

SWOT ANALYSIS

Key Points

- The SWOT analysis is a simple analytical framework that helps match external issues facing a firm with the internal resources and capabilities it possesses.
- The acronym SWOT stands for each dimension of the tool – strengths and weaknesses reflect priorities in the internal environment and opportunities and threats express priorities external to the firm.
- SWOT analysis have become fixture in strategic planning; however, they are used largely without the sophistication necessary to derive full value from the too.

Main Thoughts

The SWOT analysis is one of the most widely used tools in all of strategic planning. It is a straightforward analytical framework developed sometime during the 1960s. The premise of the SWOT framework is simple: to succeed in a competitive environment an organization needs to align its internal environment with the external environment in which it operates. The internal environment consists of both strengths and weaknesses while the external environment contains threats and opportunities. A SWOT analysis can be created very quickly at a high level or in considerable depth depending upon time available and the organization's skill in creating the analysis. Each dimension of the SWOT analysis can be describes as follows:

Strengths - Strengths are internal resources, capabilities or competencies an organization has. These may consist of access to unique sources of supply as in the case of DeBeers or unusually strong bonds with customers like those Ritz Carlton has developed. Strengths typically represent areas that an organization wants to exploit in the formulation of strategy.

Weaknesses - Weaknesses are gaps or shortcomings in resources, capabilities and competencies. Examples of weaknesses would be an inflexible, outdated technology platform or shortages in critically skilled employees. Organizations usually evaluate how to improve their weaknesses or minimize them during the formulation of their strategy.

Opportunities - Opportunities represent favorable shifts occurring in an organization's external environment. They present in many forms such as changes in government regulation or advances in technology. A major shift can be seen in the recent advances in digital media distribution which clearly represented an opportunity for Apple, Amazon and other like providers.

Threats - Whereas opportunities are usually favorable changes, threats are unfavorable and may adversely impact an organization. The same variables such as technology changes or new government regulation characterized as opportunities can just as easily be viewed as threats. The determination as to whether or not they are opportunities or threats is firm specific. Again, the digitization of music that was an opportunity for Apple and Amazon proved a

major threat to Handleman, a distributor and merchandiser of music which was recently forced to exit the North American music distribution market.

Conducting a SWOT Analysis - The best way to approach a SWOT analysis is through a three step process.

Step 1: Complete Appropriate External and Internal Analyses. The quality of the SWOT analysis will be determined in large part by the research done prior to it. Analyses such as PESTEL, Five Forces, and competitor profiling should help uncover external opportunities and threats while screens like the value chain analysis and resources, capabilities and core competency examinations will reveal internal strengths and weaknesses. Once these underlying examinations have been completed, then an effective SWOT can be constructed.

Step 2: Create the SWOT for Your Organization. The best way to construct a SWOT is by identifying a small set (i.e. four to six) critical threats and opportunities facing the business. These should then be compared to the top—again four to six—strengths and weaknesses of the organization. At the intersection of each external/internal factor, the organization can be given a relative score using a qualitative indicator like a Harvey ball or a quantitative score using a range of positive and negative numbers.

Step 3: Compare Your Organization's Results to Key Competitors. The final step in constructing a SWOT is to compare the results of your own SWOT to key competitors. It is important to keep in mind that the SWOT is a relative analysis—your performance relative to peers is what's being assessed. To be fully effective, peer comparisons must be considered in the overall analysis.

For Example:

The following examples of SWOT analysis were developed from national organizations and are used to illustrate how the analysis might look when completed.

(Note: Full red ball, unfavorable; half red ball, partially unfavorable; empty ball, neutral; half green ball, partially favorable; full green ball, favorable.)

Figure 1: Partial SWOT Analysis


























Internal Strengths & Weaknesses	External Opportunities & Threats			
	Labor Shortage	Client Consolidation	Centralized Purchasing	M & A Activity
Strengths				
• Distribution System				
• Flexible Workforce				
• Access to Capital				
Weaknesses				
• Contract R&D				
• Reliance on single customer				
• SKU Proliferation				
Summary				

Figure 2: Competitor Comparison SWOT

Internal Strengths & Weaknesses	External Opportunities & Threats			
	Labor Shortage	Client Consolidation	Centralized Purchasing	M & A Activity
Your Company				
Competitor 1				
Competitor 2				
Competitor 3				

CPP Insight

It's high time for the SWOT analyses of the world to start improving for three key reasons. First, some organizations use the SWOT as their only form of analysis. From this paper alone it should be obvious why this approach isn't sufficient. Good analysis—the kind from which good strategies are developed—is the result of deep investigation into multiple aspects of an organization. Second, SWOT analyses have the tendency to devolve into more a punch list of issues than a succinct summary of critical performance areas. It is virtually impossible for any organization to thoughtfully examine more than a handful of critical issues during strategy formulation. A SWOT analysis where each dimension houses 10-15 non-prioritized issues will be of little use. Lastly, managers have to gain facility in building these frameworks to engage in thoughtful and productive dialog. All too often the SWOT is applied in a cursory manner, which is unfortunate because the device has bona fide analytical power when applied in depth.

For More Information See:

Books

Johnson, G., et al, Exploring Corporate Strategy, FT Prentice Hall, Essex, 2005.

Ambrosini, V. et al, Exploring Techniques of Analysis and Evaluation in Strategic Management, FT Prentice Hall, Essex, 1998.

About Cambridge Performance Partners

Cambridge Performance Partners (CPP) is a global management consulting firm that helps organizations improve measurable business performance. We guide top management teams in the areas of planning strategy, measuring performance, managing project and making decisions. For more information visit our website www.cambridgeperformancepartners.com. CPP helps organizations put improved performance insight.