
Mapping and Selecting Company's Competitive Strategy

Gatut L. Budiono¹

Abstract:

The main aim of this study is to identify the internal and external conditions a company faces as the basis for the selection of the appropriate strategies in accordance with the financial conditions of the company.

The internal and the external conditions of the company have been obtained from primary and secondary data. Both provide information about the total condition of the company internally and externally. Three well known financial matrices have been used in this study namely the Internal Factor Evaluator (IFE), the External Factor Evaluator (EFE) and the Internal – External Matrix (IE).

The IFE matrix analysis for the company used, as a case study in this article, has a total value of 2.446 while the EFE matrix has a value of 3.5275. The position of the firm in the IE matrix was in the second quadrant where the company grows and builds. This strategy is considered as the most appropriate for the company to face competition.

Keywords: *IFE matrix, EFE, IE matrix, preferred strategy.*

¹ Universitas Pancasila, gatutbudiono@gmail.com

1. Introduction

Business strategy is very important for the companies in order to be able to compete in the market, to obtain sales and the expected profit. Companies without a strategy were unlikely to gain sales and profit success. Strategy is used to determine the long-term goals and the objectives of the company, the implementation of the action and the allocation of resources needed to achieve the intended purpose (Kuncoro, 2006). With strategy, the company would be able to focus more precisely, to have clear business goals and the correct ways regarding its future direction. The strategy applied to a company also varies, among short-term strategy and long-term strategy which is considered for the sustainable performance of the company (Saputra, 2012). To achieve the ultimate goal of the company, the strategy must be able to unite the movement of each step in a broad organization into a single movement.

PT Budaya company engaged in the procurement of guitar musical instruments has not been able to determine a strategy that suits their business conditions. The production system of the company was still fairly traditional, using manual machines operated by workers. Marketing by the company rely on simple marketing through personal selling and the company implements direct and indirect distribution systems to customers. As a small company characteristic, simple and traditional has many obstacles, among others: competition between musical instrument companies have been increasingly tight. The number of competitors was a major threat to the company because the ability to absorb the product very limited. Another obstacle was the unstable domestic economic and political conditions and declining public purchasing power.

Therefore, small enterprise like PT Budaya were required to adjust to the conditions and situations in order to compete. Information was an external factor that contains opportunities and threats, which was considered as a factor in the company's success in formulating a strategy. External information should be combined with internal company information that contains the company's strengths and weaknesses. PT Budaya is pertained in a level of micro, small and medium enterprises did not have good management yet. The company has not been able to innovate in marketing or production.

The situation and business conditions have become increasingly competitively. Various strategies and administration ways have been used to gain the maximum profits. To determine a good and mature strategy, it is necessary to develop an appropriate analytical strategy support by all parties of the company then executed strategy and evaluation of strategies to win business competition. In order for PT Budaya, a small and medium sized company to compete, it must have strategies that were done by knowing the positive and negative side of the company using the matrix analysis tool Internal Factor Evaluation (IFE) and External Factor Evaluation (EFE), to analyze internal factors and external factors accordingly with company conditions and to find out the most appropriate strategy applied to the company (Mumpuni,

2013). While the Internal and External (IE) matrix is specifically designed to assist the efforts of multidivisional companies in formulating strategies (David, 2010; Fitri, 2014).

This (IE) matrix can show the parameters of internal strength and external influences facing the company. With 9 possible cell strategies, the aim is to use business strategy at a more detailed corporate level (Utami and Imron, 2012). The above issue was the motivation to conduct research on small and medium enterprise strategies winning the competition. The object of research was the planning and formulation of business strategy of PT Budaya, with the aim of how to help the company to create and choose strategies that fit well with its conditions and situation.

The research problem were how was the position of PT Budaya company in IFE and EFE matrix in accordance to strategic scanning? What kind of strategy could be undertaken in accordance with the IE matrix.

The research objectives were twofold. First to identify the position of PT Budaya company in IFE and EFE and (IE) matrix according to strategic scanning and to determine some of the company's strategies according to the real conditions companies face and to overcome tight competition in the real market. It was believed that this useful research would be able to choose and create the right strategy to be implemented as company procedures to increase sales. Theoretically this research was useful for the implementation of business sciences in the interest of the community, especially for the company under study. This could be used as a reference case to help advance business strategy.

2. Literature Review

Utami and Imron (2012) in their research entitled *The Formulation of Corporate Strategy Based on Competitive Advantage*, have concluded that when the company's business position is in growth position, the appropriate strategy is to avoid loss of profit and sales. From the Internal and External (IE) matrix analysis, it has known that the strategy chosen for the short-term was to establish good relationship with the customer, for the short-medium strategy to cooperate with travel agents, for the medium-term strategy to set the price level accordingly to quality and design, and for the long-term strategy to expand the marketing network at home and abroad. The analysis tools used was (IE) matrix.

Fitri (2014) in his research entitled *Business Development Strategy Reformulation in KJKS Muamalah Berkah Sejahtera (MBS)* resulted in the formulation of the strategy undertaken by KJKS MBS which has been proven to be effective but due to environmental factors is changing all the time. To measure the appropriate and effective strategy, the researcher used David's (2010) theory by using, IFE - EFE matrix and SPACE matrix. From internal and external environmental conditions, KJKS MBS is in the 3rd quadrant position under aggressive conditions. KJKS MBS

needs to exploit opportunities by multiplying products, contracts, promotions, and controls. So the new strategy is generated as the development of the previous strategy that has been done by KJKS MBS, including: the active role of management and members of KJKS MBS training, increase the amount of deposits, enlarge the contract, give rewards to members who make deposits, provide low prices, use product and diversification of contracts, start aggressive promotion in new geographical areas, socialize the consistency of sharia cooperatives, complete SOM and SOP immediately and ask for the government role to give strict sanction to the delinquent.

Saputra (2013) in his research entitled *The Strategic Planning Process Using the Strategy and Performance Execution Excellence (SPEX2) Management System at PT Guci Mas Plasindo* has stated that the strategic management process is in line with the management system Strategy and Performance Execution Excellence (SPEX2), which has been used for strategy formulation, implementation, monitoring, and evaluation. From the results of this study is documented that the management of PT Guci Mas Plasindo can apply the management system document Strategy and Performance Execution Excellence (SPEX2) within the company.

3. Methodology

The type of research used in this research was descriptive research method both quantitative and qualitative. The descriptive analysis was used to draw conclusions in the form of descriptions or opinions based on data obtained (Mumpuni, 2013). Objects studied were internal and external factors of the PT Budaya company. Operationalization of variables was needed to determine the type, indicator, and scale of the dependent variables in the study, so that the tests could be performed correctly, in accordance with the research focus.

The operationalization of variables were internal variables consisting of information about the marketing, production, finance, operations, human resources and development research (David, 2010), divided by the strength and weaknesses of the company. It has some indicators namely marketing, finance, production, human resources and research and development. The measurement were rating 1 = very weak, 2 = weak, 3 = strong, 4 = very strong. External variables consisting of identification and evaluation of trends and events that are beyond the control of one company (David, 2010). It is divided by some indicators namely economics, technology, social, culture, demographics, environment, government, law and psychography. The measurement were ranking, 1 = below average, 2 = average, 3 = above average, 4 = very good. The matrices used were IFE, EFE, and IE.

The results of this research using mathematical calculations gave an interesting picture to be studied. The sources of the research data consisted of primary and secondary data. Primary data sources that directly provide data to data collectors is described by Sugiyono in 2013. This study has used survey techniques, which were arranged in the form of questionnaires, with the answers being research instruments, distributed to

the sample units. There are questions related to the research problem and each answer has a meaning in testing the hypothesis. The method of questionnaire compared to interviews is more detailed and complete. Answers obtained from the respondents to have been analysed using the Likert scale.

The literature involved related to this research, such as journals, books, academic work and surveys results conducted by survey agencies as well as documents relating to theories on Strategic Management, Strategy Orientation, Internal Analysis, External Analysis, Matrix IFE - EFE, and IE Matrix have been taken into consideration. In addition, we have obtained data and information on similar research, not only related to the theories but also with the object of using guitar instruments. The sample for this study was PT Budaya company that has a certain quality and financial characteristics determined by researchers and it has been chosen to be studied for conclusions. The size of the sample was taken according to the number of people working in the PT Budaya company. The object of research was all internal and external aspects of the company.

Data collection was done by collecting primary and secondary data. The study used a written survey technique that was arranged in the form of a questionnaire as a research instrument to selected sample. Primary data obtained from the responses of respondents to a number of questions have been proposed. Meanwhile, based on the dimension of time, this research was included in cross-sectional dimension because it was done at a certain time. Likert scale was used to find out how strong or weak in internal and external analysis is the company by determining the score on each question. Likert scale was used to measure attitudes, opinions, and perceptions of a person or group of persons about social phenomena (Sugiyono 2013). By using Likert scale, the scale gives score 1-4 to know the degree of the respondent to a series of questions contained in the questionnaire where the scale has the order and score for each answer in the questionnaire as follows: weight and category of measurement internal data very strong = 4, strong = 3, weak = 2, very weak = 1 (David, 2010). Weight and category of measurement data (external) Very Good category = 4, Above average = 3, Average = 2, Below average = 1 (David, 2010).

3.1 Internal Factor Evaluation (IFE) Matrix

Data analysis techniques have been used for the Internal Factor Evaluation matrix (IFE matrix), which was a strategy formulation tool that summarizes and evaluates key strengths and weaknesses in the business functional areas, as well as a foundation for identifying and evaluating relationships between the areas.

The main internal factors as mentioned in the internal audit process contains 10 to 20 factors, including organizational strengths and weaknesses. In the list the strong factors are first followed by the weak factors. We make it very specific using percentages, ratios and comparison figures. We give each of those factors weights ranging from 0.0 (not important) to 1.0 (very important). This weight indicates the

relative significance of a factor to the success of the company's performance. Regardless of whether the main factor was an internal strength or weakness, the factors that were considered to have a major influence on organizational performance should be given the highest weight. The sum of all weights must be equal to 1.0. We rate 1 to 4 on each factor to indicate whether the factor was very weak (rank = 1), weak (rank = 2), strong (rank = 3) or very strong (rank = 4). Note that the strength should rank 3 or 4 and the weakness should rank 1 or 2. We multiply the weight of each factor by its rank to determine the weight score for each variable. By increasing the weight score of each variable we can obtain the total weight score of the organization.

3.2 External Factor Evaluation (EFE) Matrix

According to David (2010) the (IFE-EFE) matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological and competitive information. External Factor Evaluation Matrices could be developed in five steps: Make a list of key external factors as mentioned in the external audit process. Include 10 to 20 factors, including opportunities and threats, affecting the company and its industry. List first the chances, then the threat. Make it as detailed as possible using percentages, ratios and comparisons where possible.

Rate each of these factors weights ranging from 0.0 (not important) to 1.0 (very important). These weights indicate the relative significance of a factor to the success of the firm. Opportunities often get higher weights than threats, but threats could be given high weight especially if they were very severe or threatening. The appropriate weights could be determined by comparing successful competitors to those who were unsuccessful or through discussions to reach group consensus. The total amount of weight assigned to that factor must be equal to 1.0.

Rate 1 to 4 on each of the major external factors to show how effective the company's current strategy was in response to the factor, where 4 = the response was excellent, 3 = the response was above average 2 = the average response, and 1 = the response below average. Ranking was based on the effectiveness of corporate strategy. Therefore, the ratings differ between firms, while the weight in step 2 was industry-based. It was important to note that both threats and opportunities could receive ratings of 1, 2, 3 or 4. Multiply the weight of each factor by its rank to determine the weight score. Add the average score for each variable to determine the total weight score for the organization.

3.3 Internal-External Matrix Analysis (IE Matrix)

Internal-External Matrix (IE Matrix) positioned the various divisions of an organization in nine cell views. The IE matrix was based on two key dimensions: the total IFE weight score on the X axis and the EFE weighted score on the Y axis. Each division within an organization must create an IFE matrix and an EFE matrix

associated with the organization. The total weight score obtained from these divisions allows the composition of the IE matrix at the enterprise level. On the X axis of the IE matrix, a total IFE weight score of 1.0 to 1.99 indicates a weak internal position; a score of 2.0 to 2.99 was considered moderate; a score of 3.0 to 4.0 was strong. Similarly to Y axis, the EFE total weight score of 1.0 to 1.99 was considered low; a score of 2.0 to 2.99 was considered moderate; a score of 3.0 to 4.0 was high.

IE matrix could be divided into three major sections that have different strategy implications. First, the provisions for divisions included in cells I, II and IV could be described as growing and building that result in intensive strategy as operating the market penetration, market development and product development or integrative strategy using backward integration, integration forward and horizontal integration could be the most appropriate for these divisions. Second, divisions entered in cells III, V and VII could be handled properly through a strategy of maintaining, hold and maintain; market penetration and product development were the two most widely used strategies in this type of division. Third, the general provisions for divisions entered in cells VI, VIII, or IX were harvest or divest. Successful organizations were able to reach the incoming business portfolio or be around cell I in the IE matrix.

4. Results

Based on the analysis described above the results of this research are as follows (Table 1). Table 1 resulted strength value was 1.546 and the weakness value was 0.9. Once combined, the IFE matrix yields a value of 2.446, which means that the firm characterizes the weaker firm internally. Some of the weaknesses of the company was that the company did not have effective promotion, advertising and publicity strategy and the company did not have a management and computer information system yet.

Table 2 showed the opportunity value was 1.8725 and the threat value was 1.655. Once combined, for the EFE matrix the value was 3.5275 which means that the company has a very large opportunity in the external company. Some of the company's opportunities, namely the need for musical instruments continue to exist, which means that the market for the musical instrument industry will continue to exist. In addition to increasingly sophisticated technological advances, companies could take advantage of such opportunities as technology-based promotions.

4.1 IE Matrix

The IE matrix consists of two dimensions, the total score of the IFE matrix on the X axis (horizontal) and the total score of the EFE matrix on the Y axis. Based on the results of the IFE and EFE matrices performed on the firm, the X-axis of the IE matrix was the total IFE matrix score of 2.446 and Y axis of IE matrix was total EFE matrix score of 3.5275 then company position could be observed in the following Figure 1 below.

Table 1. Internal Factor Evaluation Matrix (IFE)

Major Internal Factors	Weight	Rating	Weight Score
Strength			
1. The company has a good position among competitors	0,03	3	0,09
2. The company has good product quality and customer service	0,08	3	0,24
3. The price of products and services offered by the company was feasible	0,06	3	0,18
4. High employee morale	0,023	4	0,092
5. Employee low turnover	0,023	4	0,092
6. Competent human resources	0,024	3	0,072
7. The Company has sufficient working capital	0,07	3	0,21
8. Suppliers of raw materials, components and sub-assemblies were reliable	0,03	3	0,09
9. Facilities, equipment, machinery and offices were in good condition	0,025	3	0,075
10. Effective inventory control policies and procedures	0,025	3	0,075
11. Effective quality control policies and procedures	0,025	3	0,075
12. Facilities, resources and markets have a strategic location	0,05	3	0,15
13. Current products were technologically competitive	0,035	3	0,105
Total Strength	0,5		1,546
Weaknesses			
1. The company did not have effective promotion, advertising and publicity strategy	0,125	2	0,25
2. Companies did not have strategic concepts	0,07	1	0,07
3. The absence of welfare of employees in health	0,01	1	0,01
BPJS	0,06	2	0,12
4. Capital budgeting procedures did not effective	0,115	2	0,23
5. Companies did not have technological competence	0,02	1	0,02
	0,1	2	0,2
6. The company did not have R & D facilities			
7. The company did not have a management and computer information system			
Total of Weaknesses	0,5		0,9
Total	1,00		2,446

Sources: Data Processed.

Table 2. External Factor Evaluation Matrix (EFE)

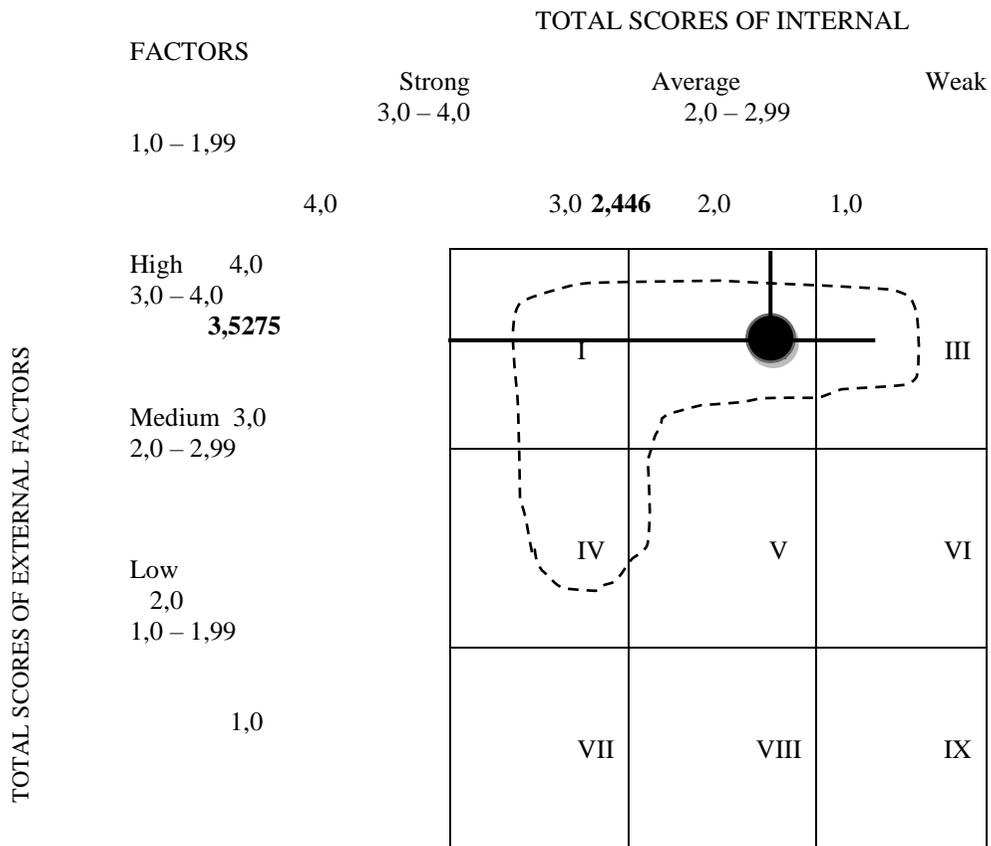
Major Internal Factors	Weight	Rating	Weight Score
Opportunity			

1. Income per capita Indonesia increased	0,0175	3	0,0525
2. Retail locations closed to major roads or crowds	0,0175	4	0,07
3. Traffic congestion benefitting the company	0,0175	3	0,0525
4. Needs of musical instruments continue to exist	0,067	4	0,268
5. The existence of government support for the development of the musical instrument industry	0,075	3	0,225
6. The Company has a patent already	0,085	4	0,34
7. Advances in technology were increasingly sophisticated	0,073	4	0,292
8. The company has distribution channels already	0,08	4	0,32
9. Good relationship between creditors and debtors of the company.	0,0175	3	0,0525
10. Raw materials and supporting materials were easy to obtain	0,05	4	0,2
Total Opportunity	0,5		1,8725
Threats			
1. The existence of inflation	0,03	3	0,09
2. Company's lack of Information technology system	0,02	2	0,04
3. A lot of competitors in the instrument industry	0,175	4	0,07
4. The existence of unhealthy price competition among similar companies	0,125	3	0,375
5. Too many new companies enter into the market.	0,15	3	0,45
Total Threats	0,5		1,655
Total	1,00		3,5275

Sources: Data Processed

As shown in Figure 1, the company falls in the position of cell number 2 with a corresponding strategy of growing and building. In this position the company could perform intensive strategy as in market penetration, market development and product development or integrative strategy as in backward integration, forward integration and horizontal integration. Market penetration means seeking greater market share for current products or services in existing markets through better marketing efforts. Market development includes the introduction of current products or services to new geographic areas. Product development seeks increased sales through improvements to current products or services or the development of new products or services. Forward integration means to gain greater ownership or control over distributors or representatives. Backward integration seeks greater ownership or suppliers' control. Horizontal integration seeks greater ownership or control over competitors.

Figure 1. Internal – External (IE) Matrix



5. Conclusions

Based on the results by using IFE and EFE matrix analysis conducted, the X axis of the IE matrix was the total IFE matrix score beeing 2.446 and the Y axis of the IE matrix was the total EFE matrix score beeing 3.5275. The position of the company was in cell 2 indicating growth and build. In this position the company could perform intensive strategy, as in market penetration, market development and product development or integrative as in backward integration, forward integration and horizontal integration.

6. Recommendations

For the PT Budaya company in order to strengthen the company's position in the industry and increase its market share it should develop or modify its products according to size and model. In addition, the company could strengthen its ability in

marketing creaming the market in order to produce products in accordance with the wishes and needs of the market. It needs to increase the budgets to promote and maximize the distribution and to adopt information and technology systems to face competition.

The results of this research can be used on the process of strategy formulation, companies and other researchers can use the results as material for thought and related research and information to follow up. It can also use as the general strategy to direct the company to formulate the implementation and evaluation of the company's performance by the use of the above methodology.

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