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Strategic Management

Organizations use different methods to develop their strategies. Strategies provide a roadmap to follow. Managers need to align these strategies with the organizational objectives. So, to develop these strategies the organizations has to perform some analysis of their inner and outer environment. For that purpose, SWOT analysis is used.

SWOT Matrix

It is abbreviation of Strengths, weaknesses, opportunities and threats. Managers assess the strengths and weaknesses to get the idea of its internal standing position. The opportunities and threats are evaluated to check the firm's position in the outer environment. In this way, managers can see that either they have resources and competencies to compete in the outer environment. It is the surroundings where the firm is functioning.

Strengths

- It enable the firm to recognize the major weak points on which it has to focus. It also pinpoint the firm's strategic position in the market.
- It helps managers to find good opportunities beforehand and earlier than competitors. So, organizations can get competitive advantage.
- It is best source for having information to make strategies.
- It assists the managers to align their competencies and resources right according to the dynamic and uncertain outer environment.

Limitations

- It provides only subjective information, but the market is unpredictable.
- It makes things so simple that the managers may fail to notice some important issues.
- There are number of other factors which are ignored by this analysis. Such factors include price volatility, economic situation, bad internal control, insufficient workforce etc.
- Though it provides basic information to start planning, but it is not much oriented to get outcomes.

Apart from the SWOT analysis, another tool is also used nowadays. BCG Matrix is used in combination with the SWOT, which shields its limitations.

BCG Matrix

It was devised by the Boston Consulting Group and is powerful technique for developing strategies. It assesses the products and SBUs (strategic business units) of any company. It comprises over two axis; market share and market growth. All the products and SBUs are plotted on these axis to assess their contribution in share and growth.

Source:

These are the four cells, and every cell describe a specific product or SBU based on its position.

Question marks (high growth, low share)

In this products have good prospects in market (usually new products or business). The firm can invest more in this market to get higher share, so expansion strategy can be adopted.

Stars (high growth, high share)

In this market, the firm is the star and getting higher returns with enjoying greater market share. In this, the firm has to keep on investing more to maintain its leadership.

Dogs (low growth, low share)

These are products where the firm has low share and low growth rate. In this the firms usually adopt cutback strategy and stop investing. Firms must minimize this side.

Cash Cows (low growth, high share)

It represents the mature market for this product, where firm has greater market share. Here, firms has to invest little and get higher returns, which can be invested in other new ventures.

Usefulness of BCG Matrix

Firms can use it with combination of SWOT, as it provides more objective information. It assists managers in allocation of the resources. It augment the usefulness of SWOT by developing strategies for the exact products and markets. Moreover, it make it easy to comprehend and manage the portfolio of products or SBUs.

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