STRATEGIC MANAGEMENT
Lesson 3: EFE & CPM Matrix

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Chapter Description

- Expected Outcomes
  - Demonstrate the ability to develop an EFE Matrix.
  - Demonstrate the ability to develop a CPM Matrix.

- References
  - David, F.R. (2013). Strategic Management: Concept & Cases, 14th Edition. Prentice Hall

External Factor Evaluation (EFE)

- This matrix allows companies to compile and assess the key external forces.

- There are 5 steps to develop EFE matrix

External Factor Evaluation (EFE)

STEP 1

- List the identified external factors

- For opportunities & threats, 15-20 factors can be included.

- Opportunities are listed first follow by threats.

- Use percentages or ratios, as specific as possible.

External Factor Evaluation (EFE)

STEP 2

- For each of the external factors, assigned a weight.
  - ❖Range: 0.0 to 1.0 (not important to very important)
- Higher weights are given to Opportunities than to Threats.
- The total assigned weights = 1.0.

External Factor Evaluation (EFE)

STEP 3

- A rate between 1 & 4 is assigned to the listed external factors.

- The rate shows the response of the company's ongoing strategies to the factor.

  a. 4 = *the response is superior*

  b. 3 = *the response is above average*

  c. 2 = *the response is average*

  d. 1 = *the response is poor*

External Factor Evaluation (EFE)

- Ratings = Company-based

- Weights (Step 2) = Industry-based

- Both threats & opportunities can be a 1, 2, 3, or 4.

External Factor Evaluation (EFE)

STEP 4

- Each factor's weight X Rating = Weighted Score

STEP 5

- Total up the weighted scores for all variable = total weighted score.

External Factor Evaluation (EFE)

- Total weighted score indicator:

The highest score = 4.0

The lowest score = 1.0

Average score = 2.5

Total score = 4.0
- ❖ The company current strategies are effective

Total score = 1.0
- ❖ The company current strategies are not effective

External Factor Evaluation (EFE)

A sample of EFE Matrix for a Local Ten-Theatre Cinema Complex Source: David (2013)

Key External Factors	Weight	Rating	Weighted Score
Opportunities			
1. Rowan County is growing 8% annually in population	0.05	3	0.15
2. TDB University is expanding 6% annually	0.08	4	0.32
3. Major competitor across town recently ceased operations	0.08	3	0.24
4. Demand for going to cinema growing 10% annually	0.07	2	0.14
5. Two new neighborhoods being developed within 3 miles	0.09	1	0.09
6. Disposable income among citizens grew 5% in prior year	0.06	3	0.18
7. Unemployment rate in county declined to 3.1%	0.03	2	0.06
Threats			
8. Trend toward healthy eating eroding concession sales	0.12	4	0.48
9. Demand for online movies and DVDs growing 10% annually	0.06	2	0.12
10. Commercial property adjacent to cinemas for sale	0.06	3	0.18
11. TDB University installing an on-campus movie theatre	0.04	3	0.12
12. County and city property taxes increasing 25% this year	0.08	2	0.16
13. Local religious groups object to R-rated movies being shown	0.04	3	0.12
14. Movies rented from local Blockbuster store up 12%	0.08	2	0.16
15. Movies rented last quarter from Time Warner up 15%	0.06	1	0.06
Total	1.00		2.58

The Competitive Profile Matrix (CPM)

- This matrix helps in identifying:

    Companies' competitors + Strength + Weakness

- The weights & total weighted scores:

    EFE = CPM

- CPM's critical success:

    include internal + external issues.

The Competitive Profile Matrix (CPM)

- Ratings = strengths and weaknesses:
  - i.   4 = major strength
  - ii.   3 = minor strength
  - iii. 2 = minor weakness
  - iv.   1 = major weakness
- Critical success factors = not grouped into opportunities and threats.
- The ratings & total weighted scores can be compared between the company and it's competitors.

The Competitive Profile Matrix (CPM)

Critical Success Factors	Weight	Company 1			Company 2			Company 3	
		Rating	Weighted Score		Rating	Weighted Score		Rating	Weighted Score
Market share	0.15	3	0.45		2	0.30		4	0.60
Inventory system	0.08	2	0.16		2	0.16		4	0.32
Financial position	0.10	2	0.20		3	0.30		4	0.40
Product quality	0.08	3	0.24		4	0.32		3	0.24
Consumer loyalty	0.02	3	0.06		3	0.06		4	0.08
Sales distribution	0.10	3	0.30		2	0.20		3	0.30
Global expansion	0.15	3	0.45		2	0.30		4	0.60
Organization structure	0.05	3	0.15		4	0.20		2	0.10
Production capacity	0.04	3	0.12		2	0.08		4	0.16
E-commerce	0.10	3	0.30		1	0.10		4	0.40
Customer service	0.10	3	0.30		2	0.20		4	0.40
Price competitive	0.02	4	0.08		1	0.02		3	0.06
Management experience	0.01	2	0.02		4	0.04		2	0.02
Total	1.00		2.83			2.28			3.68

Example Competitive Profile Matrix
Source: David (2013)

END