4. Combine assumptions about individual trends into internally consistent scenarios.
5. Analyze the industry situation that would prevail under each scenario.
6. Determine the sources of competitive advantage under each scenario.
7. Predict competitors' behavior under each scenario.
8. Select the scenarios that are either most likely to occur or most likely to have a strong impact on the future of the company. Use these scenarios as assumptions in strategy formulation.

The Strategic Audit: A Checklist for Environmental Scanning

One way of scanning the environment to identify opportunities and threats is by using the Strategic Audit found in **Appendix 1.A** at the end of Chapter 1. The audit provides a checklist of questions by area of concern. For example, Part III of the audit examines the natural, societal, and task environments. It looks at the societal environment in terms of economic, technological, political–legal, and sociocultural forces. It also considers the task environment (industry) in terms of the threat of new entrants, the bargaining power of buyers and suppliers, the threat of substitute products, rivalry among existing firms, and the relative power of other stakeholders.

Synthesis of External Factors—EFAS

After strategic managers have scanned the natural, societal, and task environments and identified a number of likely external factors for their particular corporation, they may want to refine their analysis of these factors by using a form such as that given in **Table 4–5.** Using an **EFAS (External Factors Analysis Summary) Table** is one way to organize the external factors into the generally accepted categories of opportunities and threats, as well as to analyze how well a particular company's management (rating) is responding to these specific factors in light of the perceived importance (weight) of these factors to the company. To generate an EFAS Table for the company being analyzed, complete the following steps:

1. In **Column 1** (***External Factors***), list the 8 to 10 most important opportunities and threats facing the company.
2. In **Column 2** (***Weight***), assign a weight to each factor from **1.0** (*Most Important*) to **0.0** (*Not Important*) based on that factor's probable impact on a particular company's current strategic position. The higher the weight, the more important is this factor to the current and future success of the company. **(All weights must sum to 1.0 regardless of the number of factors.)**
3. In **Column 3** (***Rating***), assign a rating to each factor from **5.0** (*Outstanding*) to **1.0** (*Poor*) based on that particular company's specific response to that particular factor. Each rating is a judgment regarding how well the company is currently dealing with each specific external factor.

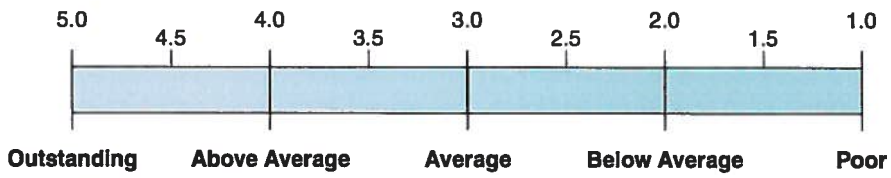

TABLE 4–5 External Factor Analysis Summary (EFAS Table): Maytag as Example

External Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Opportunities				
▪ Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
▪ Demographics favor quality appliances	.10	5.0	.50	Maytag quality
▪ Economic development of Asia	.05	1.0	.05	Low Maytag presence
▪ Opening of Eastern Europe	.05	2.0	.10	Will take time
▪ Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
▪ Increasing government regulations	.10	4.3	.43	Well positioned
▪ Strong U.S. competition	.10	4.0	.40	Well positioned
▪ Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
▪ New product advances	.05	1.2	.06	Questionable
▪ Japanese appliance companies	.10	1.6	.16	Only Asian presence in Australia
Total Scores	1.00		3.15	

NOTES:

1. List opportunities and threats (8–10) in Column 1.
2. Weight each factor from 1.0 (Most Important) to 0.0 (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. **The total weights must sum to 1.00.**
3. Rate each factor from 5.0 (Outstanding) to 1.0 (Poor) in Column 3 based on the company's response to that factor.
4. Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4.
5. Use Column 5 (comments) for the rationale used for each factor.
6. Add the individual weighted scores to obtain the total weighted score for the company in Column 4. This tells how well the company is responding to the factors in its external environment.

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4. In **Column 4** (***Weighted Score***), multiply the weight in **Column 2** for each factor times its rating in **Column 3** to obtain that factor's weighted score.
5. In **Column 5** (***Comments***), note why a particular factor was selected and how its weight and rating were estimated.
6. Finally, add the weighted scores for all the external factors in **Column 4** to determine the total weighted score for that particular company. The **total weighted** score indicates how well a particular company is responding to current and expected factors in its external environment. The score can be used to compare that firm to other firms in the industry. Check to ensure that the total weighted score truly reflects the company's current performance in terms of profitability and market share. **The total weighted score for an average firm in an industry is always 3.0.**

As an example of this procedure, **Table 4–5** includes a number of external factors for Maytag Corporation with corresponding weights, ratings, and weighted scores provided. This table is appropriate for 1995, long before Maytag was acquired by Whirlpool. Note that Maytag's total weight was 3.15, meaning that the corporation was slightly above average in the major home appliance industry at that time.

then able to modify plans based on local conditions or changes in marketing. Heineken uses these modifications to adjust brewing and supply schedules. As a result of this system, lead times have been reduced from the traditional 10–12 weeks to 4–6 weeks. This time savings is especially useful in an industry competing on product freshness. In another example, Procter & Gamble participates in an information network to move the company's line of consumer products through Wal-Mart's many stores. *Radio-frequency identification (RFID)* tags containing product information are used to track goods through inventory and distribution channels. As part of the network with Wal-Mart, P&G knows by cash register and by store what products have passed through the system every hour of each day. The network is linked by satellite communications on a real-time basis. With actual point-of-sale information, products are replenished to meet current demand and minimize stockouts while maintaining exceptionally low inventories.[86]

The Strategic Audit: A Checklist for Organizational Analysis

One way of conducting an organizational analysis to ascertain a company's strengths and weaknesses is by using the Strategic Audit found in **Appendix 1.A** at the end of **Chapter 1**. The audit provides a checklist of questions by area of concern. For example, Part IV of the audit examines corporate structure, culture, and resources. It looks at organizational resources and capabilities in terms of the functional areas of marketing, finance, R&D, operations, human resources, and information systems, among others.

Synthesis of Internal Factors

After strategists have scanned the internal organizational environment and identified factors for their particular corporation, they may want to summarize their analysis of these factors using a form such as that given in **Table 5–2**. This **IFAS (Internal Factor Analysis Summary) Table** is one way to organize the internal factors into the generally accepted categories of strengths and weaknesses as well as to analyze how well a particular company's management is responding to these specific factors in light of the perceived importance of these factors to the company. Use the VRIO framework (**V**alue, **R**areness, **I**mitability, and **O**rganization) to assess the importance of each of the factors that might be considered strengths. Except for its internal orientation, this IFAS Table is built the same way as the EFAS Table described in **Chapter 4** (in **Table 4–5**). To use the IFAS Table, complete the following steps:

1. In **Column 1** (***Internal Factors***), list the 8 to 10 most important strengths and weaknesses facing the company.
2. In **Column 2** (***Weight***), assign a weight to each factor from **1.0** (*Most Important*) to **0.0** (*Not Important*) based on that factor's probable impact on a particular company's current strategic position. The higher the weight, the more important is this factor to the current and future success of the company. **All weights must sum to 1.0 regardless of the number of factors.**
3. In **Column 3** (***Rating***), assign a rating to each factor from **5.0** (*Outstanding*) to **1.0** (*Poor*) based on management's specific response to that particular factor. Each rating is a judgment regarding how well the company's management is currently dealing with each specific internal factor.

TABLE 5–2 Internal Factor Analysis Summary (IFAS Table): Maytag as Example

Internal Factors	Weight	Rating	Weighted Score	Comments
1	2	3	4	5
Strengths				
▪ Quality Maytag culture	.15	5.0	.75	Quality key to success
▪ Experienced top management	.05	4.2	.21	Know appliances
▪ Vertical integration	.10	3.9	.39	Dedicated factories
▪ Employer relations	.05	3.0	.15	Good, but deteriorating
▪ Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
▪ Process-oriented R&D	.05	2.2	.11	Slow on new products
▪ Distribution channels	.05	2.0	.10	Superstores replacing small dealers
▪ Financial position	.15	2.0	.30	High debt load
▪ Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
▪ Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	1.00		3.05	

NOTES:

1. List strengths and weaknesses (8–10) in Column 1.
2. Weight each factor from **1.0** (Most Important) to **0.0** (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. **The total weights must sum to 1.00.**
3. Rate each factor from **5.0** (Outstanding) to **1.0** (Poor) in Column 3 based on the company's response to that factor.
4. Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4.
5. Use Column 5 (comments) for the rationale used for each factor.
6. Add the individual weighted scores to obtain the total weighted score for the company in Column 4. This tells how well the company is responding to the factors in its internal environment.

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4. In **Column 4** (***Weighted Score***), multiply the weight in **Column 2** for each factor times its rating in **Column 3** to obtain that factor's weighted score.
5. In **Column 5** (***Comments***), note why a particular factor was selected and/or how its weight and rating were estimated.
6. Finally, add the weighted scores for all the internal factors in **Column 4** to determine the total weighted score for that particular company. The **total weighted score** indicates how well a particular company is responding to current and expected factors in its internal environment. The score can be used to compare that firm to other firms in its industry. Check to ensure that the total weighted score truly reflects the company's current performance in terms of profitability and market share. **The total weighted score for an average firm in an industry is always 3.0.**

As an example of this procedure, **Table 5–2** includes a number of internal factors for Maytag Corporation in 1995 (before Maytag was acquired by Whirlpool) with corresponding weights, ratings, and weighted scores provided. Note that Maytag's total weighted score is 3.05, meaning that the corporation is about average compared to the strengths and weaknesses of others in the major home appliance industry.