

SOURCE: FUNDAMENTALS OF STRATEGIC MANAGEMENT, BY FRED DAVID, PRENTICE HALL.

THE MATCHING STAGE

The Threats-Opportunities-Weaknesses-Strengths (TOWS) Matrix

The matching stage of the analytical framework for strategy formulation includes the TOWS Matrix, the SPACE Matrix, the BCG Matrix, the IE Matrix, and the Grand Strategy Matrix. These matching tools rely upon input information derived from the IFE Matrix, EFE Matrix, and Competitive Profile Matrix. Matching internal strengths/weaknesses with external opportunities/threats suggests feasible alternative strategies.

Although the concept of "matching" was introduced in Chapter 1, more detail is provided now. Matching means aligning internal factors with external factors to generate alternative strategies. For example, a firm with excess working capital (an internal strength) could take advantage of the aerospace industry's growing 40 percent annually (an external opportunity) by acquiring a firm in the aerospace industry. This example portrays simple one-to-one matching. In most situations, internal and external relationships are more complex and the matching process requires more thought. The basic concept of matching is further exemplified in Table 6.5.

Any organization, whether military, product-oriented, service-oriented, governmental, or even athletic, must devise and execute good strategies to win. A good

Table 6.5 Matching key internal and external factors to formulate alternative strategies

Key Internal Factor		Key External Factor		Resultant Strategy
Excess working capital (an internal strength)	+	40% annual growth of the aerospace industry (an external opportunity)	=	Acquire Aerospace, Inc.
Insufficient capacity (an internal weakness)	+	Exit of two major foreign competitors from the industry (an external opportunity)	=	Pursue horizontal integration by buying competitors' facilities
Strong R&D expertise (an internal strength)	+	Decreasing numbers of young adults (an external threat)	=	Develop new products for older adults
Poor employee morale (an internal weakness)	+	Strong union activity (an external threat)	=	Develop a new employee-benefits package

2

offense without a good defense, or vice versa, most often leads to defeat. Every organization has some internal strengths and weaknesses and external opportunities and threats. A firm can use its internal strengths to take advantage of external opportunities or to overcome external threats. Alternatively, a firm could pursue defensive-type strategies aimed at overcoming weaknesses and avoiding external threats.

External threats can be disastrous to firms that additionally have major internal weaknesses. An organization could pursue strategies that improve on its internal weaknesses by taking advantage of external opportunities. Matching key internal and external factors is more an art than a science! Strategic analysis and choice largely involve making subjective judgments based on objective information.

The TOWS Matrix is an important strategy-formulation matching tool that results in the development of four types of strategies: SO Strategies, WO Strategies, ST Strategies, and WT Strategies.⁵ The letters S, O, W, and T stand for *strengths*, *opportunities*, *weaknesses*, and *threats*. SO Strategies are based on using a firm's internal strengths to take advantage of external opportunities.

Any company would like to be in a position where it can use its strengths to exploit external opportunities. Such an enterprise can lead from strengths, utilizing resources to take advantage of the market for its products and services. For example, Mercedes Benz, with its technical know-how and quality image (internal strengths), could take advantage of the increasing demand for luxury cars (external opportunity) by expanding production.

Organizations generally will pursue WO, ST, or WT in order to get into a situation where they can then apply an SO strategy. When a firm has major weaknesses, it will strive to overcome them, making them strengths. When a company faces major threats, it will seek to avoid them, in order to concentrate more on opportunities.

WO Strategies aim at improving internal weaknesses by taking advantage of external opportunities. Sometimes key external opportunities exist, but a firm has internal weaknesses that prevent those opportunities from being exploited. For example, there may be a great demand for electronic devices to control the amount and timing of fuel injection in automobile engines (opportunity), but a certain auto parts manufacturer may lack the technology required for producing these devices (weakness). One possible WO strategy would be to acquire this technology by forming a joint venture with a firm having competency in this field. Another WO strategy would be to hire and train people with the required technical capabilities.

ST Strategies are based on using a firm's strengths to avoid or reduce the impact of external threats. The aim is to capitalize on the firm's strengths by minimizing external threats. This does not mean that a strong company should always meet threats in the external environment head-on. General Motors found this out in the 1960s when Ralph Nader (an external threat) exposed safety hazards of the Corvair automobile. GM used its strengths (size and influence) to ridicule Nader, and the direct confrontation caused more problems than expected. In retrospect, this ST Strategy was probably inappropriate for GM at the time.

3

WT Strategies are directed at overcoming internal weaknesses and avoiding environmental threats. The attempt is to minimize both weaknesses and threats. WT strategies are defensive. A company faced with many external threats and internal weaknesses may indeed be in a precarious position. In fact, such a firm may have to fight for its survival, merge, retrench, declare bankruptcy, or choose liquidation.

A schematic representation of the TOWS Matrix is provided in Figure 6.3. Note that a TOWS Matrix is composed of nine cells. As shown, there are four key factor cells, four strategy cells, and one cell that is always left blank (the upper left cell). The four strategy cells, labeled SO, WO, ST, and WT, are developed after the four key factor cells, labeled S, W, O, and T are completed.

Figure 6.3 The TOWS Matrix

Always leave blank	STRENGTHS—S	WEAKNESSES—W
	1. 2. 3. 4. 5. 6. List strengths 7. 8. 9. 10.	1. 2. 3. 4. 5. 6. List weaknesses 7. 8. 9. 10.
OPPORTUNITIES—O	SO STRATEGIES	WO STRATEGIES
1. 2. 3. 4. List opportunities 5. 6. 7. 8. 9. 10.	1. 2. 3. 4. Use strengths to take advantage of opportunities 5. 6. 7. 8. 9. 10.	1. 2. 3. 4. Overcome weaknesses by taking advantage of opportunities 5. 6. 7. 8. 9. 10.
THREATS—T	ST STRATEGIES	WT STRATEGIES
1. 2. List threats 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. Use strengths to avoid threats 3. 4. 5. 6. 7. 8. 9. 10.	1. 2. Minimize weaknesses and avoid threats 3. 4. 5. 6. 7. 8. 9. 10.

The steps involved in constructing a TOWS Matrix are:

1. List the firm's key internal strengths.
2. List the firm's key internal weaknesses.
3. List the firm's key external opportunities.
4. List the firm's key external threats.
5. Match internal strengths with external opportunities and record the resultant SO Strategies in the appropriate cell.
6. Match internal weaknesses with external opportunities and record the resultant WO strategies.
7. Match internal strengths with external threats and record the resultant ST strategies.
8. Match internal weaknesses with external threats and record the resultant WT strategies.

Matching key internal and external factors is the most difficult part of developing a TOWS Matrix. The matching process requires good judgment and there is no one best answer. Note in Table 6.5, presented earlier, that the first, second, third, and fourth strategies were SO, WO, ST, and WT strategies respectively. Some other examples of how to match key factors to generate feasible strategies are given as follows:

1. A strong financial position (internal strength) coupled with unsaturated foreign markets (external opportunity) could suggest that market development would be an appropriate SO-type strategy.
2. A lack of technical expertise (internal weakness) coupled with a strong demand for computer services (external opportunity) could suggest the WO strategy of acquiring a high-tech computer company.
3. A strong distribution system (internal strength) coupled with intense government deregulation (external threat) could suggest that concentric diversification would be a desirable strategy.
4. Poor product quality (internal weakness) coupled with unreliable suppliers (external threat) could suggest that backward integration would be a feasible strategy.

The purpose of each Stage 2 matching tool is to generate feasible alternative strategies, not to select or determine which strategies are best. Therefore, not all of the strategies developed in the TOWS Matrix and the other Stage 2 tools will be selected for implementation.

An example TOWS Matrix is provided in Figure 6.4 for Levi Strauss & Company. Levi Strauss is headquartered in San Francisco and has been the leader in the \$1.7 billion-per-year United States jeans business. Some of Levi's key strengths, weaknesses, opportunities, threats, and strategies are identified. The notation "S2, O3" indicates

Figure 6.4 The TOWS Matrix applied to Levi Strauss & Company

5

	STRENGTHS 1. Levi Strauss has excess working capital. 2. Advertising effectiveness is excellent. 3. David Hunter has become a successful fashion brand.	WEAKNESSES 1. Customer loyalty has declined. 2. Retail sales of Levi's Jeans are declining. 3. Nine plants have been shut since 1982.
OPPORTUNITIES 1. The consumer is becoming more leisure-oriented and wearing jeans more often. 2. Levi Strauss commands 43% of the market share in jeans. 3. K-Mart, Wal-Mart, and other retailers do not currently sell Levi's jeans.	SO STRATEGIES 1. Product development (Add "Davy Hunter" line of jeans). S1, S3, O1. 2. Forward integration (Attract K-Mart and Wal-Mart as distributors). S2, O3.	WO STRATEGIES
THREATS 1. Both Blue Bell and VF Corp.'s jeans are gaining market share. 2. Sears and J. C. Penney's may withdraw their orders from Levi Strauss. 3. Levi Strauss' traditional distributors are angered by Levi's policy of selling to mass retailers such as Sears. 4. 1980-1982 were financially disastrous years for Levi's.	ST STRATEGIES	WT STRATEGIES 1. Retrenchment (close more plants). W2, W3, T3, T4. 2. Market penetration (offer small retailers special incentives). W2, T3.

Source: Based on Levi Strauss' 1984 Annual Report and an article entitled "Levi Strauss: A Touch of Fashion—and a Dash of Humility," *Business Week* (October 24, 1983): 85-88.

that the justification for Levi Strauss considering forward integration is "strength number two (advertising effectiveness)" matched with "opportunity number three (mass retailers do not carry Levi's jeans)." Similarly, the notation "W2, T3" indicates that Levi Strauss should consider offering small retailers special incentives due to "weakness number two (declining retail sales)" coupled with "threat number three (present distributors are angered)." This type of notation should always be used in constructing a TOWS Matrix to reveal the bases for specific strategies. Sometimes several internal factors will be matched with several external factors to generate a feasible alternative strategy. As indicated in the Levi example, strategies do not necessarily have to be developed for all four strategy cells.

6

When an organization has both the capital and human resources needed to distribute its own products (internal strength), and distributors are unreliable, costly, or incapable of meeting the firm's needs (external threat), then forward integration can be an attractive ST type strategy. Similarly, when a firm has excess production capacity (internal weakness), and its basic industry is experiencing declining annual sales and profits (external threat), then concentric diversification can be an effective WT-type strategy. The strategy-formulation guidelines provided in Chapter 2 can enhance strategists' efforts to match key internal and external factors effectively.

It is important, in developing the TOWS Matrix, that one tailor specific strategies to the given organization. That is, do not just conclude that "an organization should consider pursuing concentric diversification." Rather, be more specific, saying, perhaps, "The organization should consider diversifying concentrically by adding motor homes to its product line."

An article entitled, "Mobil Wants To Be Your Milkman," suggests that Mobil is planning to pursue a major ST Strategy. Mobil's strength, 12,000 stations nationwide, and an external threat, 50,000+ convenience stores in the United States now selling gasoline, combine to make the following ST strategy potentially attractive: Mobil intends to turn as many as possible of its full-service stations into self-service gas islands in combination with convenience stores. (Mobil calls them "snack shops.")⁶ Mobil's yearly sales and profits declined from a high of \$69 billion and \$2.4 billion respectively in 1981 to \$60 billion and \$1.3 billion in 1984.

Another Example of SWOT Matrix

7

	STRENGTHS—S 1. Product quality improved 35% from 1985 to 1987 2. Chrysler's labor costs are lower than Ford or GM's 3. Chrysler's Gulfstream Aerospace jets lead industry 4. Chrysler's breakeven point has decreased from 2.4 to 1.5 million vehicles 5. Chrysler has 50% of mini-van market	WEAKNESSES—W 1. AMC acquisition raises debt/equity ratio to 60% 2. Fixed assets are 42% of total assets (4 times industry average) 3. Chrysler has fewer joint ventures than Ford or GM 4. Chrysler's operations are confined to Canada, Mexico, and the United States
OPPORTUNITIES—O 1. Low value of the dollar 2. Aerospace and defense industries are growing 20% per year 3. Consumers' disposable income is increasing 5% per year 4. Interest rates are declining 5. GM's new Saturn project is having problems	SO STRATEGIES 1. Acquire an aerospace company (S3, O2) 2. Export 50% more mini-vans (S1, S5, O1) More SO strategies	WO STRATEGIES 1. Form an aerospace joint venture company (W3, O2) 2. Build a manufacturing plant in Europe (W4, O4) More WO strategies
THREATS—T 1. Foreign imports are gaining market share 2. Unrest in the Middle East could increase gas prices 3. Ford has an excellent new line of cars	ST STRATEGIES 1. Boost advertising expenditures 50% (S1, S5, T1, T3) More ST strategies	WT STRATEGIES Can formulate WT strategies

FIGURE 6-4 A TOWS Matrix for the Chrysler Corporation