A tool for calibrating competition using space matrix and ge mckinsey

Abstract: For any organization, it is very important to analysis its competitive strategy before its formulates the strategic objective. The process of calibrating competitive is very important for all organization in this economic suitation. This articles describe about two tool which are used to measure or calibrate competition. First we discuss about the one of the important management tool called SPACE Matrix which helps to evaluate its competitve strategy abd thereby formulate its strategic planning. Here the SPACE Matrix is used four dimensionals, to analyze its competitiveness, where as the others conventional tools used only two or three dimensionals. Secondly the GE / Mickinsy Matrix which is used to identiyfy the industry attractiveness and business unit strength.

Keywords: SPACE Matrix, GE/ Mckinsey Matrix, Industry attractiveness, Strategic business unit strength.

1. Introduction

In this Modern era, for any organisation the sucess or failure many depends on its core Competition. Competitive Startegy like any other stargey play a important role for organisation to acheive is Startegic Objective. Competivite strategy function is to establising a profitable and sustainable position an any industry against all forces in the environment like competitors. For any strategy that should become sucessful, it should understand all factors like internal environment, external environment, macro environment etc. Having the knowledge about these parameters , which helps the organisation to where and how to compete, where to position its product and services and whom to target etc with the available resources in the organisation

Various Conventional Tools

They are various method used to analyze and determine the competiviteness of an organization like,

General Electrical Stoplight Strategy

BCG Matrix

Mckinsey's Industry Attractiveness / company Strength Matrix

Profit Impact of Market Strategy (PIMS)

Scenario Planning

2. SPACE Matrix

On the above conventionally methods we have some limitations which are indicated in the literature. Now we are going to analyze a technique which is used to overcome the limitations of the above methods, called SPACE Matrix (Strategic Position and Action Evaluation).

When we compare the SPACE matrix with the others like General Electric portfolio and Mckinsey approaches, we found that in that above two methods, one axis in the matrix represent the overall attractiveness of the industry and other represents the organisation ability to compete in the completive market space (Loun 1998).

SPACE Matrix or Strategic Position and Action Evaluation matrix is a tool used to formulate the organisation strategy and also used to find its competitive position in the Environment.

SPACE matrix technique uses another two dimensions apart from the one which we discuss above, like industry's stability and financial strength. All these four dimensions are assessed and evaluated by several factors. Thus a number of factors help the manger to identify the correct alternative strategic from the options available, for betterment of the organisation.

On analysing, we found that this SPACE matrix is not well known by organisation in many countries. Though Space matrix is having some literature review in the history, many of them didn't find the actual advantage of this matrix. In this article we discuss about the importance of the SPACE matrix and a hypothetical case study for our understanding.

2. 1. Four Dimensions

Using the SPACE matrix method we find the strategic position/posture of an organisation. We have analyzed four dimensions in this method; two contribute to the internal dimensions and the other two to external dimensions. The internal dimension includes competitive advantage and the financial strength which are the major factors to determine the strategic position of any organization. The external dimension includes the industry strength and the environmental stability which is used to identify the strategic position in the industry. By evaluating these four dimensions, we result in four different strategic postures namely,

Aggressive Strategic Posture

Competitive Strategic Posture

Conservative Strategic Posture

Defensive Strategic Posture

After identifying the appropriate posture of an organisation, which in turn helps to identify the organisation generic competitive strategies. This leads to define the strategic thrust for the business. Afterwards the mangers or the top level management of the organisation can choose the appropriate strategy in which their organisation needs to focus to achieve the strategic objective and goal. The four strategic includes,

Overall cost leadership strategy

Differentiation strategy

Focus strategy

Defensiveness strategy

Now we will understand the key factors which afters these four dimensions i. e. aggressive strategic posture, competitive strategic posture, conservative strategic posture and defensive strategic posture.

The factor which affects the environmental stability of an organisation are technological change, demand variability, rate of inflation, price range of the competitive company products, competitive pressure , price elasticity and entry barrier. The factors which influence the Industry strength includes growth and profit potential, technology know how, capital intensity, resource utilization, easy to enter in to any new market, productivity or capacity utilization and financial stability. Next the very keen factors which affects the competitive advantage includes Product quality, market share , product replacement cycles , product life cycle , vertical integration, technological knowhow , competitive capacity utilization etc. The factors which influence the Financial strength dimensions are ROI (return on investment) liquidity, leverage, capital required or capital available, share holder wealth, operating profit risk involved and exit from the market.

Table 1: Factors affecting the four dimensions

FACTORS

1

Environmental Stability

Rate of inflation

Technological changes

Demand variability

Price range of products

Entry barrier in to the new market

Price elasticity of demand

Others

2

Industry Strength

Growth potential

Financial stability

Profit potential

Technology know how

Capital intensity

Ease of entry

Productivity utilization

Capacity utilization

Adaptability

Flexibility

Others

3

Competitive Advantage

Market share

Product life cycle

Product quality

Customer loyalty

Replacement cycle

Competitors capacity

Vertical integration

Technology know how

4

Financial Strength

ROI – return on investment

Liquidity

Leverage

Cash flow

Capital required

Capital available

Risk involved (business)

Exit from market

Others

2. 2. Four Strategic Postures

The four postures i. e. aggressive strategic posture, competitive strategic posture, conservative strategic posture and defensive strategic posture are show below in the SPACE matrix chart.

2. 2. 1. Aggressive Strategic Posture:

This is typical in an attractive industry where the economy is under very stable conditions. The industry or organization take full advantage of opportunities in own or related industry, for new mergers and acquisition, increase the company market share. In this posture it is difficult for any new entrants.

2. 2. 2. Competitive Strategic Posture:

This is typical in an attractive industry where the economy is under unstable conditions. The company will acquire competitive financial resource; increase its market share and thrust. Increase its sales force and also improve or extends the product line.

2. 2. 3. Conservative Strategic Posture:

This is in distinctive low growth and stable market. They focus on financial stability. Cut cost, prune the product lines, reduce the work force, cash flow improvement, NPD (new product development and entry in to new and attractive markets.

2. 2. 4. Defensive Strategic Posture:

The characteristic of this posture is in an unattractive industry. Here the critical factor is the competitors. They lack in financial strength and competitive product. The organization plan for the cost reduction technique reduces its new investment etc.

Figure 1 a : SPACE Matrix

Figure 1 b : SPACE Matrix

Thus we can say the SPACE matrix will help the organisation to formulate its strategic goal and help to identify its competitive position in the market space. If we need to make decision based on two or more strategic, then we need to go for the other tool called Quantitative Strategic Planning Matrix (QSPM).

3. The McKinsey / General Electric Matrix

Now we discuss about the McKinsey GE Matrix. When the General Electric Company has found that the BCG matrix has not cope up with what the GE expects, the GE consult the Mckinsey for the solution. The Mckinsey Company formulated the matrix called McKinsey GE matrix or 9 box matrix or business strength matrix (James R 1997). The basic changes that are made to BCG Matrix are , first the market growth is replaced by the Market attractiveness. Then the market share is replaced by the competitive strength. Thus the McKinsey General Electric matrix is used to find the competitive position of any organisation.

The GE /McKinsey Matrix is used to analyze the business portfolio of an organisation as part of strategic planning.

3. 1. Factors – Market Attractiveness

There are various factors that affect the market attractiveness of any organisation. They are listed as follows,

Market Size

Market Profitability

Market Growth

Pricing trends

Competitive rivalry / intensity

Risk involved

Opportunity

Market Segmentation

SCM – Distribution part

3. 2. Factors – Competitive strength

There are various factors that affect the Competitive strength of any organisation. They are listed as follows,

Strength of competencies

Strength of assets

Market Share

Cust loyalty

Cost structure vs competitors

SCM (strength of the distribution chain)

Technology know how

Financial resources

In GE Mckinsey matrix, each variable has some given some weight age, so that the overall attractiveness of any industry can be calculated.

The Formula is given below,

Industry Attractiveness = AF11 + AF22

Where AF11 = Attractiveness Factor 1 Value by Factor 1 weighting

AF22 = Attractiveness Factor 2 Value by Factor 2 weighting,

Similarly, the business unit strength can be calculated as

Business Unit Strength = SF11 + SF22

Where SF11 = Strength Factor 1 Value by Factor 1 weighting

SF22 = Strength Factor 2 Value by Factor 2 weighting,

The nine block matrix which is formed by two dimensions, one is business units strength and the other is the industry attractiveness, the matrix is shown below,

From the above matrix we can conclude that, if the Industry attractiveness and the Business unit strength are high, then we can invest in new projects and can see the growth. Where as if the Business unit strength likes high and the industry attractiveness is medium then we can see there is a selective growth in that particular industry. But if both the Industry attractiveness and the business unit strength are low or medium, then the industry should be very selective in choosing any strategy or investing. The last stage discuss that if both the dimensions, industry attractiveness and Business unit strength are low, the industry must be very careful in the strategy planning. That is it should follow the Harvest and Divest method, thereby it can sustain in the competitive environment.

Industry attractiveness

High Medium Low

Investment and

Growth

Selective Growth

Selectivity

Selective Growth

Selectivity

Harvest/Divest

Selectivity

Harvest/Divest

Harvest/Divest

High

Medium

Low

Figure 2 : GE/ Mckinsey Matrix

4. Conclusion

Since the calibrating the competitiveness is very important for every organisation in this macro environmental condition, first we studied about how the SPACE matrix helped to formulate the organisation strategy and also used to find its competitive position in the Environment. Secondly we discuss about the GE / Mckinsey matrix how to evaluate the industry attractiveness and the business unit strength. GE / Mckinsey matrix is the one step advance tool of BCG matrix, which focuses on market attractiveness and competitive strength rather than market growth and market share.