SPACE Analysis

Idea In Short

SPACE Analysis is a strategic management tool that helps organizations evaluate their strategic position and determine appropriate courses of action. The acronym SPACE stands for Strategic Position and Action Evaluation. This framework assesses both internal and external factors affecting a company's competitive stance through four key dimensions: Financial Strength [FS], Competitive Advantage [CA], Industry Strength [IS], and Environmental Stability [ES].

SPACE Analysis is an analytical technique used in strategic management and planning. SPACE is an acronym of Strategic Position and ACtion Evaluation. The analysis allows to create an idea of the appropriate business strategy for the enterprise. The analysis assesses the **internal** and **external** environment and allows to design an appropriate strategy.

External environment

The analysis describes the external environment using two criteria:

- **Environmental Stability [ES] -** it is influenced by the following sub-factors: technological change, inflation rate, demand volatility, price range of competitive products, price elasticity of demand, pressure from the substitutes
- **Industry Attractiveness [IA] -** it is influenced by the following subfactors: growth potential, profit potential, financial stability, resource utilization, complexity of entering the industry, labor productivity, capacity utilization, bargaining power of manufacturers

Internal environment

The inside environment is also described by two criteria:

- **Competitive advantage [CA] -** it is influenced by the following factors: market share, product quality, product lifecycle, innovation cycle, customer loyalty, vertical integration
- **Financial strength [FS] -** it is influenced by the following indicators: return on investment, liquidity, debt ratio, available versus required capital, cash flow, inventory turnover

Scoring and Interpretation

Each dimension is scored on a scale, typically from -6 to +6 for CA and ES, and from +1 to +6 for FS and IS. The scores are then plotted on the matrix to determine the overall strategic position.

The resulting vector points to one of four strategic postures:

1. **Aggressive:** High scores in both internal and external factors indicate a strong position to pursue market expansion, diversification, or acquisition strategies
2. **Conservative:** Strong financial position but weak competitive advantage suggests a focus on improving internal capabilities before pursuing aggressive growth
3. **Defensive:** Low scores across dimensions indicate a need to focus on survival strategies, such as cost reduction or even divestment
4. **Competitive:** Strong industry position but financial weaknesses suggest strategies focused on improving financial strength while leveraging competitive advantages.

The SPACE analysis concerns the key decisions made by CEO and senior management of the organization.

Evaluation process

The evaluation process is as follows:

- For each sub-factor in each criterion a value of 0-6 is assigned (for CA and ES it is 0 to -6)
- For each criterion, the value of the total factor is expressed as the mean of the individual factors.
- The values of factors are put into the relevant axes of the matrix (see figure)

- In the quadrant, where the largest part of the surface of the resulting quadrilateral is, there is a suitable alternative of the business behavior

Following this analysis, a strategic competitive positioning for your company and the available strategic alternatives can be articulated.

Summary

SPACE Analysis offers a structured approach to evaluating an organization's strategic position and determining appropriate actions. By carefully assessing financial strength, competitive advantage, industry strength, and environmental stability, companies can gain valuable insights into their strategic stance. This analysis serves as a foundation for developing targeted strategies that align with the organization's strengths and market opportunities. When used effectively and in conjunction with other strategic tools, SPACE Analysis can be a powerful aid in navigating the complex landscape of business strategy and positioning companies for long-term success.