EVALUATING THE STRATEGIC POSITION OF AN ORGANISATION THROUGH SPACE ANALYSIS

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Abstract: The ability to adequately determine the position of an organisation in its external environment, i.e. in terms of other entities in the sector, is essential for strategic decision making. It helps entities integrate their resources and activities and determines the success and sustainability of the business. This paper deals with SPACE analysis, a tool for analysing the strategic position of companies and evaluating their activity, which is less familiar in marketing management theory and practice. The paper focuses on some of the advantages of the method and systematizes some of the SPACE factors which are most frequently employed to evaluate the strategic position of entities by reviewing Russian and English sources. The method is applied to evaluate the strategic position of an industrial enterprise in the sector of 'Wine production from fresh grapes'.

Key words: мarketing management, SPACE analysis, wine industry.
JEL: M31, L22.

Introduction

T*he unique strategic position* of an enterprise governs strategic decision-making and encourages the implementation of strategic decisions. Ensuring a unique strategic position is directly related to (and depends on) the ability of an organization to create value that is different from the value offered by its competitors and is essential to consumers.

A number of methods are employed in determining and evaluating the strategic position of a company: the analysis of strengths, weaknesses, opportunities and threats (SWOT); the Boston Consultancy Group Matrix

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(BCG); Arthur D. Little's (ADL) approach; the Business Intelligence Model (PIMS), etc., yet, the SPACE analysis is a far more accurate technique.

SPACE is abbreviated from Strategic Position and ACTION Evaluation.

There is not sufficient awareness about SPACE analysis in marketing management theory and practice. Nevertheless, it is becoming increasingly popular in determining and evaluating the strategic position of the product, brand and corporate image of an enterprise. Similar to the SWOT model, SPACE analysis deals with the internal and external environment of an organisation, yet it does not identify its strengths, weaknesses, existing opportunities or threats. Furthermore, the scope of the factors considered by SPACE analysis is narrower than that of the SWOT technique.

Some of the advantages of the method are:

- easily comprehensible underlying logics;
- the speed of the evaluation;
- the opportunity it provides for determining the strategic position of an enterprise in general and that of some spheres of its activity;
- good visual presentation of achieved results;
- a high degree of clarity and relevance of the recommendations for optimizing the course of action.

1. Analysis of the Strategic Position and Action Evaluation (SPACE analysis)

The SPACE analysis refers to four groups of factors: financial strength (FS), competitive advantage (CA), industry strength (IS), and environmental stability (ES). It seeks to strike the balance among all variables of the internal and the external environment. *The financial strength* and *the competitive advantage factors* refer to the evaluation of ***the internal strategic position of an organization****,* while *the industry strength* and *the environmental stability factors* deal with its ***external strategic position***.

Each of the four groups of these SPACE factors also consists of sub-factors which have a numerical expression – the scores attributed to FS and IS range between 0 (the worst) and +6 (the best); the scores which may be attributed to CA and ES range between 0 (the best) and -6 (the worst).

By applying the SPACE analysis, marketing managers are able to include and integrate a number of various elements of the environment to examine or verify specific strategic alternatives from different perspectives. In other words, the type and number of sub-factors are not set in advance but depend on the specific analytical objectives.

Table 1 presents the SPACE factors which are most frequently employed in the evaluation of the strategic position of enterprises (Artyunova, 2010; Kovalevskiy, Kalieva and Mihaylova, 2013; Pozubenkova, 2014; Abraham, 2012; Sturdy, 2012; Proctor, 2008; Hooley, Piercy, Nicoulaud, 2008):

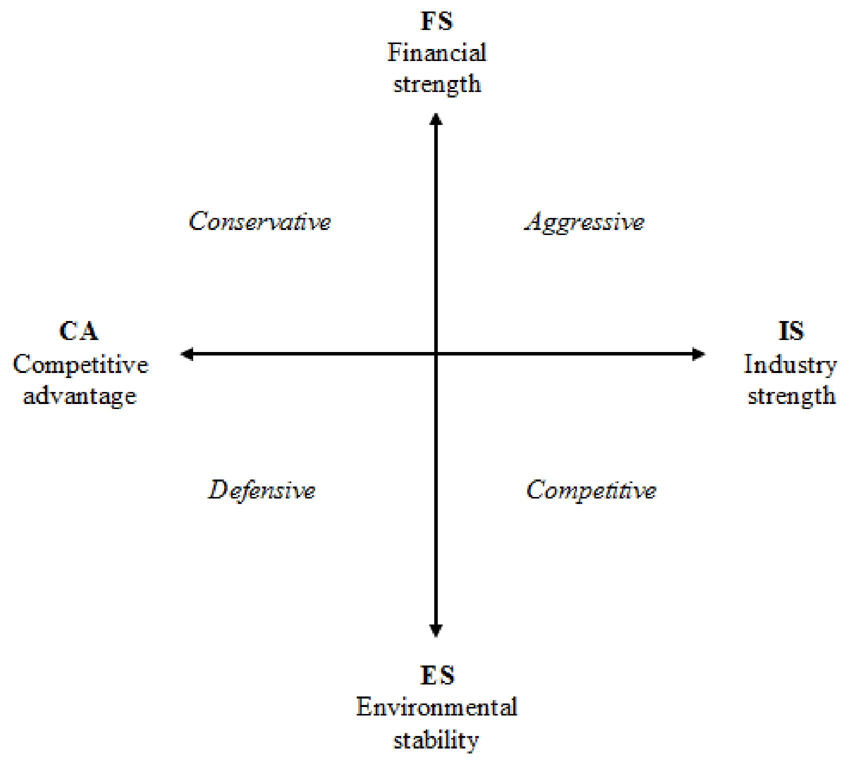
Table 1. **SPACE factors**

Competitive advantages factors (CA)	Industry strength factors (IS)
• Market share • Product quality • Product life cycle • Product replacement cycle • Customer loyalty • Vertical integration • Speed of new product introductions	• Growth potential • Profit potential • Financial stability • Technological know-how • Resource utilisation • Competition's capacity utilisation • Capital intensity • Ease of entry
Financial strength factors (FS)	**Environmental stability factors (ES)**
• Return on investment • Financial leverage • Liquidity • Working capital • Cash flow • Ease of exit • Risk involved in business	• Technological innovation • Inflation rate • Demand variability • Price range of competing products • Barriers to entry • Competitive pressure • Price elasticity of demand • Pressure from substitutes

The SPACE matrix is constructed by combining the values of the financial strength, the competitive advantage, the industry strength and the environmental stability of an entity (Figure 1).

The average value of each SPACE factor is plotted along the coordinate axis of the SPACE matrix. According to the position of an enterprise in one of the four quadrants of the matrix, its strategic position is defined as aggressive, competitive, conservative or defensive (Figure 2).

Figure 1. **SPACE matrix**

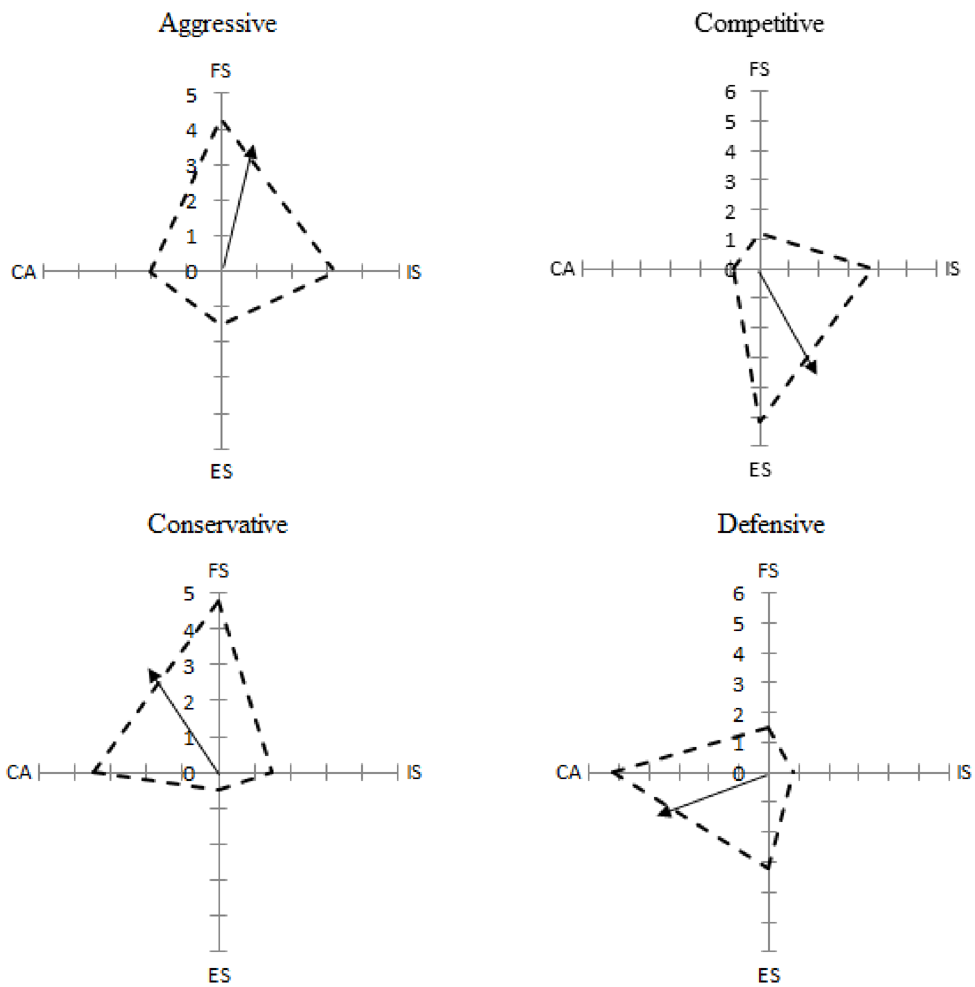


The aggressive strategic position

That situation is typical of attractive branches with a low uncertainty of the environment. The organisation has a competitive advantage which it is able to keep and consolidate through its financial strength. Since threats are insignificant, the organisation is able to focus on guaranteeing the interests of stakeholders. Some of the strategic alternatives for a similarly strong position include:

- Maintaining the level of innovation and developing further the competitive advantage which has been gained so far;
- Denying the competition any opportunity to develop differentiating competitive advantages, i.e. ones which would ensure them a higher value on attractive market segments;
- Vertical integration;
- Diversification;
- ‘Keeping abreast of the competition’ by developing a unique product through high-tech production and market ‘pioneering’.

Figure 2. **Alternative strategic positions in the SPACE matrix**



The competitive strategic position

This position is typical of enterprises with substantial competitive advantages in highly attractive branches, yet their financial strength is insufficient to compensate for the instability of the environment. A major strategic imperative is acquiring financial power so as to ensure the funds for further expansion. The companies positioned in this quadrant need to improve their profitability (output, territories, market segments), differentiation (in terms of the products they offer), and raise their overall marketing efficiency. The following strategic alternatives may be recommended:

- 'Focusing', i.e. developing highly differentiated product lines;

- Employing different forms of integration of their distribution (vertical, horizontal, or a multi-channel marketing system);
- Developing their market through sales of existing products on new demographic or geographical markets.
- Developing their product through sales of new products (radically new, improved, pseudo-innovations) on existing markets;
- Collaboration through involvement in strategic alliances.

The conservative strategic position

The companies positioned in this quadrant are in a situation of steady, yet slowly-growing markets. Product competitiveness is usually a key factor. In this case, costs need to be cut, product lines need to be shortened and additional measures should be adopted to protect competitive products, develop new goods and offer and implement market penetration projects. Advisable strategic alternatives include:

- Promoting new benefits and applications of the product so as to win new market segments;
- Reduction, i.e. rearrangement of production to cut costs;
- 'Harvesting' which seeks to recover quickly the costs incurred on the 'dogs' in the Boston consulting group matrix;
- Developing the market through sales of existing products on new, more promising (demographic and geographical) markets.

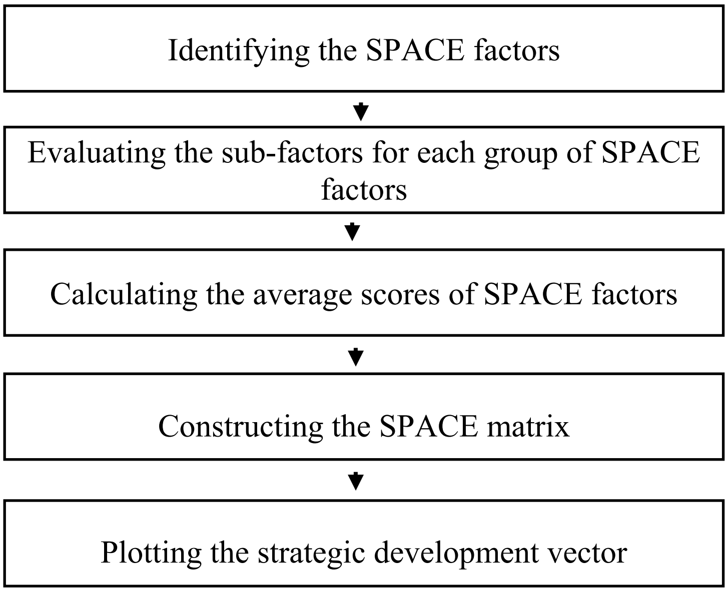
The defensive strategic position

This position is typical of unattractive branches where organisations have insufficient funds and competitive products. The competitiveness of the enterprise is usually a key factor. The behavior of the company is one of a defender trying to protect its interests. In most cases, this is achieved through the centralization of the management system and the concentration of resources, i.e. through the exit from a market, discontinuation of production, dramatic cut costs, postponement or minimization of investment activity. Advisable strategic alternatives include:

- 'Harvesting', i.e. 'milking' the 'cash cows' of the Boston consultancy group matrix;
- Protecting the market share (through flank defense, counterattack, retreat);
- 'Sinking' which implies giving up a product altogether and discontinuing its production;
- 'Negotiating', i.e. transferring the production of a product to interested organisations.

Figure 3 presents an example of conducting a SPACE analysis:

Figure 3. **Stages of SPACE analysis**



2. Evaluating the strategic position of an industrial enterprise

We chose an industrial enterprise, 'XYZ'[2], from the sector 'Production of wine from grapes' for the purposes of our SPACE analysis. The enterprise was established in the early 90s of the previous century through the merger of several small wineries and was restructured into the 'XYZ' company during the transition from a centrally planned to a market economy. Currently, the enterprise is among the market leaders in terms of sales, revenue, and fixed assets. Its export to European countries is mainly oriented to Poland, Russia, Denmark, and Sweden.

As we mentioned earlier, the analysis begins by *identifying the SPACE factors which will be employed*. At this stage, a group of experts is selected which to prepare a list of the factors for each of the four groups of SPACE factors. Those could be representatives of senior management and heads of departments who are in charge of production and sales.

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[2] The name of the company, 'XYZ' is fictional to keep the confidentiality of employed data.

When applying the SPACE approach both internal and external variables are evaluated, therefore involved experts need to have the key competences and skills required for team compatibility and strategic thinking.

In our case, the team of experts consisted of the Chief Executive Officer, the Marketing Director, and the Sales Director. Table 2 presents the SPACE factors which they selected.

Table 2. **SPACE factors (expert group)**

Internal strategic position	***External strategic position***
CA	***IS***
Product life cycle Product quality Product mix Brand & Corporate image	Production of wine from grapes Growth potential Access to financing Entry barriers to the sector
FS	***ES***
Liquidity Profitability Debt Financial result	Inventory turnover Prices of competing products Pressure from competition Pressure from substitute products

The next stage was to *rate the sub-factors* in each group of SPACE factors by employing the jury/expert consensus method[3]. The experts reached a consensus on the score which each sub-factor should be attributed (the scores for FS and IS ranging from 0 to +6, and those for CA and ES – from 0 to -6) based on their in-depth knowledge of the sector, the competitors and their capacity, the strategic framework of the sectoral policy in the country, existing trends in technological advance, etc.

Average scores were calculated by summing the scores (attributed to each sub-factor) and dividing those sums into the number of the sub-factors into each of the four groups of SPACE factors. The results are presented in Table 3 below.

Obviously, of all the criteria determining the internal strategic position of the enterprise, the ones which were given the highest rates were the product mix, the product quality, the brand & corporate image and liquidity. The average scores of the factors ***competitive advantage*** and ***financial strength*** were -3.75 and 4.00.

[3] In addition to the jury/expert consensus method, it is also possible to employ the average score method, the Delphi method, etc.

Table 3. **Average estimates of the SPACE factors**

Internal strategic position		***External strategic position***	
CA		***IS***	
Sub-factor	Rate (score)	Sub-factor	Rate (score)
Product life cycle	-5	Production of wine from grapes	4
Product quality	-3	Growth potential	3
Product mix	-3	Access to financing	2
Brand & Corporate image	-4	Entry barriers to the sector	3
Average score (A_SCA)	-3.75	Average score (A_SIS)	3.00
FS		***ES***	
Sub-factor	Rate (score)	Sub-factor	Rate (score)
Liquidity	5	Inventory turnover	-2
Profitability	4	Product range of competitive products	-4
Debt	3	Competitive pressure	-5
Financial result	4	Pressure from substitute products	-3
Average score (A_SFS)	4.00	Average score (A_SES)	-3.50

It is possible to add to the analysis by comparing the values of the indicators for the enterprise to the values of the indicators in the sector. Thus, for example, the product mix of 'XYZ' in 2015 included two product classes – wines and spirits. The product lines of wines included still wines (with PDO[4] or without PDO), sparkling and special wines. The largest relative share was that of still wines without PDO (their growth rate in the period 2014/2015 was 55%). The product lines of all enterprises in the sector were similar in terms of their contents and share of products (Figure 4).

'XYZ' was among the best scoring companies in terms of *sales revenue*. Its sales revenue increased by 4.8% compared to the previous year. The situation was the same for the sector as a whole, i.e. the value of sales revenue[5] over the period 2014/2015 was positive (4.6%), there is an increase by BGN 10.8 million (Table 4).

[4] PDO – wines produced in the EU with Protected Designation of Origin.
[5] Only the data about 107 enterprises presented in BEIS have been included.

Figure 4. **Product lines of enterprises in the sector 'Wine Production from Grapes' in 2015**

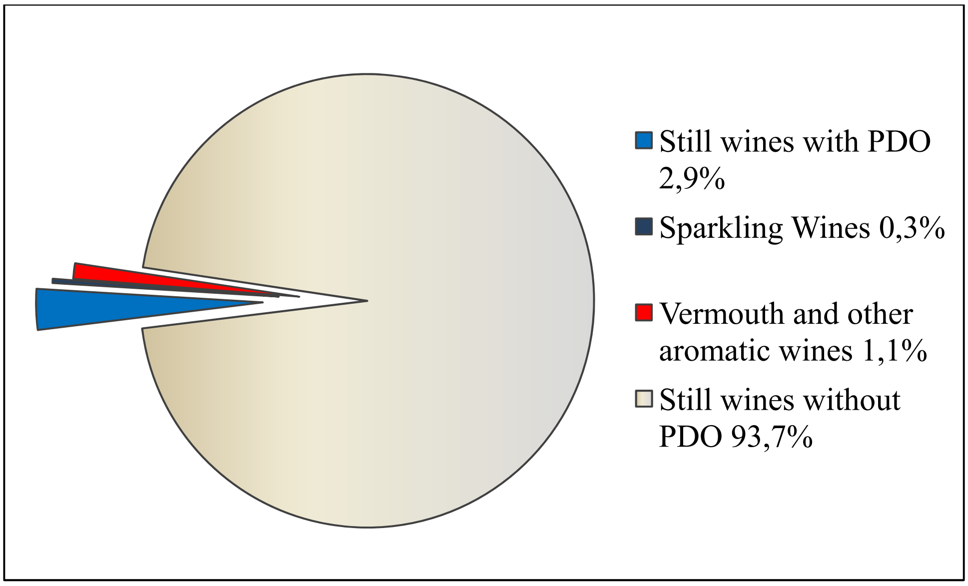


Table 4. **Sales and financial results – 'XYZ'/ enterprises in the sector 'Wine Production from Grapes' (2011 – 2015), in thousands BGN**

Year	*2011*	*2012*	*2013*	*2014*	*2015*
'XYZ'					
Sales revenue	14 935	15 291	13 012	13 368	14 003
Financial result	279	-3 144	-485	-1 605	-1 258
Enterprises					
Sales revenue	250 561	250 293	243 790	237 423	248 277
Financial result	-17 778	-16 982	-8 251	-17 366	-35 954

Source: SFB Capital Market JSC.

The values of the *financial result* indicator of 'XYZ' over the last four years (2012–2015) were negative. The loss which the companies made in 2015 amounted to nearly BGN 36 million. Compared to 2011 and 2014, it was twice as high - by BGN 18.2 million in 2011 and by BGN 18.6 million in 2014.

As Table 5 indicates, over the period 2011–2015 there was a steady trend of decline in the values of the *total liquidity ratio* of 'XYZ'. It was lower than the average value of the indicator in the sector by 29% (1.38). The *profitability* of all enterprises in the sector (including 'XYZ') was negative over the last four years. This was a logical consequence of the achieved financial results.

Table 5. **Liquidity, return and debt ratios – 'XYZ' / enterprises in the sector 'Wine Production from Grapes' (2011 – 2015)**

Indicators/Year	*2011*	*2012*	*2013*	*2014*	*2015*
'XYZ'					
Total liquidity	1.51	1.22	1.20	1.13	1.07
Quick liquidity	0.39	0.42	0.50	0.50	0.44
Return on sales	0.02	-0.21	-0.04	-0.12	-0.09
Return on equity	0.01	-0.00	-0.06	-0.26	-0.03
Debt	1.12	1.82	2.18	2.66	3.208
Enterprises					
Total liquidity	1.48	1.51	1.19	1.40	1.38
Quick liquidity	0.65	0.67	0.48	0.59	0.63
Return on sales	-0.07	-0.07	-0.03	-0.07	-0.14
Return on equity	-0.06	-0.07	-0.03	-0.07	-0.14
Debt	1.737	2.149	2.548	2.359	2.170

Source: Calculations of the author and SFB Capital Market JSC.

Of all the criteria which determine the external strategic position of 'XYZ', the ones which are considered to be the most influential are the production of wine from grapes, inventory turnover and the pressure from substitute products. The average scores of the factors ***industry strength*** and ***environmental stability*** were 3.00 and -3.50, respectively.

The analysis of the data in Table 6 clearly highlights an overall positive trend of annual growth of *wine production from grapes* in Bulgaria for the period 2011-2013, which reached its peak in 2013 (168,898 thousand litres). The overall growth rate for 2013/2014 was a negative value of -40.9%. In contrast, the value of the indicator in 2012/2013 was 0.2%, yet, we cannot conclude that the negative trend continued. In 2015, there was an increase by 40.3%, or 39.5 million litres. There was an increase in the production of all product classes, the highest one being that in the production of high-quality red and rosé wines (86.5%), followed by sparkling wines (48.2%), table wines (39.8%), vermouths and other aromatised wines (32.7%) and high-quality white wines (2.8%).

Table 6. **Production of wines from grapes (2011–2015), in thousands of litres**

Year / *Product lines*	*2011*	*2012*	*2013*	*2014*	*2015*
Sparkling wines (excluding champagne)	**1 298**	**705**	**739**	**307**	**455**
Still wines	**121 024**	**140 308**	**161 361**	**96 658**	**135 674**
Still wines with PDO	3 458	3 579	3 104	2 395	3 928
Red and rosé	2 982	3 021	2 582	1 751	3 266
white	476	558	522	644	662
Still wines without PDO	117 567	136 729	158 257	94 263	131 746
Special wines	**990**	**2 147**	**2 314**	**1 135**	**1 506**
Liqueur wines	–	17	–	–	–
Vermouth and other aromatized wines	990	2 130	2 314	1 135	1 506
Grape must	**2 175**	**335**	**1 484**	**–**	**–**
Total	**125 487**	**143 495**	**165 898**	**98 101**	**137 635**

Source: SFB Capital Market JSC.

There was a volatile trend of growth and decline in Bulgaria's *inventory turnover* of wines produced from fresh grapes in the period from 2011 to 2015. The highest values were registered in 2012, and the lowest – in 2015. The total growth rate in 2014/2015 was -0.9%, i.e. EUR 525.1 thousand (Table 7).

Table 7. **Sales of wines from fresh grapes and the foreign trade balance (2011–2015), in thousands of EUR**

Year / *Indicators*	*2011*	*2012*	*2013*	*2014*	*2015*
Inventory turnover	**63 684**	**65 244**	**63 558**	**57 187**	**56 662**
Export	51 828	51 606	49 200	43 359	37 279
Import	11 856	13 637	14 358	13 828	19 383
Foreign trade balance	**39 973**	**37 969**	**34 841**	**29 531**	**17 896**

Source: NSI.

Over the entire period, the *foreign trade balance* was positive, although there was a trend towards decline. In 2015, the foreign trade balance declined by 39.4%, or EUR 11.6 million, compared to the previous year.

After analysing the most significant sub-factors in each of the four groups of SPACE factors, we constructed a SPACE matrix and drew the strategic development vector. We then plotted the calculated average values (A_SFS, A_SCA, A_SIS, A_SES) along the x-axis and the y-axis and got a quadrilateral which pinpointed the strategic position of the 'XYZ' company. As Figure 5 indicates, the CA-FS line is the farthest from the centre of the quadrilateral. This means that the enterprise is in a *conservative strategic position*, i.e. it is in a situation of a stable, yet slowly-growing market. The factor with the highest average score was the financial strength, which might be employed to maintain sustainable competitive advantages.

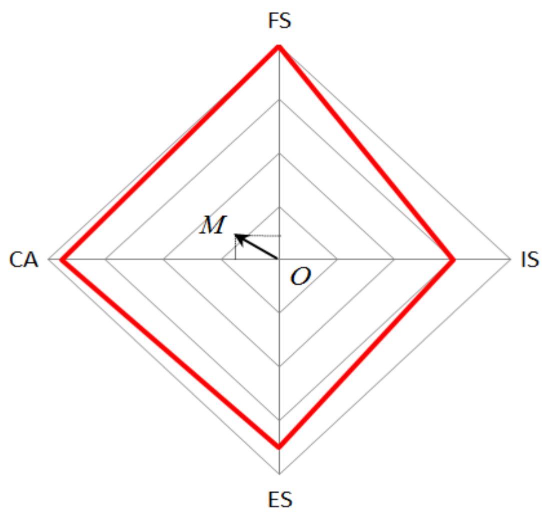
To present graphically the vector of strategic growth, we calculated the values of its coordinates $\overrightarrow{OM}(x, y)$.

We used the following formulae for our calculations:

For *x axis*: $AsCA + AsIS = -3.75 + 3.00 = -0.75$

For the y axis: $\text{AsES} + \text{AsFS} = -3.50 + 4.00 = 0.5$

Figure 5. **SPACE matrix and the strategic development vector**



In this case, some of the strategic alternatives which could be recommended to the 'XYZ' company include:

- Rearranging production so as to increase the share of vermouths and other aromatized wines on the domestic market.

- Stronger export orientation for high-quality still wines (red, white and rosé wines).
- Developing the market further by launching the existing product lines on new geographical markets (for example, Great Britain and China).

Conclusion

The strategic position determines where an organization stands in its external environment in comparison to other players in the industry. Strategic positioning is long-term in nature and strategic decisions are based on it. It also integrates all resources and activities of an enterprise and helps it coordinate and focus its efforts. SPACE analysis is an alternative technique (of the SWOT model) which helps marketing management to adequately identify and evaluate the strategic position of a product or brand as well as the corporate image of the company. It is fast and easy to employ, which renders it particularly useful for doing an express analysis.

From the example we have examined, it is clear that the ‘XYZ’ enterprise is in a *conservative strategic position*. In this case, it would be advisable to focus on strengthening and protecting its product competitiveness. The financial strength of the company may be employed to maintain its sustainable competitive advantages. Specific strategic measures should be taken in areas such as: rearranging production, market penetration (in the export of high quality still wines to foreign markets), and the penetration of new, more promising markets (for example, Great Britain and China).

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