

SWOT analysis

SWOT analysis looks at your strengths and weaknesses, and the opportunities and threats your business faces.

By focusing on the key factors affecting your business, now and in the future, a SWOT analysis provides a clear basis for examining your business performance and prospects. This briefing outlines:

- Typical strengths, weaknesses, opportunities and threats, and how to identify them.
- How to use SWOT analysis to drive your business forward.

1 Self-analysis

Use SWOT analysis as part of a regular process of reviewing your business performance.

You may also want to carry out a SWOT analysis in preparation for raising finance or before bringing in consultants to review your business.

1.1 Decide **who** to involve.

- Key participants are likely to include the managing director and heads of department.
Involving others will give a fuller picture and help to gain their commitment to the process.
Find out what customers think using a customer satisfaction survey.
- Consider bringing in sympathetic outsiders who know your business and market (eg customers and suppliers).
- Many businesses find a consultant most useful for their first SWOT analysis.

1.2 Brainstorm the issues. Ask everyone to identify any strengths or weaknesses they feel the business has, and any opportunities or threats they think the business faces.

- Encourage participants to make suggestions without trying to judge how important the issue is.
- Concentrate especially on identifying weaknesses and threats.
- Be aware that lack of honesty is a common problem.
For example, most people find it easier to identify strengths and opportunities, particularly if the performance of key people (including yourself) is one of the weaknesses.
- You may want to use checklists to prompt further suggestions (see **2, 3, 4 and 5**).

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- Organise related ideas into groups. Recording suggestions on Post-it notes or cards that can be moved around and rearranged makes this easy.

1.3 Evaluate the significance of the issues that have been identified.

To help you, use relevant data from your own and similar businesses (see box).

- Update your conclusions from any previous SWOT analysis. For example, a strength may no longer exist (eg if last year's cutting edge product is now obsolete).
- Assess whether your strengths (or weaknesses) give your business a significant competitive advantage (or disadvantage). For example, your strong research and development programme is useless unless you have the resources to exploit the results. Do not be surprised if certain factors crop up as both a strength and a weakness.

1.4 Create a simple, clear **action** plan.

There is no point holding a SWOT analysis if it does not result in action.

- Set out what will be done to address weaknesses, capitalise on opportunities and deal with threats (see 6). This includes the steps to be taken,

Putting it in context

Too often, a SWOT analysis is based on unrealistic and unfounded assumptions. To maximise the effectiveness of the process, research your market thoroughly and justify conclusions with relevant data.

- A** Get **in-house** information from your business records and personnel.
- For example, ask sales people what they know about market facts and figures.
- B** Get data on your **competitors**.
- Read company reports, trade magazines and industry research carried out by relevant trade organisations.
- C** Do your own **market research**.
- D** Consider using **specialist consultants** to supply comparative data on businesses similar to your own.

the personnel who will be involved, the timeframes and the budget.

- Involve key personnel in drawing up the action plan to get their commitment.

1.5 Keep the SWOT analysis and action plan to hand for review before important decisions.

- For example, as a reminder of what you should be looking for when recruiting a new employee.

2 Strengths

Your strengths are usually easy to identify, through your continuing dialogue with customers and suppliers. Your records (eg sales) will also help to indicate areas where you are particularly strong (eg rising sales for a particular product).

For most businesses, strengths will fall into four distinct categories.

2.1 Sound **finances** may give you advantages over your competitors.

Important factors might include:

- Positive cashflow.
- Growing turnover and profitability.
- Skilled financial management, good credit control and few bad debts.
- A strong balance sheet.
- Access to extensive credit, a strong credit rating, and a good relationship with the bank and other sources of finance.

2.2 **Marketing** may be the key to your success.

For example, your business may enjoy:

- Market leadership in a profitable niche.
- A good reputation and a strong brand name.
- An established customer base.
- A strong product range.
- Effective research and development, use of design and innovation.
- A skilled salesforce.
- Thorough after-sales service.
- Protected intellectual property (eg registered designs, patented products).

2.3 **Management** and **personnel** skills and systems may provide equally important underpinnings for success.

These may include factors such as:

- Management strength in depth.
- The ability to make quick decisions.

- Skilled employees, successful recruitment, and effective training and development.
- Good motivation and morale.
- Efficient administration.

2.4 Strengths in production may include the right premises and plant, and good sources of materials or sub-assemblies.

You may benefit from:

- Modern, low-cost production facilities.
- Spare production capacity.
- A good location.
- Effective purchasing and good relationships with suppliers.

Be aware that strengths are not always what they seem. Strengths may imply weaknesses (for example, market leaders are often complacent and bureaucratic) and often imply threats (for example, your star salesman may be a strength — until he resigns).

3 Weaknesses

Your weaknesses are often known but ignored. A SWOT analysis should be the starting point for tackling underperformance in your business (see **6.2**).

3.1 Poor financial management may result in situations where:

- Insufficient funds are available for investment in new plant or product development.
- All available security, including personal assets and guarantees, is already pledged for existing borrowings.
- Poor credit control leads to unpredictable cashflow.

3.2 Lack of marketing focus may lead to:

- Unresponsive attitudes to customer requirements.
- A limited or outdated product range.
- Complacency and a failure to innovate.
- Over-reliance on a few customers.

3.3 Management and personnel weaknesses are often hard to recognise, except with hindsight. Familiar examples are:

- Failure to delegate and train successors.
- Expertise and control locked up in a few key personnel.
- Inability to take outside advice.
- High staff turnover.

3.4 Inefficient production, premises and plant

can undermine any business, however hard people work.

Typical problems include:

- Poor location and shabby premises.
- Outdated equipment, high cost production and low productivity.
- Long leases tying the business to unsuitable premises or equipment.
- Inefficient processes.

► Compare both strengths and weaknesses by benchmarking key areas with those in other businesses.

4 Opportunities

External changes provide opportunities that well managed businesses can turn to their advantage.

4.1 Changes involving organisations and individuals which directly affect your business may open up completely new possibilities. For example:

- Deterioration in a competitor's performance, or the insolvency of a competitor.
- Improved access to potential new customers and markets (eg overseas).
- Increased sales to existing customers, or new leads gained through them.
- The development of new distribution channels (eg the Internet).
- Improved supply arrangements, such as just-in-time supply or outsourcing non-core activities.
- The opportunity to recruit a key employee from a competitor.
- The introduction of financial backers who are keen to fund expansion.

4.2 The broader business environment may shift in your favour. This may be caused by:

- Political, legislative or regulatory change. For example, a change in legislation that requires customers to purchase a product.
- Economic trends. For example, falling interest rates reducing the cost of capital.
- Social developments. For example, demographic changes or changing consumer requirements leading to an increase in demand for your products.
- New technology. For example, new materials, processes and information technology.

5 Threats

Threats can be minor or can have the potential to destroy the business.

5.1 Changes involving **organisations** and individuals that directly affect your business can have far-reaching effects. For example:

- Improved competitive products or the emergence of new competitors.
- Loss of a significant customer.
- Creeping over-reliance on one distributor or group of distributors.
- Failure of suppliers to meet quality requirements.
- Price rises from suppliers.
- Key personnel leaving, perhaps with trade secrets.
- Lenders reducing credit lines or increasing charges.
- A rent review threatening to increase costs, or the expiry of a lease.
- Legal action (eg being sued by a customer).

5.2 The broader **business environment** may alter to your disadvantage. This may be the result of:

- Political, legislative or regulatory change. For example, new regulation increasing your costs or requiring product redesign.
- Economic trends. For example, lower exchange rates reducing your income from overseas.
- Social developments. For example, consumer demands for 'environmentally-friendly' products.
- New technology. For example, technology that makes your products obsolete or gives competitors an advantage.

6 Action

The results of SWOT analysis — and the action needed — will be different for every business.

6.1 Capitalise on **opportunities** that play to your strengths.

Opportunities that match your strengths may prompt you to pursue a strategy of aggressive expansion. The SWOT analysis may also suggest other strategic options. For example:

- Diversifying away from areas of significant threat to more promising opportunities.
- Focusing on turning around weaknesses in areas of significant opportunity (see **6.2**).
- Taking defensive measures in areas of threat where you are weak (see **6.3**).

6.2 Address your **weaknesses**.

- Decide which weaknesses need to be

addressed as a priority.

Other weaknesses must be acknowledged and respected until time and resources allow a solution.

- Some weaknesses can be turned into strengths or opportunities. For example, it might be possible to turn a shortage of production capacity into scarcity value for your product.
- Some weaknesses have a clear solution. For example, financial weakness might be solved by raising further funds, and management shortcomings by recruiting new personnel.
- Some weaknesses will take time and money to address. For example, you may need to start a programme of improvements through training, or quality management.

6.3 Protect yourself against **threats**. For example:

- Build relationships with suppliers and customers.
- Foster good employee relations.
- Ensure you have clear and reasonable contracts with suppliers, customers and employees.
- Take out insurance cover against obvious potential disasters.
- Draw up realistic contingency plans to cope with potential crises.
- Introduce the right types of service contracts for key personnel.
- Invest in legal protection for your intellectual property.
- Take advantage of low fixed interest rates to move your overdraft to long-term loans.

Successful businesses focus on capturing market niches and creating 'barriers to entry' to reduce potential competition.

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