

SWOT Analysis

What is it?

SWOT analysis is a strategic planning tool that evaluates a business's environment and its strategic capability. It enables companies to identify both internal and external influences. The output of a SWOT can be used to generate strategic options and assess future courses of action (Johnson et al, 2008).

The purpose of SWOT is to synthesise and audit information. It is a useful way to structure environmental analysis, grouping findings into internal (strengths and weaknesses) and external (opportunities and threats) sections. This structure is shown in Figure 1. SWOT analysis is made up of four sections:

Strengths: Strengths are internal factors that are favourable for achieving an objective. A core strength is a resource or capacity that the company can use effectively. When listing something as a strength, it is important to assess whether it provides a significant competitive advantage.

Weaknesses: Weaknesses are internal factors that restrict the company's progress towards its strategic objectives. Weaknesses are often known but ignored.

Opportunities: Opportunities are external chances to improve performance in the environment. The opportunity can be a trend or change in the market or an overlooked customer need, which if the company could address, would increase demand for its product or service.

Threats: Threats are external factors in the environment that are potentially damaging to the company's strategy. A threat may be a barrier, a constraint, a competitor or anything external that might cause problems, damage or injury.



Figure 1 The SWOT Matrix

When to use it

SWOT analysis should be used when executives and managers want to understand both internal and external factors that affect a business situation so they can set appropriate objectives. It invites decision makers to consider important aspects of their company's environment and helps them organise their information sources, assessing the impact of each factor. As a result, the company objectives take into account the market the company is operating in.

SWOT analysis can also be used as an icebreaker to help executives and managers "kick off" strategy formulation. Based on the analysis, they will be able to develop competitive strategies in line with the requirements of the business environment. SWOT is particularly useful for differentiating a company from its competitors.

Businesses environments are rarely stable and change over time. Therefore the tool should be used regularly as a way for companies to re-evaluate their business relative to the external market. Analysing the implications of these changes helps companies modify the way that they react to them. Failure to do this could result in a potential opportunity evolving into a threat or a strength not being leveraged.

How to use it

The process starts with collecting and listing a set of relevant facts about the company and its environment. Ideally, SWOT analysis needs input from a panel of stakeholders that have specialist knowledge and supporting data. This generates realistic, comprehensive insights and maximises the effectiveness of the process.

Based on the environmental scanning, companies evaluate and summarise the most important factors accompanied by detailed explanations. Executives should then identify the correlations between internal and external factors, so they can utilise matching and converting (see Figure 2).

Matching is finding competitive advantages by matching the strengths to opportunities.

Converting is applying an actionable set of initiatives to convert weakness into strengths or threats into opportunities. An example of conversion strategy is to find new markets. If the threats or weakness cannot be converted a company should consider how to minimise or avoid them (Mehta, 2000).

A more rigorous approach to SWOT analysis is to assign magnitude and importance to each element in the matrix. This increases the sophistication by scoring attributes. This allows companies to capture the factors that are most likely to have the biggest impact.

Strengths and weaknesses

SWOT analysis is a simple, albeit comprehensive tool, which makes it popular with companies of all sizes.

The strength of SWOT analysis also comes from its flexibility. It can be applied to various business scenarios, at a company level as well as at a product or product-line level.

Despite its frequent usage, SWOT has some limitations. First, it can result in long lists of generalities without clarifying the key drivers. This leads to no logical actions and only serves to reduce its relevance to the company's marketing problems (McDonald, 2013). It can also fail to provide clear definition when factors are described too broadly, rather than applied specifically to the company.

Second, SWOT analysis often relies on subjective judgements. Therefore, it is recommended that companies support conclusions with relevant empirical data.

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Further reading

Johnson, G., Scholes, K. and Whittington, R. (2008) *Exploring corporate strategy* Harlow: Prentice Hall

McDonald, M. (2013) *Cambridge Marketing Handbook: Planning* Kogan Page

Mehta, S. (2000) *Marketing Strategy* London: E. Elgar

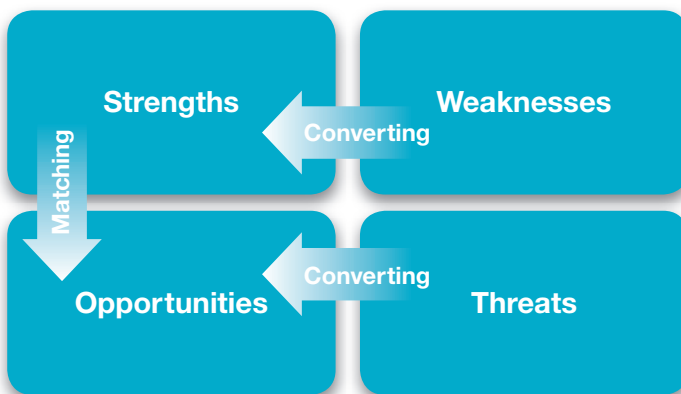


Figure 2 The matching and converting process