3. Static Snapshot

- Fails to account for dynamic market changes or synergies between business units.

4. Oversimplification Risk

- Reducing complex strategic decisions to two dimensions may overlook critical nuances.

5. Lack of Prescriptive Guidance

- Unlike BCG's "Stars, Cash Cows, etc.," GE Matrix recommendations (e.g., "Selectively Invest") are vague.

QSPM (Quantitative Strategic Planning Matrix)

- While the matrices we have discussed tend to prioritize or rank, QSPM is the only analytical technique to determine the attractiveness of alternative actions
- It is an objective method that allows strategists to evaluate alternative strategies based on previous internal and external key success factors
- It quantifies which strategy is most attractive by assigning scores to strategic choices against weighted factors from tools like the SWOT, EFAS (External Factors Analysis Summary), and IFAS (Internal Factors Analysis Summary).
- Here is the procedure:
 - Identifying key strategic factors (both internal and external).
 - Assigning weights to each factor (based on importance).
 - Scoring each strategic option on how well it responds to the factor.
 - Calculating a Total Attractiveness Score (TAS) = (Weight × Score) to prioritize strategies.
 - Higher TAS = More attractive strategy
- **Figure 3** represents an example of a simple QSPM, where two strategies are being evaluated.
- Going with the Higher TAS of **3.32** compared to 3.16, **option 1** (Buy new land and larger store) will be the strategy of choice

Figure 3: QSPM Matrix

QSPM Matrix

	Weight	Strategic Alternatives			
		1		2	
		Buy new land and build larger store		Fully Renovate Existing Store	
Strengths		As	Tas	As	Tas
Inventory turnover increased from 5.8 to 6.7	0.05	-			
Average customer purchase increased from \$97 to \$128	0.07	2	0.14	4	0.28
Employee morale is excellent	0.1	-		-	
In-store promotions resulted in 20% increase in sales	0.05	-		-	
Newspaper advertising expenditures increased 10%	0.02	-		-	
Revenues from repair/service segment of store up 16%	0.15	4	0.06	3	0.45
In-store technical support personnel have MIS college degrees	0.05	-		-	
Store's debt-to-total assets ratio declined to 34%	0.03	4	0.12	2	0.06
Revenues per employee up 19 percent	0.02	-		-	
Weaknesses					
Revenues from software segment of store down 12%	0.1	-		-	
Location of store negatively impacted by new Highway 34	0.15	4	0.06	1	0.15
Carpet and paint in store somewhat in disrepair	0.02	1	0.02	4	0.08
Bathroom in store needs refurbishing	0.02	1	0.02	4	0.08
Revenues from businesses down 8%	0.04	3	0.12	4	0.16
Store has no web site	0.05	-		-	
Supplier on-time-delivery increased to 2.4 days	0.03	-		-	
Often times customers have to wait to check out	0.05	2	0.1	4	0.2
Total	1		3.32		3.16

Source: <https://www.slideegg.com/>

Positive Features of QSPM

- **Objective:** Adds quantification to strategy selection — reducing emotional or biased choices.

- **Customizable:** Can accommodate any number of strategies or factors.
- **Integrative:** Builds on SWOT, EFAS/IFAS, and other models.
- **Clarity in priorities:** Makes it easier to justify strategic decisions to stakeholders.
- **No limit:** A firm can evaluate several strategies at a go

Limitations of QSPM

- **Subjectivity in scoring:** While it's quantitative, assigning scores can still be biased.
- **Time-consuming:** Requires prior completion of SWOT, EFAS/IFAS, and detailed factor weighting.
- **No feedback loop:** Doesn't show how selected strategy performs over time.
- **Complex for beginners:** May feel too technical or mechanical without proper guidance.
- **Prerequisite:** The result of QSPM is as good as the prerequisite information it uses

Strategic Choice Approaches

- A firm as we noted earlier will have several options to choose from
- If you recall in lecture one, we talked about different levels of strategies
- Under each of the level, there several options open to a business
 - Corporate-Level Strategies: Growth, stability, retrenchment.
 - Business-Level Strategies: Cost leadership, differentiation, focus.
 - Competitive Strategy Fit: Based on Porter's Five Forces and internal capabilities.
- Some of these options of corporate level strategies are explained and exemplified in **table 2**, with examples

Table 2: Alternative Strategies

Strategy	Definition	Examples
Forward Integration	Gaining ownership or increased control over distributors or retailers	Forward Integration—PayPal is pushing its service off the Web and into stores via an agreement with Discover card.
Backward Integration	Seeking ownership or increased control of a firm's suppliers	Backward Integration—Fancy Motels Inc. acquiring a furniture manufacturer.
Horizontal Integration	Seeking ownership or increased control over competitors	Horizontal Integration—Britain's GlaxoSmithKline PLC acquired Human Genome Sciences Inc. for \$3 billion.
Market Penetration	Seeking increased market share for present products or services in present markets through greater marketing efforts	Market Penetration—PepsiCo is heavily advertising its new Diet Pepsi special-edition silver cans featuring the blue-and-red Pepsi logo in a heart shape.
Market Development	Introducing present products or services into new geographic area	Market Development—China Petrochemical purchased three Canadian oil companies, Daylight Energy, Tanganyika Oil, and Syncrude Canada.
Product Development	Seeking increased sales by improving present products or services or developing new ones	Product Development—General Electric is building new composite material jet engines, whereas rival Pratt & Whitney is developing newly designed jet engines.
Related Diversification	Adding new but related products or services	Related Diversification—The toy retailer, Toys 'R' Us developed a new Wi-Fi tablet computer for children (the Tabeo for \$149.99).
Unrelated Diversification	Adding new, unrelated products or services	Unrelated Diversification—Retailer IKEA is opening a chain of motels in Europe.
Retrenchment	Regrouping through cost and asset reduction to reverse declining sales and profit	Retrenchment—Callaway Golf cut 12 percent of its workforce; Deutsche Bank AG cut 1,000 jobs from its investment bank segment.
Divestiture	Selling a division or part of an organization	Divestiture—Dean Foods sold off its WhiteWave-Alpro organic dairy business.
Liquidation	Selling all of a company's assets, in parts, for their tangible worth	Liquidation—Big Sky Farms, one of Canada's biggest hog-producing firms, liquidated.

Source: David and David (2015)

Conclusion / Takeaway

Strategic analysis and choice is not about selecting the most exciting idea—it's about disciplined decision-making rooted in evidence, capability, and long-term vision. As Morris and Hodges (2019) emphasize, the best strategy is the one an organization can and will implement effectively.

In our next lecture we will talk about strategic leadership and change management, key ingredients when it comes to successful strategy implementations.

References

David, F., David, F. (2015) *Strategic Management- Concepts and Cases*, 5th Ed, Pearson, Kirby, London.

Morris, J., & Hodges, T. (2019). *Strategic Management*. Open Educational Resources, Oregon State University, Chapter 6 – “Strategy Analysis and Choice”.

<https://www.cascade.app/blog> (Accessed on 5/3/2025)

<https://www.slideegg.com/> (Accessed on 5/3/2025)