

SWOT Analysis

Discover new opportunities. Manage and eliminate threats.

SWOT Analysis is a useful technique for understanding your Strengths and Weaknesses, and for identifying both the Opportunities open to you and the Threats you face. What makes SWOT particularly powerful is that, with a little thought, it can help you uncover opportunities that you are well placed to exploit. And by understanding the weaknesses of your business, you can manage and eliminate threats that would otherwise catch you unawares. More than this, by looking at yourself and your competitors using the SWOT framework, you can start to craft a strategy that helps you distinguish yourself from your competitors, so that you can compete successfully in your market.

How to Use SWOT Analysis

Originated by Albert S Humphrey in the 1960s, SWOT Analysis is as useful now as it was then. You can use it in two ways - as a simple icebreaker helping people get together to "kick off" strategy formulation, or in a more sophisticated way as a serious strategy tool.

Tip:

Strengths and weaknesses are often internal to your organization, while opportunities and threats generally relate to external factors. For this reason the SWOT Analysis is sometimes called Internal-External Analysis and the SWOT Matrix is sometimes called an IE Matrix.

To help you to carry out a SWOT Analysis, write down answers to the following questions.

Strengths:

- What advantages does your organization have?
- What do you do better than anyone else?
- What unique or lowest-cost resources can you draw upon that others can't?
- What do people in your market see as your strengths?
- What factors mean that you "get the sale"?
- What is your organization's Unique Selling Proposition (USP)?

Consider your strengths from both an internal perspective, and from the point of view of your customers and people in your market. You should also be realistic - it's far too easy to fall prey to "not invented here syndrome." Also, if you're having any difficulty with this, try writing down a list of your organization's characteristics. Some of these will hopefully be strengths! When looking at your strengths, think about them in relation to your competitors. For example, if all of your competitors provide high quality products, then a high quality production process is not a strength in your organization's market, it's a necessity.

Weaknesses:

- What could you improve?
- What should you avoid?
- What are people in your market likely to see as weaknesses?
- What factors lose you sales?

Again, consider this from an internal and external basis: Do other people seem to perceive weaknesses that you don't see? Are your competitors doing any better than you? It's best to be realistic now, and face any unpleasant truths as soon as possible.

Opportunities:

- What good opportunities can you spot?
- What interesting trends are you aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale.
- Changes in government policy related to your field.
- Changes in social patterns, population profiles, lifestyle changes, and so on.
- Local events.

Tip:

A useful approach when looking at opportunities is to look at your strengths and ask yourself whether these open up any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

Threats

- What obstacles do you face?
- What are your competitors doing?
- Are quality standards or specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

Tip:

When looking at opportunities and threats, [PEST Analysis](#) can help to ensure that you don't overlook external factors, such as new government regulations, or technological changes in your industry.

Further SWOT Tips

If you're using SWOT Analysis as a serious tool (rather than as a casual "warm up" for strategy formulation), make sure you're rigorous in the way you apply it:

- Only accept precise, verifiable statements ("Cost advantage of US\$10/ton in sourcing raw material x", rather than "Good value for money").
- Ruthlessly prune long lists of factors, and prioritize them, so that you spend your time thinking about the most significant factors.
- Make sure that options generated are carried through to later stages in the strategy formation process.
- Apply it at the right level - for example, you might need to apply SWOT Analysis at product or product-line level, rather than at the much vaguer whole company level.
- Use it in conjunction with other strategy tools (for example, USP Analysis and Core Competence Analysis) so that you get a comprehensive picture of the situation you're dealing with.

Example SWOT

A start-up small consultancy business might draw up the following SWOT Analysis:

Strengths:

- We are able to respond very quickly as we have no red tape, and no need for higher management approval.
- We are able to give really good customer care, as the current small amount of work means we have plenty of time to devote to customers.
- Our lead consultant has strong reputation in the market.
- We can change direction quickly if we find that our marketing is not working.
- We have low overheads, so we can offer good value to customers.

Weaknesses:

- Our company has little market presence or reputation.
- We have a small staff, with a shallow skills base in many areas.
- We are vulnerable to vital staff being sick, and leaving.
- Our cash flow will be unreliable in the early stages.

Opportunities:

- Our business sector is expanding, with many future opportunities for success.
- Local government wants to encourage local businesses.
- Our competitors may be slow to adopt new technologies.

Threats:

- Developments in technology may change this market beyond our ability to adapt.
- A small change in the focus of a large competitor might wipe out any market position we achieve.

As a result of their SWOT Analysis, the consultancy may decide to specialize in rapid response, good value services to local businesses and local government. Marketing would be in selected local publications to get the greatest possible market presence for a set advertising budget, and the consultancy should keep up-to-date with changes in technology where possible.

Key Points

SWOT Analysis is a simple but useful framework for analyzing your organization's strengths and weaknesses, and the opportunities and threats that you face. It helps you focus on your strengths, minimize threats, and take the greatest possible advantage of opportunities available to you.

SWOT Analysis can be used to "kick off" strategy formulation, or in a more sophisticated way as a serious strategy tool. You can also use it to get an understanding of your competitors, which can give you the insights you need to craft a coherent and successful competitive position.

When carrying out your SWOT Analysis, be realistic and rigorous. Apply it at the right level, and supplement it with other option-generation tools where appropriate.