

Analyze This!

SWOT Analysis



Focus and filter

What's your weakness?

Strategy for success

So What?

A little over a year ago, Carl started his own lawn-mowing service. Business is booming, even though Carl is a college student with a full course load and limited resources. He's managed to make enough money to buy more equipment, and he's even hired his younger brother to help him manage his expanding client list. Soon Carl will graduate, so it's time to decide what the next step is for his business. If he wants to keep it going and eventually turn it into a full-time job, what should he do? A little strategic planning, of course! Luckily, Carl is a marketing major, so he knows right away that he needs to conduct a SWOT analysis for his business.

Carl needs to examine the big picture so that he can plan his next marketing moves. Conducting a SWOT analysis will help him make the most of his business's strong points while downplaying its weak points. Keep reading to learn what SWOT analysis is and how you can use this important marketing tool in your business!

Discovering SWOT

What in the World is SWOT?

If you've never heard of SWOT analysis, the term might bring to mind a law enforcement team. But, unlike a SWAT team, SWOT analysis doesn't deal with weapons or hostage rescues. Instead, SWOT is an acronym that stands for Strengths, Weaknesses, Opportunities, and Threats. A **SWOT analysis** is an organized way to look at each of these factors in your business. So why is a SWOT analysis such an important part of the strategic-planning process? Because it helps you zero in on the key



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- ▲ SWOT analysis is an essential first step in developing effective marketing strategies.

issues to keep in mind when formulating your next marketing move. Smart marketers know that the best marketing strategy is one that emphasizes their companies' strengths, minimizes their companies' weaknesses, capitalizes on good opportunities, and avoids external threats. Conducting a SWOT analysis is the first step in the process of formulating that strategy.

Strengths, Weaknesses, Opportunities, and Threats

So, what qualifies as a strength, a weakness, an opportunity, or a threat? Here's a quick definition of each:

- **Strength**—A strength is any resource or capability your business has that can help you gain a competitive advantage in your industry. Remember Carl's lawn-mowing service? For his business, a strength might be the good reputation he's established with his current clients.

Objectives

- A** Explain the reasons for conducting a SWOT analysis.
- B** Demonstrate procedures for conducting a SWOT analysis for use in marketing planning.

- **Weakness**—A weakness is any limitation or shortcoming your business has that can keep you from achieving your objectives. One of Carl's business's weaknesses might be that it currently lacks the equipment to expand beyond the small neighborhood.
- **Opportunity**—An opportunity is any favorable situation in the environment surrounding your business. An opportunity for Carl might be that the lawn-mowing service in the adjacent neighborhood has just gone out of business, opening up dozens of potential new clients.
- **Threat**—A threat is any unfavorable situation in the environment surrounding your business. Let's say that many of Carl's clients are older people who find it difficult to get out and mow their own lawns. However, a lot of these clients have started selling their houses and moving south. Many of the new homeowners in the neighborhood are young people who have no trouble mowing their lawns. This demographic shift could be a potential threat to Carl's business.

Why SWOT?

Simply put, your business will never be successful unless you are committed to doing some smart strategic planning. You must be able to prioritize and look at your business with the proper perspective—not getting too confident because of your strengths, but also not losing heart because of your weaknesses. It's also important to be able to recognize

the opportunities you should pursue and the threats you should stay away from.

Even if you think you have a handle on your business's strengths, weaknesses, opportunities, and threats, conducting an organized SWOT analysis may shed light on some issues you hadn't thought of before. Another benefit of conducting a SWOT analysis is having a "filter" for a great deal of information. If you can't categorize pieces of information as strengths, weaknesses, opportunities, or threats, you'll end up confused and frustrated. SWOT provides an excellent framework for organizing that information. And think outside your own business—you can also apply SWOT to a competitor's company to gain new insights about your business environment.



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▲ Every business, big as well as small, can benefit from conducting a SWOT analysis.



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▲ A SWOT analysis can help you to identify strengths to build on, weaknesses to overcome, opportunities to pursue, and threats to address or avoid.

Where will you look to determine strengths, weaknesses, opportunities, and threats? To whom will you look to help you? For a small-business owner like Carl, it's tempting to look no further than himself. After all, who knows Carl's business better than Carl? In a way, this is true, but sometimes you can be too close to a situation to see the complete picture. For instance, have you ever looked in the mirror only to realize you've had spinach stuck in your teeth all day? You probably wished someone with a different perspective had filled you in!

Who Should Be Involved in SWOT?

Do you want the results of your SWOT analysis to be accurate and reliable? Of course! That's why it's so important to pay attention to the methods you use to collect information for your analysis. In fact, selecting knowledgeable sources is probably the most crucial aspect of conducting a SWOT analysis. It can mean the difference between useful results and a mess of faulty information!



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- ▲ Employees at every level of the business should be involved in SWOT analysis—not just the top executives or owners.

Make a list of all the people who can help with your SWOT analysis. Include all the top executives in the business. If you're a small-business owner, it may be just you and a partner, or if you're involved in a big business, there may be several presidents and vice-presidents to take into account. But it's not just the "bigwigs" you need to talk to. Employees at every level of the business will have valuable input for the SWOT analysis, so make sure to include mid- and low-level workers, too. And don't forget to look outside your business as well. Suppliers and customers have unique perspectives. For example, one of Carl's lawn-mowing clients may have received a flyer from a competing service that's coming to the area. That information is certainly something Carl will want to list as a threat.

When to Conduct a SWOT

Conducting a SWOT analysis can benefit any business, any time. Whether your business is young or old, growing or dying, you always need to have a strategic plan in place. SWOT is a relatively quick way to get to the heart of the matter when it comes to that plan. When you have a limited amount of time available to make

a decision, a simple SWOT analysis can help you organize vital information in a way that makes your top priorities more clear.

Let's say that Carl is graduating from college in less than a month. He needs to make some important business decisions very soon, and conducting a SWOT analysis is a great place to start.



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Summary

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.

Conducting a SWOT analysis is the first step in the process of strategic planning. A strength is any resource or capability your business has that can help you gain a competitive advantage in your industry. A weakness is any limitation or shortcoming your business has that can keep you from achieving your objectives. An opportunity is any favorable situation in the environment surrounding your business. A threat is any unfavorable situation in the environment surrounding your business. Conducting a SWOT analysis can help you formulate a strategy that emphasizes your company's strengths, minimizes your company's weaknesses, capitalizes on good opportunities, and avoids external threats. Employees at every level of the business as well as outside partners and customers should be included in a SWOT analysis. A SWOT analysis is a great tool when you have a limited amount of time.



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1. What does SWOT stand for?
2. What is SWOT analysis?
3. Why is SWOT analysis important?
4. Who should be involved in SWOT analysis?
5. When is the best time to conduct SWOT analysis?

How to Conduct a SWOT Analysis

First Things First

Before you dive into your SWOT analysis, take some time to establish your objectives and goals. What do you hope to achieve by conducting this analysis? Carl may define his objective as, “I want to know whether or not I should attempt to expand my lawn-mowing business beyond my neighborhood.”

For larger businesses, it's also important to define the scope of the SWOT analysis. Are you undertaking strategic planning for the entire company, or just one division? For example, Kraft Foods has separate divisions for beverages, groceries, snacks, cheese and dairy, and convenient meals. A SWOT analysis might apply to the whole company, or perhaps just to cheese and dairy. Either way, it's best to know from the start.

Time to Interview



▲ When interviewing people for a SWOT analysis, be sure to ask what the basis is for their answers.

Remember those key contributors you identified earlier—the presidents, partners, employees, customers, and suppliers? After you've determined the goals and objectives of your SWOT analysis, it's time to start interviewing them! One-on-one interview sessions work best because you can give the interviewee your full attention. People will also feel more free to share information if they don't have to do so in front of a large group. Always explain the purpose of the interviews and assure the interviewees that their answers will be kept strictly confidential. And remember, you don't need to go in S-W-O-T order—start and finish with any category you choose. When your interviewees give answers to your questions, make sure you ask what the basis is for their answers and if they have any sources or references to help determine whether or not the answers are opinion or fact.

THE GRAY ZONE



Kristin is in charge of conducting a SWOT analysis for the dog-grooming business where she works. She makes a list of the key contributors she wants to talk to and then begins her interviews. One of her first interviewees is the company's owner. When Kristin asks the owner about his business's strengths, he lists “convenient location” as an asset. Kristin is surprised to hear this, since she's always considered the shop's location to be a weakness. The street used to be bustling and full of other businesses, but in recent years, many of the shops have closed up. She's even heard some of the customers talk about how the shop is now far away from the town's new business district. The business owner has a reputation for not liking to hear anything that contradicts his opinions. Kristin wants to do the best and most accurate job on the SWOT analysis, but inevitably the shop location will come up as a weakness. Kristin is afraid her boss will get mad if he sees this on the report. What should she do?

Strengths

A strength is any resource or capability your business has that can help you gain a competitive advantage in your industry. Strengths are *internal* organizational factors, which means they are under your control. To discover what your business's strengths are, ask yourself and your interviewees the following types of questions:

- What are our advantages?
- What do we do well (what is our expertise)?
- What are our assets?
- What resources do we have access to?
- Where are we making money?

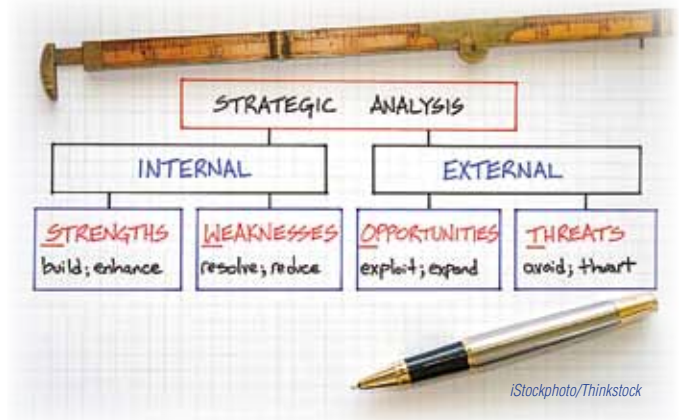
A strength could be any number of things. Do you offer a good or service that no one else in your area does? That product may be a strength. Or, maybe your strength lies in the convenient location of your business, the brand recognition associated with your company or the skills and talents of your staff. Whatever your strengths are, SWOT analysis is not the time to be modest. Don't be afraid to toot your own horn a bit! But, you also need to remember to consider your strengths (and weaknesses) in relation to the competition. If your competitors have convenient business locations as well, then perhaps convenience can't be considered a strength in your industry.

Weaknesses

A weakness is any limitation or shortcoming your business has that can keep you from achieving your objectives. Weaknesses are also *internal* organizational factors, which means they are under your control. To discover what your business's weaknesses are, ask yourself and your interviewees the following types of questions:

- What can we improve?
- What resources do we lack?
- Where are we losing money?
- What are our competitors doing better than we are?

Many times, a weakness is the flip side of a strength. For example, a weakness could be a lack of experience or expertise, a bad reputation among the public, poor communication among staff members, or a weak brand name. It's important to be realistic and honest when conducting your SWOT because ignoring your business's weaknesses won't make them go away! The sooner you confront and deal with your problems, the sooner you can turn them into strengths. Just don't be too hard on yourself—the point of SWOT analysis isn't to place blame, point fingers, or dwell on problems. Instead, use your analysis as an honest gauge of where you are right now—a starting point for some great improvements! Also, keep in mind that a weakness is different from a mistake. No business is perfect. One mistake does not constitute a weakness, but making the same mistakes over and over is certainly a cause for concern.



▲ After identifying your business's strengths, weaknesses, opportunities, and threats, it's time to decide how you're going to address or handle each one.

Opportunities

An opportunity is any favorable situation in the environment surrounding your business. Opportunities are *external* environmental factors, meaning they are out of your control. To determine these opportunities, you need to collect information about the environment surrounding your business. This process of gathering external information, called **environmental scanning**, is an important part of SWOT analysis and the strategic-planning process. To discover what opportunities your business has, ask yourself and your interviewees the following types of questions:

- What are the newest technological breakthroughs?
- What new needs of customers can we meet?
- What economic trends are beneficial to us?
- What niches have our competitors missed?

Depending on what type of business you have, an opportunity might be a new software development or an improved mechanical process. Or it could be a corporate merger or the failure of another company. Often it is the chance to introduce a new product or service. For example, the recent increase in people living a gluten-free lifestyle opened up huge opportunities for food manufacturers and restaurants. There are now gluten-free sections in most supermarkets, and many restaurants have gluten-free menu offerings. When collecting data in this category, note how long each opportunity is likely to last. Is the gluten-free lifestyle a permanent change for most people, or is this just a passing trend?

Threats

A threat is any unfavorable situation in the environment surrounding your business. Threats are also *external* environmental factors, meaning they are out of your control. As with opportunities, threats are determined through environmental scanning. To discover what threats your business faces, ask yourself and your interviewees the following types of questions:

- What obstacles do we face?
- What economic trends are harmful to us?
- Where are we vulnerable?
- What is our competition doing?
- What technological trends are harmful to us?
- Do we have money problems?

Threats come in many forms. A threat could be some new competition moving into your neck of the woods. It could be a new tax that your business owes the government or a new law you must follow. It could be bad debt or cash-flow problems. Or it could be a new trend sweeping the public. For example, the gluten-free lifestyle—a great opportunity for many groceries and restaurants—may present a challenge for traditional bakeries! When collecting data in this category, try to rank each threat according to its seriousness and the likelihood that it will actually happen.

Making Sense of It All

After you collect all your SWOT data through your interviews (as well as from yourself!), it's time to organize it in a way that makes it easy to understand. Remember, the end result of your SWOT analysis should be the ability to make sound strategic-planning decisions. Take a look at the data you've collected for each category. What information seems to stick out? Did a certain strength, weakness, opportunity, or threat get mentioned over and over again? Determine what the key issues are in each category, choose the top five in each, and plug them into a two-by-two table, also known as a **SWOT matrix**, with the strengths and weaknesses in the boxes on the left and the opportunities and threats on the right.

Let's take a look at an example of a SWOT matrix. Joe, owner of Joe's Diner, is in the midst of conducting a SWOT analysis. He has already gathered data from employees, customers, and vendors and identified his business's top five strengths, weaknesses, opportunities, and threats. Now, he needs to put that data into a SWOT matrix that he can use to develop new marketing strategies for the diner. Here's Joe's completed SWOT matrix:

Strengths

1. Voted "best pancakes in town"
2. Convenient location
3. Friendly staff
4. Good reputation
5. Lines out the door

Weaknesses

1. Limited beverage menu
2. No plan for expansion
3. Inexperienced chef
4. Poor advertising strategy
5. Lines out the door

SWOT Matrix for Joe's Diner



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Opportunities

1. Affordable new cappuccino machines
2. Failure of diner down the street
3. New cinnamon pancakes
4. Customers from surrounding towns
5. Trend toward healthy foods

Threats

1. Starbucks and other coffee chains
2. New diner opening across town
3. Fast-food restaurants
4. New tax law
5. Trend toward healthy foods

No, your eyes aren't playing tricks on you—some items are on more than one list! Sometimes strengths can also be considered weaknesses, and opportunities can also be considered threats. For example, if Joe's Diner has wait times of up to two hours on week-ends, some people might consider that to be a strength—it shows how much the public loves Joe's product. On the other hand, some people might consider the long wait times to be a weakness—many customers are turned off by not being able to get seated within a reasonable amount of time.

After organizing the collected data in the SWOT matrix, Joe and his marketing team (if he has one!) will be better able to evaluate it for the purpose of strategic planning. As you know, the best strategy is one that emphasizes the business's strengths, minimizes its weaknesses, capitalizes on good opportunities, and avoids external threats. Using the matrix, you can identify four different types of marketing strategies:

- **S-O strategies:** S-O strategies focus on opportunities that are a good match with the business's strengths. Joe's diner has a good reputation—that's definitely a strength. Since the diner down the street recently closed, Joe can use his reputation to attract those customers.
- **S-T strategies:** S-T strategies focus on using a business's strengths to overcome its threats. For example, fast-food restaurants are a big threat to Joe's Diner. However, Joe may be able to use his strengths—the best pancakes, a good reputation, and friendly staff—to present his business as a more wholesome and welcoming alternative to fast food.
- **W-O strategies:** W-O strategies focus on overcoming a business's weaknesses so the business can pursue opportunities. One of Joe's weaknesses is a poor advertising strategy. However, Joe wants to take advantage of the opportunity to gain customers from surrounding towns. A W-O strategy for Joe would involve improving his advertising to attract new customers.
- **W-T strategies:** W-T strategies focus on ensuring that a business's weaknesses don't make it even more vulnerable to the threats it already faces. Starbucks and other coffee chains are a threat to Joe's Diner. One of Joe's weaknesses is his limited beverage menu. If Joe doesn't want the diner to be even more susceptible to the competition from Starbucks, he may want to consider expanding his beverage menu to offer more choices.



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Beware!

So now you know how to conduct a successful SWOT analysis for your business. This strategic-planning tool will be valuable to you time and time again during the life of your business. However, SWOT analysis is not perfect. Each time you use this tool, keep these general SWOT cautions in mind:

- SWOT is subjective. Different people can have very different perspectives on the exact same issues. SWOT analysis deals in large part with opinion, so there isn't necessarily a right and a wrong in each case.
- Live in the present. A SWOT analysis is meant to be an evaluation of where your business is *right now*, not where you were in the past or where you hope to be in the future. If you're not realistic about the present state of your company, SWOT will be ineffective.
- You must be specific. There's no room to be vague or ambiguous in a SWOT analysis. If you're listing threats, for example, "something might go wrong" isn't as helpful as "a competing business moved in down the street." Unless you are specific, your SWOT matrix will not be useful for strategic planning.

Summary

Before you begin a SWOT analysis, establish your objectives and goals for doing so. Interview key contributors in one-on-one sessions. Ask specific questions to discover strengths, weaknesses, opportunities, and threats. After you collect all your SWOT data, it's time to organize it into the SWOT matrix. S-O strategies focus on opportunities that are a good match with the business's strengths. S-T strategies focus on using a business's strengths to overcome its threats. W-O strategies focus on overcoming a business's weaknesses so the business can pursue opportunities. W-T strategies focus on ensuring that a business's weaknesses don't make it even more vulnerable to the threats it already faces.



1. What should you do before you begin a SWOT analysis?
2. List the basic guidelines for conducting SWOT interviews.
3. List three questions that help determine strengths.
4. List three questions that help determine weaknesses.
5. List three questions that help determine opportunities.
6. List three questions that help determine threats.
7. Describe the four marketing strategies that come from the SWOT matrix.