



SWOT Analysis

**GROWTH
MODULE**

3

SWOT Analysis

A SWOT (strengths, weaknesses, opportunities and threats) analysis is often done as part of the process of developing a business plan or a marketing plan. It is a method for assessing your business, its markets, its resources, its competitors and potential problem areas.

A SWOT analysis can sometimes reveal opportunities that you had not previously considered or areas of your business that you need to improve.

By developing a clearer understanding of the dynamics of your business you will be better able to address and avoid the risks facing you in the market.

Here we explain how a SWOT analysis is carried out and how its findings can be used to help when making decisions about your future business strategy. It also includes hints and tips and sources of further information.

The SWOT Process

The results of a SWOT are often shown in a grid, which makes the process look very simple. To be effective, however, a SWOT requires careful assessment, research and analysis. The results can then be summarised, if desired, in a grid. Organisations undertake SWOT analyses to help them understand themselves and where they fit into the wider environment. The intention is to identify strengths on which the organisation can build future success and weaknesses which need to be addressed if they are not to pull down the organisation. Organisations do not exist in isolation, but in an environment which may provide opportunities and is also likely to impose threats.

| | |
|----------------------|-------------------|
| Strengths | Weaknesses |
| | |
| Opportunities | Threats |
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3

SWOT Analysis

Strengths and weaknesses originate from the organisation itself. They can be determined by looking in at your staff, your products and your processes.

Opportunities and threats largely arise externally so they require a systematic review of the environment in which your organisation operates, including market and consumer trends, competitor activities, changes in technology, legislation and financial issues. So undertaking a SWOT analysis which will really help the organisation requires some effort and does not just result from a quick brainstorm in the office.

You may find that some items appear in more than one box. An item that appears to be a threat could also represent a potential opportunity. For example, a rush of competitors into your area could easily represent a major threat to you. However, growing numbers of competitors could boost overall customer numbers, some of whom may visit your business.

The real benefit of undertaking a SWOT analysis comes through helping you to develop a coherent overview of your business by relating the contents of each box to one another. This comparative analysis will then provide a level of understanding that will enable you to harness external and internal forces to help your business prosper. It is important that you use the results of the SWOT analysis as you prepare your strategy or business plan.

Completing the SWOT Grid

A variety of questions lie at the heart of the SWOT analysis:

Strengths

Ask yourself the following questions:

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| What is unique about your business? | Why do customers choose to do business with you? |
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| What advantages does your business have? | Does your business have a strong brand image? |
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3

SWOT Analysis

Consider what you believe to be the strengths of your business such as:

- The skills and experience of your staff.
- The quality of your products.
- Your ability to innovate.
- A loyal customer base.
- Your processes.
- Your staff.
- Your location.
- Availability of resources.
- Your values.

Think about what your business does better than anyone else. This could be, for example, your marketing expertise, your environmentally friendly packaging or your excellent customer service.

Evaluate your strengths in terms of how they compare with those of your competitors. If you and your competitors provide the same prompt delivery time, this is not a unique strength. But if your delivery staff are extremely polite and helpful while your competitors' employees are bad mannered and indifferent to customers, then you need to list your staff's attitude as a strength of the business.

Be honest and realistic. Try to include some personal strengths and characteristics of individual members of your staff and management team.

3

SWOT Analysis

Weaknesses

Ask yourself how your business could improve:

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| Does your staff lack any obvious skills, experience or training? | |
| Does your business rely on only one or two suppliers? | |
| Does your business rely on only one or two key product lines that could become obsolete? | |
| Could the quality or variety of your products and services be improved? | |
| Is your customer service efficient? | |
| Do your suppliers always deliver exactly what you want, when you want it? | |
| Is there an area of expertise which is lacking in your business? | |
| Do you need more sales staff? | |
| Do you need financial help and guidance? | |
| Is your location right for your type of business? | |
| Is there enough customer parking? | |
| Is there an opportunity to catch passing trade? | |

Your objective has to be total honesty in listing weaknesses. Don't just make a list of mistakes that have been made, such as an occasion when a customer was not called back promptly.

The weakness might be that your systems or processes do not ensure that customers are contacted exactly when they should be.

3

SWOT Analysis

Get an outsider's view of your weaknesses. You may strongly believe that your years of experience in your sector give you a thorough grounding and knowledge of all of your customers' needs.

A customer, however, may view this wealth of experience as portraying an old-fashioned approach and unwillingness to change and work with new ideas. Indeed, a stakeholder analysis of the views of all parties involved in your business can be an excellent way of seeking external views about both strengths and weaknesses.

Opportunities

You need to look at the environment in which your organisation is operating now and the potential environment in which it might be operating in, say, five years' time. You need to learn as much as possible about, and be sensitive to, the demands and constraints of the environment. One way of doing this is to undertake a **PEST** (political, economic, social and technological) analysis though this may go by another name such as **PESTLE** (political, economic, social, technological, legal and environmental) which provides a framework to ensure that key topics are not forgotten.

Analysing your opportunities can be tackled in several ways:

- External opportunities can include taking advantage of the market where competitors are not performing well, providing you with the opportunity to do better.
- There may be technological developments in your area, or a new process enhancing your products.
- There may be some legislative changes, offering you an opportunity to provide advice, support or added services.
- Opportunities to import goods from abroad could mean that you can source unique products at very reasonable prices.
- Changes in market trends and consumer buying habits may provide the development of a niche market which you could exploit before your competitors if you are quick enough.
- You could also consider your weaknesses more carefully and work out ways of addressing these problems and turning them into opportunities. For example:
 - Your values do not match those sought by customers. However, taking a robust approach to your values and being public about them could help you develop a new message which resonates with customers, like John Lewis Partnership's 'never knowingly undersold'.

3

SWOT Analysis

Threats

Some threats are tangible, such as a new competitor moving into your area. Others are less easy to predict, such as the 9/11 terrorist attack in the USA, which had a continuing impact for some time on many business sectors throughout the world, or major floods in your local area.

Being vigilant and staying aware of changing technological, political, social and economic factors means that if a potential threat arises, you can react more quickly, having already considered your options and perhaps put some contingency planning into place.

Think about the worst things that could realistically happen, such as:

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| Losing your customers to your major competitor. | The development of a new product far superior to your own. |
| Technological changes to which you could not adapt. | Your main supplier ceasing to trade. |
| Legislative changes making your product or service obsolete. | Changes to your customer demographics or cultural choices. |
| A major customer failing to pay. | A key employee leaving. |

Listing the threats in your SWOT analysis will provide ways for you to plan for and deal with these problems if they ever start to affect your business. Many threats arise from vulnerability due to having all your eggs in one basket or not keeping up to date with changes in the market place. By analysing your business and being aware of its vulnerabilities you should be able to deal more effectively with any threats that arise.

Example of a SWOT analysis and how to use one:

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| Strengths <ol style="list-style-type: none">1. Flexibility of service.2. Offer good value as overheads low.3. Excellent skill base. | Weaknesses <ol style="list-style-type: none">1. No track record in the market place.2. Cash Flow very tight.3. Reliant on a few key staff. |
| Opportunities <ol style="list-style-type: none">1. Competitor is retiring.2. Market sector is growing.3. New technology opens up wider markets. | Threats <ol style="list-style-type: none">1. Competitors might undercut our prices.2. Technological changes pressuring finances if equipment upgraded. |

3

SWOT Analysis

The SWOT analysis highlights the vulnerabilities of the business including reliance on a few key staff, lack of reputation in the market place and tight cash flow. On a positive note however, it helps to highlight a possible business strategy and action plan to overcome this.

The marketing effort needs to be increased to build the image of the business but this could be achieved effectively and economically by creating an online presence. This would take advantage of the technological opportunities that have been identified. Such a strategy should enable the business to grow with the market sector but should also help to keep its overheads and staffing requirements at a reasonable level.

After completing your SWOT analysis it is vital that you take stock of your business strategy. As you prepare or amend your business plan, build on the strengths and opportunities. For example, 'we will build on our reputation for quality by launching a premium service to support exporters', or, 'we will launch a new service to meet the need for improved matching of customers and suppliers of road transport services'.

Address the perceived weaknesses and threats, without necessarily listing them all. If the plan will be read by third parties, this has the advantage of not drawing attention to the fact that there may be weaknesses or threats. For example, the plan might say 'systems of financial reporting will be improved over the next year with the introduction of monthly management accounts'.

In this way, areas that might have been seen as negatives can be turned into positives and there is less danger of raising alarm bells in the mind of the reader without addressing them adequately. By the time you have completed your plan, you need to have considered how you can build on each strength, how you can address each weakness, how you can exploit each opportunity and how you can mitigate each threat.

In summary:

- Build on and exploit your strengths. Use them to their full potential.
- Reduce your weaknesses either by minimising the risks they represent or by making changes to overcome them.
- Make the most of your opportunities. Now you understand where they lie, make sure you focus and capitalise on them.
- Turn threats into opportunities. Be proactive and put plans into place to counter any threats.

3

SWOT Analysis

To help in planning ahead, combine some of the areas you have highlighted in the boxes. If you see a new market growing, you will be able to check whether your internal strengths will enable you to make the most of the opportunity. Do you have sufficient trained staff in place? Can your phone system cope with extra customer orders?

Hints and tips :

- Focus on all the issues, not just on the large, obvious ones like a major new competitor entering your market. You need to consider all kinds of factors carefully, such as whether your IT system provides everything you need and whether your staff have the skills for the next stage of business development.
- Ask your staff, your management team or even your business adviser to help you complete your analysis. Don't try to do it alone. Undertake a stakeholder analysis to gather external views about your strengths and weaknesses. Other people's perspectives can be very useful as they can distance themselves from your business and provide an objective view.
- Carry out a SWOT analysis regularly. Your business environment and market will constantly change, so use the SWOT process as a way of analysing and evaluating your business performance.

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