

The Rainmaker TOWS Matrix

The TOWS Matrix --- A Tool for Situational Analysis

The assessment of the competitive situation involves several steps. First, key success factors must be identified. Then the relative importance of these key success factors needs to be estimated. Next, your competitive position in respect to these key success factors must be evaluated and ranked.

The competitive analysis can be done for individual service categories or even specific services. It not only looks at your present situation, but also looks into the near future. This analysis becomes intricate for a practice that competes in generalized local services as well as niche or specialized services. The TOWS matrix looks at the following factors.

The External Environment: Threats and Opportunities In the analysis of the external environment, many diverse factors need to be considered. Today, the threats certainly would include the problems of inflation, energy, technological change and government actions. The diverse factors—which can be either threats or opportunities—can be grouped into the following categories: economic, social and political factors, products and technology, demographic factors, markets and competition, plus others.

Economic Factors. The general state of the economy certainly affects strategy formulation. For example, the expansion phase of the business cycle in the 1960's created an abundance of business opportunities while the recession in the first half of the 1970's required many industries to change their strategy, and drastically reduce their business activities. The strategist, of course, takes other economic factors besides the business cycle into account, such as the level of employment, the availability of credit and the level of prices. Also, individual companies are affected differently by economic factors. What is a threat to one firm is an opportunity for another.

Social and Political Factors. Social developments also influence the business strategy. For instance, consumerism and consumer protection movements require the firm's attention to product safety and truth in packaging. Similarly, managers are confronted by a host of federal, state and local laws and regulations. The public's demand for clean air, clean water and a clean environment is often considered a threat to business. At the same time, these factors can become opportunities, as shown by the car emission test requirements in many states which presented opportunities for the companies to develop, produce or operate such test equipment.

Products and Technology. Products need to be adjusted to technological changes. For example, the astonishing success of the Volkswagen Beetle in the 1960's diminished in the 1970's. New customer demands for optional equipment, safety requirements and competition, along with new technology, gave rise to a new generation of VWs. It must be remembered that in almost all situations success is only temporary and product innovation is needed to ensure a competitive advantage for the firm. Of course, innovation is also costly and risky and the failure rate of new products is high; yet, a policy of no innovation at all may cause the demise of a company.

Demographic Factors. Demographic changes significantly affect business. In the United States there are geographic shifts such as the movement of many people to the 'sun belt'. White-collar jobs tend to increase proportionally to blue-collar occupations. Income levels are expected to change, although the direction is less clear and may vary for different sectors of the labor market. The age composition will also change with elderly people making up an increasing proportion of the population. The strategist must take these and other factors into account because they influence the preferences for the kinds of products and services demanded by consumers.

Markets and Competition. In the United States, coping with competition in the marketplace is a corporate way of life. The following questions and the answers to them are crucial for formulating a strategy:

'Who are our competitors?'

'How does our company compare with the competition?'

'What are the strengths and weaknesses of our competitors?'

'What are their strategies?'

'How do we best compete?'

Other Factors. There are, of course, many other factors that might be particularly important to a specific firm. The availability of raw materials, suppliers and the transportation system, are a few examples. The ever-changing environment demands continuous scanning for opportunities and threats. A company that discovers customer needs and provides the products and services demanded, certainly has a better chance for success than an enterprise that ignores such changes.

