External Factor Evaluation (EFE) Matrix allows strategists to summarize and evaluate economic, social, cultural, demographic, environmental, political, governmental, legal, technological, and competitive information. Illustrated in Table 311, the EFE Matrix can be developed in five steps:

1. List key external factors as identified in the external audit process. Include a total of from ten to twenty factors, including both opportunities and threats affecting the firm and its industry. List the opportunities first and then the threats. Be as specific as possible, using percentages, ratios, and comparative numbers whenever possible.

2. Assign to each factor a weight that ranges from 0.0 (not important) to 1.0 (very important). The weight indicates the relative importance of that factor to being successful in the firm's industry. Opportunities often receive higher weights than threats, but threats too can receive high weights if they are especially severe or threatening. Appropriate weights can be determined by comparing successful with unsuccessful competitors or by discussing the factor and reaching a group consensus.

The sum of all weights assigned to the factors must equal 1.0.

3. Assign a 1 to 4 rating to each key external factor to indicate how effectively the firm's current strategies respond to the factor, where 4 = the response is superior, 3 = the response is above average, 2 = the response is average, and 1 = the response is poor. Ratings are based on effectiveness of the firm's strategies. Ratings are thus company-based, whereas the weights in Step 2 are industry-based. It is important to note that both threats and opportunities can receive a 1, 2, 3, or 4.

4. Multiply each factor's weight by its rating to determine a weighted score.

5. Sum the weighted scores for each variable to determine the total weighted score for the organization.

Regardless of the number of key opportunities and threats included in an EFE Matrix, the highest possible total weighted score for an organization is 4.0 and the lowest possible total weighted score is 1.0. The average total weighted score is 2.5. A total weighted score of 4.0 indicates that an organization is responding in an outstanding way to existing opportunities and threats in its industry. In other words, the firm's strategies effectively take advantage of existing opportunities and minimize the potential adverse effect of external threats. A total score of 1.0 indicates that the firm's strategies are not capitalizing on opportunities or avoiding external threats.

An example of an EFE Matrix is provided in Table 311 for UST, Inc., the manufacturer, of Skoal and Copenhagen smokeless tobacco. Note that the Clinton Administration was considered to be the most important factor affecting this industry, as
The Competitive Profile Matrix (CPM) identifies a firm's major competitors and their particular strengths and weaknesses in relation to a sample firm's strategic position. The weights and total weighted scores in both a
by a rating of 4; L'Oreal's "financial position" is good, as indicated by a rating of 3; Procter & Gamble is the weakest firm overall, as indicated by a total weighted score of 2.80. Other than the critical success factors listed in the example CPM, other factors often included in this analysis include breadth of product line, effectiveness of sales distribution, proprietary or patent advantages, location of facilities, production capacity and efficiency, experience, union relations, technological advantages, and ecommerce expertise.

A competitive Profile Matrix is provided in Table 312. In this example, advertising and global expansion are the most important critical success factors, as indicated by a weight of 0.20. Avon's and L'Oreal's product quality are superior, as evidenced by a rating of 4; L'Oreal's "financial position" is good, as indicated by a rating of 3; Procter & Gamble is the weakest firm overall, as indicated by a total weighted score of 2.80. Other than the critical success factors listed in the example CPM, other factors often included in this analysis include breadth of product line, effectiveness of sales distribution, proprietary or patent advantages, location of facilities, production capacity and efficiency, experience, union relations, technological advantages, and ecommerce expertise.

A word on interpretation: Just because one firm receives a 3.2 rating and another receives a 2.8 rating in a Competitive Profile Matrix, it does not follow that the first firm is 20 percent better than the second. Numbers reveal the relative strength of firms, but their implied precision is an illusion. Numbers are not magic. The aim is not to arrive at a single number, but rather to assimilate and evaluate information in a meaningful way that aids in decision making.

Notes