I. Evaluation of Strategic Alternatives

The various methods for selecting strategic alternatives are constructs to help managers organize the relevant factors to aid in strategic decision making. However, the methods do not make the decision. Rather the methods categorize and demonstrate the relationships inherent in the situation. Thus, they help structure the thought processes.

** Evaluation of the Adaptive Strategies

Evaluation of the strategic alternative is important. Methods to evaluate the adaptive strategies include the following:

1. TOWS/SWOT Matrix (Exhibit 7-1)
   
   Provides a direct link between the strategic alternatives available to the organization and the organization’s environmental assessment outputs, both internal (value chain components) and external (macroenvironment and competitor analysis).

   The Future Quadrant (internal strengths and external opportunities) – strategic alternatives that might be selected in this quadrant include related diversification, vertical integration, market development, product development, and penetration. As per the discussion on sources of competitive advantage, these strategic alternatives represent the highest priority strategic opportunities to the organization.

   Internal Fix-It Quadrant (internal weaknesses and external opportunities) – strategic alternatives that are frequently selected in this quadrant (after “fixing” the weakness) include related diversification, vertical integration, market development, product development, and enhancement. These strategic alternatives are also typically considered higher priority.

   External Fix-it Quadrant (internal strengths and external threats) – strategies that are often employed in this quadrant include related and unrelated diversification, market development, product development, enhancement, and status quo.

   Survival Quadrant (internal weaknesses and external threats) – adaptive alternatives that may be pursued include unrelated diversification (if financial resources permit), divestiture, liquidation, harvesting, and retrenchment.

2. Product life cycle (PLC) Method (Exhibits 7-2, 7-3, 7-4, and 7-5 contain illustrations/applications of PLC model.)
   
   Discern the stage of the service in the product life cycle through an analysis of industry revenues, profits, organizations entering and exiting the market, and emerging technological, social, political, economic, and competitive trends.
Consider the probable length of the product life cycle. For example, the product life cycle for stethoscopes is considerably longer than for CT scanners.

Alternative strategies by PLC category:

**Introduction (low sales, few competitors)** - market development and product development.

**Growth (rapid growth of sales, growing number of competitors)** - market development, product development, penetration, vertical integration, and related diversification.

**Maturity (slow growth of sales, many competitors)** - market development, product development, penetration, enhancement, status quo, retrenchment, divestiture, unrelated diversification.

**Decline (declining sales, declining competitors)** - divestiture, liquidation, harvesting, and unrelated diversification.

3. **Portfolio analysis (Exhibits 7-6 and 7-7)**

Based on BCG methodology, allows for the identification of appropriate alternative strategies based on an organization's/product line's total market share and market growth potential in terms of future market share.

Based on classification with respect to these two competitive indicators, allows for the identification of four categories of competitive strategy:

**Stars (high market share, high growth rate)** - market development, product development, penetration, vertical integration, and related diversification are appropriate strategies for products/services/business lines in this quadrant.

**Cash Cows (high market share, low growth rate)** - for "strong" cash cows, appropriate strategies are status quo, enhancement, penetration, and related diversification. For "weak" cash cows, strategies may include retrenchment, harvesting, divestiture, and perhaps liquidation.

**Problem Children (low market share, high growth rate)** - managers must decide whether to strengthen the products in this quadrant with increased investment through market development or product development or leave the product/service area through harvesting, divestiture, or liquidation. A case could also be built for retrenchment into specialty niches.

**Dogs (low market share, low growth rate)** - the product(s), service(s), and/or business line(s) in this quadrant are often liquidated or divested or the organization engages in dramatic retrenchment.

4. **Extended Portfolio Matrix Analysis. (Exhibit 7-8)**
Useful alternative to BCG matrix approach to strategy evaluation that addresses some of the inherent limitations to the BCG approach.

This expanded approach to portfolio analysis includes consideration of product/service/business line profitability in addition to considering market share and market growth potential in terms of identifying appropriate strategies.

**Shining Stars (high market share, high growth, high profit)** - aggressive enhancement or product development will be required; market development may be difficult because of the already high market share. In addition, the organization will want to consider vertical integration and related diversification.

**Cash Cows (high market share, low growth, high profit)** - strategies should be directed toward maintaining market dominance through enhancement. If the PLC is predicted to be long, the organization may want to engage in vertical integration or related diversification.

**Healthy Children (low market share, high growth, high profit)** - strategies may include market development, product development, penetration, and vertical integration coupled with strong functional support.

**Faithful Dogs (low market share, low growth, high profit)** - status quo or retrenchment strategy may be appropriate. If profitability is likely to decline over time, a harvesting or divestiture strategy may be employed.

**Black Holes (high market share, high growth, low profit)** - combination of enhancement and retrenchment strategies may be most appropriate. In addition, functional strategies should be employed to reduce costs and increase revenue.

**Problem Children (low market share, high growth, low profit)** - for selected products, market development with strong functional commitment is appropriate. For products that management does not feel can become shining stars, divestiture and liquidation are most appropriate.

**Cash Pigs (high market share, low growth, low profit)** - aggressive retrenchment may be required. This strategy may allow the organization to give up market share in order to find smaller, more profitable segments and thus create a smaller cash cow.

**Mangy Dogs (low market share, low growth, low profit)** - it is likely that liquidation is the only possibility because it will be difficult to find a buyer for products or services in this quadrant.

5. **SPACE matrix (strategic position and action evaluation)**

An extension of two-dimensional portfolio analysis (BCG) used to determine the appropriate strategic posture of the organization.
By using SPACE, the strategist can incorporate a number of factors into the analysis and examine a particular strategic alternative from several perspectives simultaneously.

The traditional approach to SPACE methodology requires the strategist to evaluate the organization along four strategic dimensions:

(1) Organizational financial strength as measured by ROI, use of financial leverage, cash flow, etc.
(2) Product/service category strength as measured by market growth potential, profit potential, technology innovation, etc.
(3) Environmental stability as measured by rate of technological change, rate of inflation, competition, etc.
(4) Competitive advantage as measured by market share, product/service quality, etc.

Based on the scoring algorithm developed for the SPACE methodology, the organization is provided with an average score along each of these dimensions, which allows the strategist to "plot" the organization's strategic position, which suggests the most appropriate strategic "posture" to employ based on the following:

**Aggressive Posture** – organizations that score the highest (in absolute value) in the areas of financial strength (strong financial position) and service category strength (strong market position) should adopt an aggressive posture and emphasize strategies including related diversification, market development, product development, and vertical integration.

**Competitive Posture** – organizations that score highest (in absolute value) in the areas of service area strength (strong market position) and environmental stability (increasingly competitive market) should adopt a competitive posture and emphasize strategies that include penetration, enhancement, product development, market development, and status quo.

**Conservative Posture** – organizations that score highest (in absolute value) in the areas of competitive advantage (low competitive advantage) and financial strength (strong financial position) should adopt a conservative posture and emphasize strategies to include status quo, unrelated diversification, and harvesting.

**Defensive Posture** – organizations that score highest (in absolute value) in the areas of competitive advantage (low competitive advantage) and environmental stability (increasingly competitive market) should adopt a defensive posture and emphasize strategies to include divestiture, liquidation, and retrenchment.

6. Program evaluation initiatives

These approaches are particularly useful for not-for-profit organizations such as public health organizations.

Such organizations, at least in a traditional sense, were not driven by any motive related to profit or increasing market share as most for-profit organizations are assumed to be.
Within the context provided by an understanding of the external environment, internal environment, and the directional strategies, these not-for-profit institutions must chart a future through a set of externally and internally funded programs.

The set of programs maintained and emphasized by the organization constitutes the adaptive strategy. The degree to which they are changed (expansion, contraction, maintenance of scope) represents a modification of the adaptive strategy.

The general steps that are involved in program evaluations are as follows:

1. Needs/capacity assessment (Exhibit 7-14) -- assessment of need based on community and personal health requirements, the degree to which other institutions fill health care gaps, public/community health objectives. Capacity assessment based on the availability of funding to support programs, other organizational resources and skills, and the program's fit with mission and vision of the organization.

2. Program priority setting involves ranking programs/set priorities. (Exhibit 7-15)

II. Evaluation of Market Entry Strategies

** The market entry strategies include acquisition, licensing, venture capital investment, merger, alliance, joint venture, internal development, and internal venture.

** Internal development and internal venture offer the greatest degree of control over the design, production, operations, marketing, and so on of the product or service. Licensing, acquisition, mergers, and venture capital investment offer the quickest market entry. Alliances and joint ventures offer relatively quick entry with some degree of control. The trade-off between speed of entering the market and organizational control over the product or service must be assessed by management in light of organizational objectives.

** The specific market entry strategy depends on the following:

>> The appropriate internal resources, competencies and capabilities/strengths. (Exhibit 7-16.)

>> External conditions that are most appropriate to specific market entry strategies. (Exhibit 7-17)

>> Organizational goals. (Exhibit 7-18)

III. Evaluation of Competitive Strategies

** Strategic posture - concerns the relationship between the organization and market and describes the pattern of strategic behavior.

>> Defender - defending current products and markets.

>> Prospectors - prospecting for new product and markets.

>> Analyzers - entering into proven growth markets.

** The appropriate posture depends on: (1) appropriate internal resources, competencies, and capabilities (Exhibit 7-19) as well as appropriate external conditions. (Exhibit 7-20)
An important consideration along these lines is the concept of product life cycle and how PLC can impact the choice of strategic posture that an organization adopts, as illustrated in the examples below:

Because defender organizations focus on a narrow product line, the strategy requires relatively long product life cycles. Long product life cycles allow the organization to commit to vertical integration, develop cost efficiency, and create routine processes. Defender strategies are most effective in the mature stage of the product life cycle. The risks associated with the defender posture are that the product life cycle will be dramatically shortened by external change (e.g., new technology) or that a competitor can somehow unexpectedly take away market share.

Prospectors operate well in rapidly changing, turbulent environments. For these organizations, products are usually in the introductory and early growth stages of the product life cycle and the cycle tends to be relatively short. As a result, entry barriers may be low and the intensity of rivalry typically is low. As product or services mature, prospector organizations move on to new products and services typically in introductory stages of the product life cycle. Prospectors divest their maturing products and services to successful defender organizations that are consolidating.

Analyzers operate well in environments where there is moderate change with some product categories that are quite stable and some that are changing. Product life cycles for their stable products are moderately long but there are periodic innovations and changes. Therefore, these organizations must enter new markets and new product areas. Analyzers typically do not enter the market in the introductory stage of the product life cycle. Instead, they carefully watch product and market developments (the prospectors) and enter the most promising ones in the early growth stage of the product life cycle (using one of the market entry strategies). This strategy keeps them balanced with both mature and growth stage products and markets.

The positioning strategies include cost leadership, differentiation, and focus.

Cost leadership – providing product/service at lower cost through economies of scale.

Differentiation – making the product/service different from others.

Focus – niche strategies based on cost leadership or differentiation.

The choice of a specific positioning strategy depends on:

Appropriate internal resources, competencies, and capabilities. (Exhibit 7-21)

External risks. (Exhibit 7-22)

IV. Fit with Situational Analysis and Strategy Mapping.

After all of the strategy formulation decisions have been made, they should be evaluated to ensure they are logical and fit together. The strategies selected must address an external opportunity or threat, draw upon an internal strength or fix a weakness, keep the organization on mission, move the organization toward the vision, and make progress toward achieving one or more of the organization’s goals. Each strategy should be checked to determine if it meets these criteria.

The strategies of the organization should be mapped and evaluated. (Exhibit 7-23)