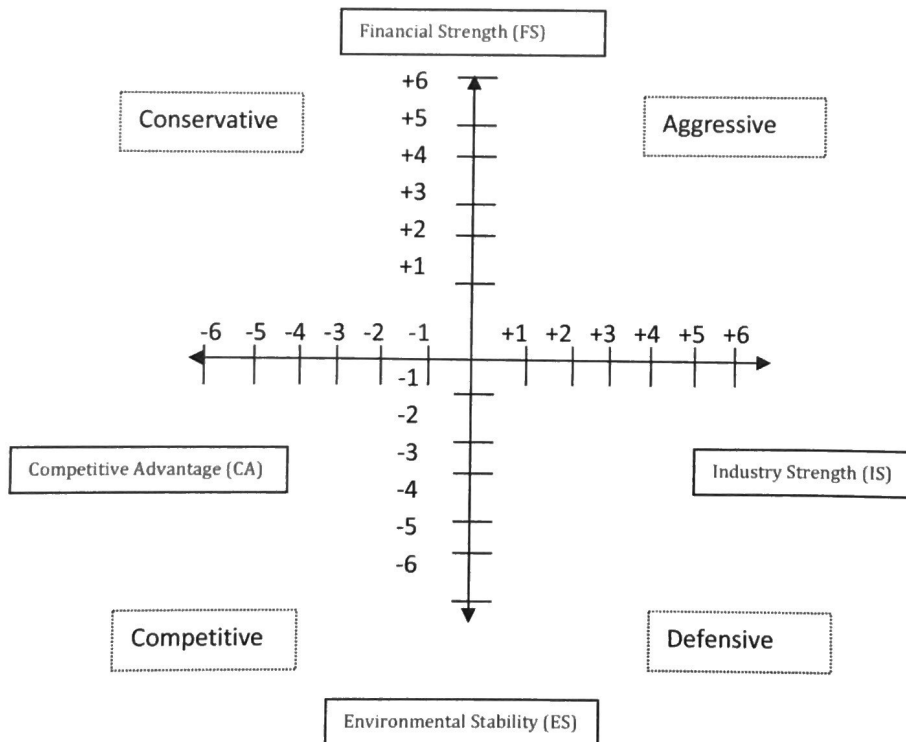


Chapter 21 SPACE Matrix

The SPACE matrix (Strategic Position & Action Evaluation) is a four-direction matrix that is used to analyze whether conservative, aggressive, defensive, or competitive strategies are most appropriate for a company's strategic approach. The analysis looks internally at the company's financial strength and competitive advantage, as well as externally at the stability of the environment in which the company competes, and the strength of the industry in which it competes.

Internal strategic position	External strategic position
Financial Strength (FS)	Environmental Stability (ES)
Competitive Advantage (CA)	Industry Strength (IS)

Financial Strength (FS) will be plotted against Environmental Stability (ES), and Competitive Advantage (CA) will be plotted against Industry Strength (IS).



Anything in the top left quadrant suggests a conservative strategy is appropriate for the company. The top right quadrant suggests an aggressive strategy is appropriate, the bottom right suggests defensive strategies and the bottom left quadrant suggests competitive strategies are appropriate.

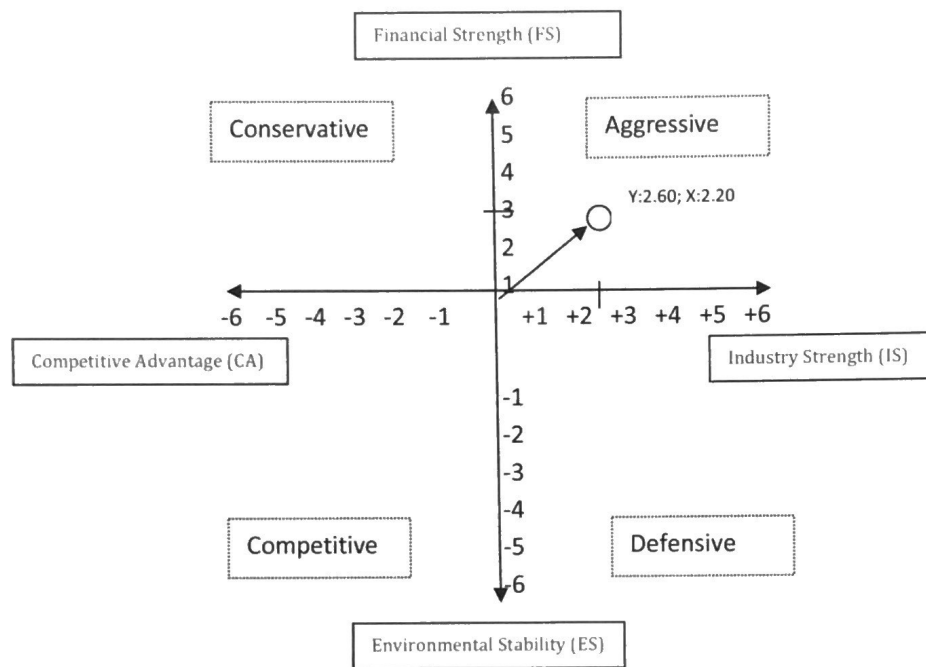
The steps in developing the SPACE matrix are:

1. Determine what variables to use to measure. You should have approximately 5 per factor. The variables should be critical success factors in the industry and be good indicators of the issue. For example, for the issue of financial strength, what are the 5-6 key indicators of financial health for a company in your industry? Obviously, the variables will change by industry (retail may have very different indicators of financial health than does heavy manufacturing):
 - **Financial strength** (FS), (example: ROI, leverage, liquidity, or other measures from the ratio analysis)
 - **Competitive advantage** (CA), (example: market share, product quality, life cycle position, customer loyalty, manufacturing capability, or other factors from Porters analysis or SWOT)
 - **Environmental stability** (ES), (example: technology, inflation, or other factors from PEST and environmental analysis)
 - **Industry strength** (IS) (example: growth potential, Profit potential, productivity, or other factors from Porters analysis and environmental analysis)
2. Give a score ranging from +1 (Terrible) to +6 (Great) to each of the variable that make up financial strength FS and industry strength IS.
3. Give a score ranging from -1 (Great) to -6 (Terrible) to each of the variables that make up environmental stability ES and competitive advantage CA.
4. Find the average score for the FS variables, then for the ES variables, then for the CA variables, and finally for the IS variables.
5. Plot these values for each dimension on the SPACE Matrix on the appropriate axis.
6. Add the average score for FS to the average score for ES to yield the X value.
7. Add the average score for CA to the average score for IS to yield the Y value. You will be able to plot one single point on the SPACE Matrix.

8. Find the intersection of the X axis score and the Y Axis score. Draw a line from the center of the SPACE Matrix to the intersection point. This line points to the type of strategies the company should engage in.

EXAMPLE:

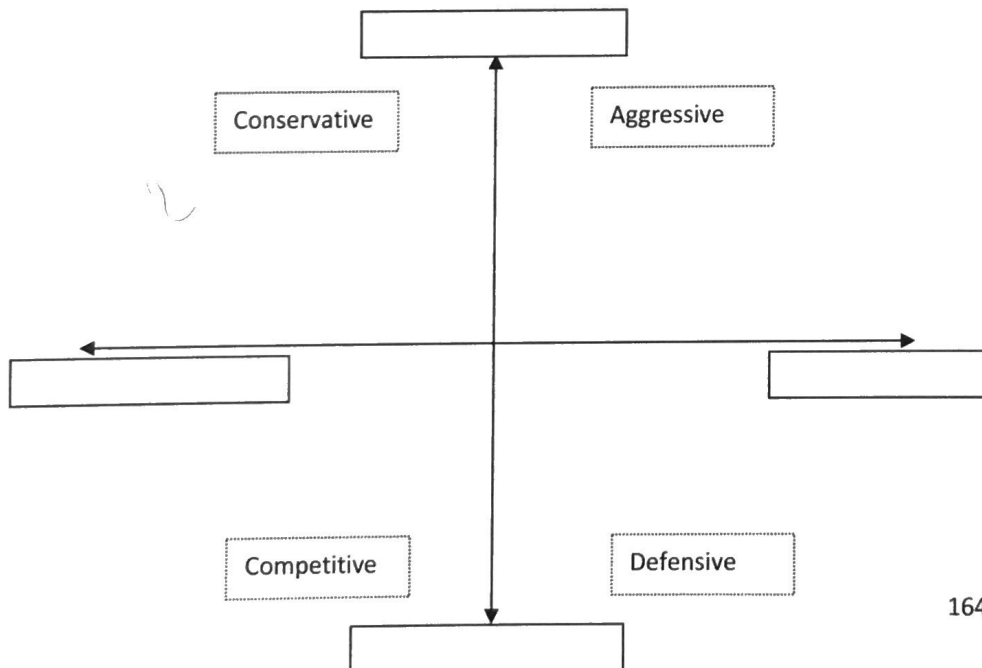
	Internal strategic position	External strategic position
Y-axis	Financial Strength (FS) (score: +6 best, +1 worst)	Environmental Stability (score: -1 best, -6 worst)
Total y-axis score: $+4.80 - 2.20 =$ +2.60	+6: EPS increasing +4: Liquidity slightly decreasing +5: ROE increasing +5: ROI Increasing +4: Efficiency ratio stable Average: +4.80	-1: Political elections pending -4: Inflation rate risk -2: Rapid technology change -2: Exchange rates hurting -2: Demographic shifts Average: -2.20
X-axis	Competitive Advantage (CA) (score: -1 best, -6 worst)	Industry Strength (IS) (score: +6 best, +1 worst)
Total x-axis score $-2.40 + 4.60 =$ +2.20	-1: Market share -4: New product development -4: Sales force & distribution -1: Patents last 11 more years -2: HR & talent development Average: -2.40	+6: Growth potential +5: Barriers to entry +5: Government subsidies +4: Price elasticity +3: Lobbying strength Average: +4.60



Create a SPACE matrix for your project company

SPACE Matrix for _____

	Internal strategic position		External strategic position	
Y-axis	Financial Strength (FS) (score: +6 best, +1 worst)		Environmental Stability (score: -1 best, -6 worst)	
Total y-axis score: + ____ - ____ = 	*		*	
	*		*	
	*		*	Point out any significant issues
	*		*	
	*		*	
	Average: ____		Average: ____	
X-axis	Competitive Advantage (CA) (score: -1 best, -6 worst)		Industry Strength (IS) (score: +6 best, +1 worst)	
Total x-axis score - ____ + ____ = 	*		*	
	*		*	
	*		*	
	*		*	
	*		*	
	Average: ____		Average: ____	



Directional Indicators Summary

The directional indicators; the IE Matrix, the Grand Strategy Matrix, and the Space Matrix, have used the information gathered in the external and internal analysis to determine a broad strategic direction for the business. This are called *directional indicators* because they suggest a strategic direction for the business but do not provide a specific strategy. The specifics will come in next three chapters. The directional indicators indicate a strategic direction for the company to follow going forward. It does *not* tell you where the company is now. For example, an indication that the company should be aggressive in the selection of its future strategy does not mean that it currently has an aggressive strategy. It simply means the company *likely should* begin to be more aggressive in its strategic approach.

Because the indicators look at the business from different perspectives it is not unusual for each indicator to provide a slightly different strategic direction. If this occurs it does not reflect an error in the calculation. The different directional indicators need to be combined, assessed, and an overall integrated strategic direction determined. This conclusion is drawn by the strategist based upon their accumulated knowledge and research on the company, competitors, and the industry.

A conclusion to the directional indicators may look like the following...

Indicator:	Result:	Overall Conclusion:
I/E Matrix		
Grand Strategy Matrix		
Space Matrix		

The overall conclusion drawn above will help inform the selection of strategy in the following chapters.