

Environmental and Utilities – Research Insights

How the Directional Strategy (DS) matrix can be used to identify the best sectors for your company

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Developing the right strategic direction for your company can be helped by using analytical tools

- A tool that you can use to help prioritise your target market sectors is the Directional Strategy Matrix
- This tool allows you to evaluate the whole market in a logical and methodical way and to focus on the sectors that you can become experts in and dominate
- The Directional Strategy Matrix is used by a number of companies and management consultancies. At Leading Edge we have used it on numerous occasions
- However, like any tool, it depends on getting the right information together before you start

There are two main areas where data is required to use this strategic tool

Market data	Company data
<p>What makes a market attractive to your company? Typical questions to answer include:</p>	<p>What factors make your company competitive in a market? Typical questions to answer include:</p>
<ul style="list-style-type: none">• What is the market's current size and is it growing?• Are the barriers to entry to the market high or low?• How competitive is the market and how will customers respond to a new competitor?• Is the majority of the market concentrated in the hands of a few powerful customers?• Which aspects of the product or service offering do customers value most?• What are the historic margin levels in the market?• What is the current regulatory environment like and how might it change?	<ul style="list-style-type: none">• What is your company's current share of the market?• Are you able to meet market demands and make a healthy margin?• How well do you understand your customers' needs?• Do you have a good knowledge of the market's characteristics?• How does your product & service offering compare to the competition?• How flexible is your company in terms of adapting to the changes in the market?• What technical expertise do you have that you can offer to customers in the market?• Do you have a good reputation and strong brand presence in the market?

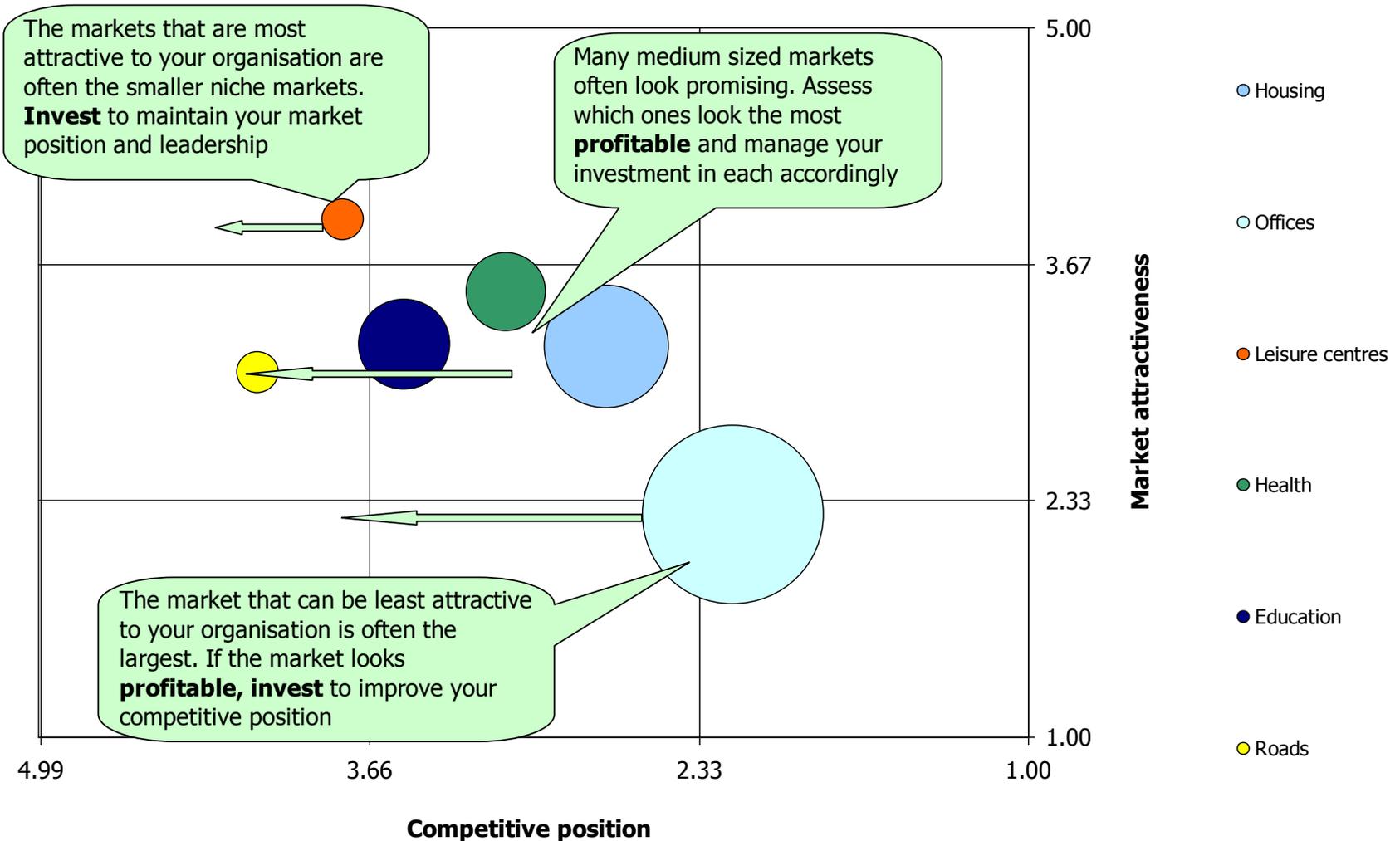
Key steps to the process

1. The first step is to take the sectors you work in or products/services you offer and determine the overall size of the market
2. Then you need to assess your competitive strengths by deciding what weighting to give each of the factors you want to cover (see previous page for examples)
3. You then need to repeat the process and weight the factors chosen for the market attractiveness section
4. The number of areas you take into account is not important, although it should be less than ten for a better focus
5. For each of the factors you are discussing you then need to give your own company a score for on a scale of 1-10 against it. For example, you may have a lack of track record in a market so you only score a 2 out of 10

There are some key points to keep in mind as you go through the process

- It is important to take your competitors into account when you are evaluating the market. It's one thing saying you are good at servicing a market, but if your competitors are equally good or even better then you should mark down your own performance to compensate for this
- It is vital to get the whole senior management team familiar with the relevant research to be involved in an honest discussion
- The debate may bring out information that some people aren't aware of and will ensure the key factors are discussed properly and given the correct weightings and scores

An example of the output from the process



How to interpret the output of the DS Matrix

- The circles at the highest point on the vertical scale (market attractiveness) are the most attractive to your company
- The circles furthest to the left along the bottom axis (competitive position) would be the ones where the company performs the best
- The circles nearest to the top left hand corner will be the best prospects for the company to perform well in and the ones furthest away from the top left will be the least attractive to you
- The area of each circle represents the total market size
- If the data is available you can also slice the circles up to show the market share of your company compared to the total market size

The Directional Strategy Matrix can help in other parts of your strategy development

- You can also use this tool to help develop your SWOT analysis (ie strengths and weaknesses, opportunities and threats). The highest scores for the internal assessment produce your company's strengths and the lowest your company's weaknesses. These are important because they relate to the things you can change and be in control of
- Your high and low factors in the market attractiveness factors will give you the opportunities and threats. These are the things you have to account for when you look at which markets you are going for and what you need to change in your organisation to be better in it
- Going through this process allows you to develop a number of possible marketing strategies for your company
- This process is iterative because some of the initial objectives may prove unrealistic or not sufficiently challenging and so may need to be revisited. This will help refine the strategy further

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If you have any questions please get in touch, we would be more than happy to help.

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