SWOT Analysis

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Conceptual Framework

A SWOT analysis evaluates the internal strengths and weaknesses, and the external opportunities and threats in an organization's environment. The internal analysis is used to identify resources, capabilities, core competencies, and competitive advantages inherent to the organization. The external analysis identifies market opportunities and threats by looking at competitors' resources, the industry environment, and the general environment (see Figure 1). The objective of a SWOT analysis is to use the knowledge an organization has about its internal and external environments and to formulate its strategy accordingly. This article provides a toolkit of templates to conduct a SWOT analysis and discusses practical insights on how to formulate strategic decisions.

Analysis of Internal Strengths and Weaknesses

The internal analysis of the organization is critical in identifying the source of competitive advantage. It pinpoints the resources that need to be developed and sustained to remain competitive. By definition, competitive advantage must be unique to the firm to generate profits above the industry average. The strategic management process starts with an in-depth evaluation of the organization by looking at its internal resources and capabilities, these being the source of its core competencies, which in turn create a competitive advantage.

Resources are defined as the tangible or intangible inputs required to produce a product or service. Tangible resources include raw materials, premises, machinery, and equipment. Examples of intangible resources are financing, technology, human capital, supplier networks, sales force structures, distribution networks, patents, trademarks, customer base, brand equity, and firm reputation. Resources can be combined and developed into capabilities, which in turn creates core competences.

Capabilities are defined as the firm's capacity to make efficient use of internal resources, and its ability to combine them into competitive products and processes. Examples of strategic capabilities are the following: developing innovative technology products, reducing the time to market, creating more efficient distribution channels and retail outlets, capturing the consumer's attention through marketing, and managing customer relationships to gain long-term brand loyalty.

Core competencies are derived from capabilities and, if they are unique in the industry, they will create sustainable competitive advantage for the firm. How an organization turns its capabilities into core competencies is less visible to rivals, making competencies difficult to understand and imitate.

The components of an internal analysis of strengths and weaknesses are the firm's resources (summarized in Figure 2) into the functional categories of financial, managerial, infrastructural, suppliers, manufacturing, distribution, marketing, and innovation resources.

Financial resources are defined as the extent to which an organization has access to capital. Organizations with high brand equity and a high reputation are likely to have access to less expensive sources of finance. The cost of capital is lower for established companies and higher for operations that have a risk of failure. Other sources of finance are derived from a balanced business portfolio that has a good mix of cash generating products, which make up for costly products that are in the introductory phase of their life cycle. Some organizations may opt for high levels of gearing, where interest on capital is likely to diminish profits. A strong cash flow position for an organization is vital to buy in resources that will sustain operations and growth in the long term.

Managerial resources create the competencies of an organization in relation to the planning, control, and the leading of functions. For example, historically, football teams have relied on the strengths of a single outstanding player such as Pele and Maradona amongst others for their success. Commercial football clubs have changed their strategy from depending on individual high performers to depending on dynamic teams. High-ranking football clubs such as AC Milan and Manchester United focus on developing and renewing a pool of highly

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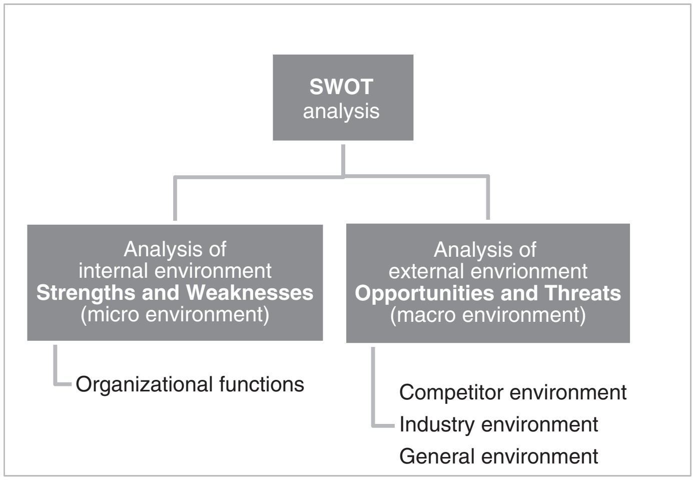

Figure 1 SWOT analysis main components.

SWOT analysis template **Internal Strengths (S) and Weaknesses (W)** (micro analysis)			
Internal environment	**Strengths**	**Weaknesses**	**Strategic action**
1. Financial			
2. Managerial			
3. Infrastructural			
4. Suppliers			
5. Manufacturing			
6. Distribution channels			
7. Marketing			
8. Brand equity			
9. Innovation resources			

Figure 2 Template for the analysis of internal strengths and weaknesses.

skilled players and a management style that rewards team performance.

Infrastructural resources are the backbone of the company allowing operations to run efficiently while providing information to improve the current processes. Examples of infrastructural resources are computerized systems for finance, accounts, procurement, internal processes, production, stores, marketing, sales, logistics, and customer relationship management. The analysis can go a step further by evaluating the platforms on which the systems run, such as computer based, mobile, and cloud platforms that may increase usability across the organization's departments and employees.

Suppliers and the nature of their products and services will have a bearing on the competitive advantage of an organization. Different methods and techniques are used to rate and evaluate suppliers. An effective assessment is based on the key deliverables of the product range, quality, availability, lead times, and service responsiveness.

Manufacturing resources such as plant, machinery, automation, and technical support are essential to develop quality products. Flexibility in manufacturing is another factor to consider as it enables innovation and product development. Modular manufacturing and outsourcing of production are other factors that would cater for innovation and change in the product line.

Distribution channels can be analyzed to seek the strengths and weaknesses of logistics, partners, and distribution chain management. Other areas of assessment are the motivation of channel members, product, pricing, and motivation issues in the marketing channels.

Marketing functions are reviewed in terms of their effectiveness concerning industry knowledge through research, product development, product life cycle management, pricing policies, distribution channel design, advertising, public relations, sales, and product promotion.

Brand equity is the goodwill derived from the reputation of the organization and its brands. The strengths and weaknesses are extracted for different brand names, the market's perceptions of quality and reliability, and the organization's reputation with stakeholders such as suppliers, financers, prospective employees, channel members, and customers. The objective of the analysis is to create brands that are differentiated from the competition, thereby reducing the number of substitutes in the marketplace.

Innovation resources are part of the culture of an organization that encourages a climate for new ideas and technological capabilities, and has the capacity to innovate. Measureable innovation resources take the form of copyrights, patents, trademarks, and commercially sensitive business blueprints.

Resource Similarity

Resource similarity occurs when characteristics of competitors are almost the same (see Figures 1 and 2). Competitors may have access to the same level of finance, managerial skill, and technological infrastructure. The incoming supply chain and outgoing distribution chain may be common throughout the industry.

Organizations with similar resources are likely to have similar strategies. Another phenomenon is that organizations are more likely to engage in coopetition, a form of collaborative competition designed to increase revenues by growing the industry as a whole rather than growing market shares. The rules of competition become survival through tacit complicity to grow the market collectively.

This is the case for the telecommunications industry. Mobile network operators such as Vodafone and T-Mobile have access to the same network suppliers (such as Ericsson and Siemens) and telephone suppliers (such as Nokia, Samsung, Apple, and Sony). Managerial skill is brought in from an international supply pool. Innovation is dependent on the same technology providers who hold the patents for new products.

Adaptive behavior arises from competition and cooperation among the system agents at the level of technological standards and physical platforms. In this environment, competition becomes the driving force behind cooperation. Competing firms are observed to forge alliances and symbiotic relationships to increase the industry's size. Coopetition emerges as mobile network operators move toward similar network interdependence, standardization of technology, and the limitations imposed by the regulatory environment.

Challenges of Internal Analysis

When it comes to completing the internal strengths and weaknesses section of a SWOT analysis, management practitioners make the common mistake of listing all the factors in which the organization is believed to be robust or most vulnerable. They end up with a long list of factors, which would make it difficult to analyze and to translate into strategic action. While the generation of such a list is appropriate in a context, its contribution toward the development of business level strategy is limited.

Management practitioners are best advised to identify those factors that have a direct bearing on the ultimate source of competitive advantage that an organization is seeking to achieve. For example, having high levels of cleanliness and hygiene in a back office operation is intrinsically beneficial but unlikely to make a significant contribution toward the source of competitive advantage that the organization is seeking. On the other hand, high levels of cleanliness and hygiene are compulsory in industries such as catering establishments, pharmaceutical manufacturers, and hospital institutions – where client health and safety could be compromised. In these contexts, hygiene cannot be defined as a strength but more of a mere basic requirement. Ideally, an internal analysis should be prepared on the basis of an organization's attributes in comparison to its competition. The attributes are reviewed with respect to how they contribute or limit the organization from achieving a competitive position.

Analysis of External Opportunities and Threats

The objective of an external environment analysis is to help organizations recognize major developments and future implications. The external environment consists of variables that are beyond the control of an organization, but which require analysis to realign corporate strategy to shifting business environments. An external analysis identifies possible threats and opportunities for further expansion.

Commercial opportunities emerge in the environment that can be exploited to create competitive advantage. For example, mobile money transactions are estimated to reach \$1 trillion by 2015. With the widespread diffusion of tablets and smartphones, higher transmission speeds and an advantageous regulatory environment, the global market is ready for the service to become widely diffused. The revenue opportunities lie in the percentage commission on each mobile transaction and fees for storing monetary values in digital wallets. The opportunities for new revenue streams and business models are wide open for mobile operators. The top six operators namely, China Mobile, Vodafone, Airtel, América Móvil, Telefónica, and Orange are gearing up for the challenge. Banks, financial intermediaries, and a host of new digital transaction firms are preparing for the next wave of growth.

Threats are situations in the external environment that are an obstacle to an organization's competitive advantage. For example, online readership of books, newspapers, and magazines is rapidly catching up with print readership and is likely to surpass it. Smartphones and tablets are expected to outnumber personal computer and laptop sales. The external threat from mobile technology and the implication for publishing companies, such as Wiley, Pearson, Reed Elsevier, and Cengage, is that their print products would need to be reengineered for digital consumption on mobile platforms.

The external analysis of opportunities and threats is categorized into three main areas (see Figure 3). The analysis of the competitor environment focuses on the organizational resources of competitive rivals and conditions that are likely to affect future market shares, revenues, and profits. The analysis of the industry environment is based on Porter's framework of factors influencing an industry's dynamics and structure. The analysis of the general environment adopts frameworks from political, economic, social and technological (PEST) and its derivatives. The strategies that emerge from the three areas of analyses determine the organization's vision, mission, and strategic planning.

Competitor environment is an area of analysis that is largely concerned with the collection and processing of knowledge on rival firms. The methodology involves looking at each competitor, gathering information on resources, capabilities, core competences, and competitive advantage. The opportunities and threats to the organization become apparent as each element is identified. This would, hence, imply that Nokia needs to learn as much as it can about its main challengers, such as Samsung, Apple, LG, RIM, HTC Motorola, Huawei, and Sony Ericsson to meet and exceed the pace of product innovation.

Industry environment analysis is the review of factors that have a direct impact on the organization's income stream and that require a strategic response. The objective is to minimize negative implications and exploit positive opportunities. The analysis is based on Porter's five forces of competition, as follow: the intensity

SWOT analysis template
External Opportunities (O) and Threats (T)
(macro analysis)

External environments	Opportunities	Threats	Strategic action
Competitor environment			
Financial			
Managerial			
Organizational			
Suppliers			
Manufacturing			
Distribution channels			
Marketing			
Brand equity			
Innovation resources			
Industry environment			
Intensity of rivalry among competitors			
Threat of new entrants			
Threat of substitute products			
Bargaining power of suppliers			
Bargaining power of buyers			
General environment			
Political			
Economic			
Socio-cultural			
Technological			
Legal			
Environmental			
Demographic			
Ethical			
Regulatory			

Figure 3 Template for the analysis of external opportunities and threats.

of competitive rivalry, threat of new entrants, power of buyers, power of suppliers, and the threat of product substitutes. The business model, revenue streams, and profitability among competitors are determined by these five factors.

The implications of the industry environment for strategic management are twofold:

From the industrial organization's (I/O) perspective of strategy, the organization should identify and seek to operate in markets that provide the best opportunities for competitiveness and profitability. The industries and the geographic markets in which a firm chooses to operate have a higher impact on performance than strategic decision concerning internal resources, capabilities, and core competencies.

According to the resource-based view (RBV) perspective, organizations should locate a competitive position in the market space, where it can influence and control the five factors (entrants, suppliers, buyers, substitute, rivalry) or where it can protect itself from their threats.

External environment sample of dimensions	Opportunities and threats	Impact
Competitor activity	Establishment of a hypermarket chain with an outlet in close proximity to the supermarket.	Potential loss of customers to the new outlet that may afford to charge lower prices due to economies of scale.
Suppliers	Establishment of a large number of new suppliers for fruits and vegetables.	Increased competition is likely to drive down their price.
Government	Harsher HACCP requirements to ensure optimal food safety in establishments	Higher compliance costs in an effort to make changes to existing operations to comply with new requirements.
Economic changes	Economic recession is eroding the disposable income of potential buyers.	Potential reduction in demand or a shift from more expensive to less expensive food items.
Societal	Working families with limited time available for cooking who are becoming increasingly health conscious.	Increased demand for healthy ready meals at the supermarket.
Technology	Increased accessibility through on-line channels.	Market spread for products and services have increased as a result of e-commerce with a positive impact on sales.

Figure 4 Sample of external environment dimensions. Analysis of opportunities and threats for a supermarket chain.

The greater the ability of an organization to influence the industry environment, the likelier it is to earn profits above the industry's average.

The analytical structure of SWOT that is used to review the external environment tends toward the RBV view. The assumption that organizations can strategize against threats implies that they are reactive to their environment. Microsoft has been instrumental in shaping the computing environment and the commercial environment, in general. Apple acted as a game changer when it introduced major technological innovations such as iPod, iPhone, and iPad. Other companies are influential in establishing new technological standards, such as the consortia of telecommunications companies forming the GSM and the 3G standards.

General environment analysis looks at the broader dimensions of society and business that have consequences for the organization and its industry. The dimensions are typically viewed from political, economic, sociocultural, technological, ecological, demographical, ethical, and regulatory perspectives. These are derived from the traditional PEST framework and its variations. The general environment analysis typically identifies the key factors that drive change within elements making up Porter's five-force model. The change in dynamics in industry forces could in turn define whether such change presents an opportunity or a threat to the organization performing the analysis. In contrast to the model, opportunities and threats are business specific rather than industry specific. In particular, a threat for one organization in an industry could be an opportunity for another. For example, advancement in information and communication technologies have eradicated boundaries for traditional tour operators offering all-inclusive packages to prospective clients. Although this could be considered as a threat to established players, it creates opportunities for new forms of intermediaries to compete in the tourism market.

Figure 4 provides an example of an analysis based on a sample set of dimensions within the external environment and applied to a supermarket chain.

Sources of External Analysis

Organizations use different sources of information to build a picture of the external environment, including a broad variety of industry-specific magazines, news items, academic papers, market research reports, commercial publications, and trade shows. Information can be sought through informal communication or structured research with suppliers, customers, potential customers, and the public. Employees and industry personnel who are in direct contact with the market have a great deal of information about the competitive landscape, competitive behavior, and possible trends. Customer care representatives, salespeople, procurement executives, public relations, and communications agencies interact with the external environment and are good sources of information.

Cognitive Inertia and External Analysis

An organization's environmental analysis can be biased in terms of the level of focus given to different factors of the external environment. Strategists may review their business environment by creating cognitive maps, which act as tools to process knowledge. These frameworks are shaped mainly from personal experience. Individual and collective cognitive maps within an industry can be indifferent to significant economic indicators and market signals during a time when an industry is changing rapidly. Cognitive inertia, unless reexamined by regular reviews of incoming information that refresh the strategist understanding of the business environment can lead to the decline of an organization.

TOWS Matrix

An adaptation of the SWOT Analysis is Weihrich's TOWS Matrix (see Figure 5). The matrix identifies potential tactical strategies that could be deployed for the purpose of exploiting opportunities or defending against threats through the leverage of the existing strengths and the reduction of weaknesses. The TOWS Matrix seeks to develop tactical strategies based on four different positions.

The WO strategy in the first quadrant attempts to maximize opportunities arising from the external environment and eliminating the organization's internal weaknesses that hinder its growth. For example, an electronics manufacturer may be aware of the growing demand for tablets, but may lack the technology required for producing screens. Possible strategies would be to create joint ventures with firms that have the technology and possibly the patents for interactive screens, which are at the edge of innovation. Another option would be to subcontract the function to firms that have competency in this field. If no action is taken, the opportunity of market growth is left to competitors.

The SO strategy in the second quadrant is an ideal situation where an organization can

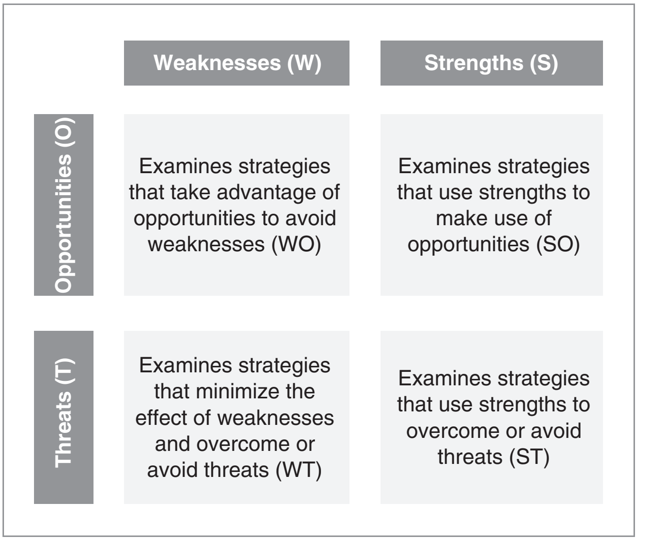

Figure 5 TOWS matrix.

maximize on both strengths and opportunities. Apple was in a similar situation with a strong cash balance of $140 billion reported in 2013, more than twice the size of Facebook's market value. Apple employs a strategy of using excess capital to develop its supply chain. More manufacturers are contracted to meet demand. More capital is invested in process improvement and logistics management to increase efficiency and decrease the time to market.

The ST strategy uses the organization's internal strengths that can counteract threats from competitors, the industry, and the greater environment. However, a company with strong market power would have to address threats in the external environment with caution. The legal system tends to react forcibly in such situations. Microsoft was fined €561 million ($731 million) in 2013 for noncompliance of a regulatory request failing to offer consumers the option to choose their web browser when using a Windows platform. The world's largest software producer has faced several fines in the United States and Europe. Microsoft has incurred a total of €2.2 billion in fines by the EU in 10 years for charges on noncompetitive strategic action.

The WT strategy in the fourth quadrant is the worst-case scenario when an organization has to minimize both its weaknesses and its threats. However, external forces may not be avoidable as in the case of the tobacco industry. The survival of the world's largest cigarette manufacturers, Philip Morris International, China National Tobacco, Japan Tobacco International, Imperial Tobacco Group, and British American Tobacco depends on the constant preemptive strategy to counteract strong regulation and lawsuits in many countries.

Critique of SWOT Analysis

In spite of its apparent simplicity, SWOT analysis can be misused by practitioners. The correct use of the tool is essential in ensuring that the right strategic action is defined in the process. It is good at drawing a picture of the current internal and external state of affairs, but it does not necessarily provide a guide to the strategic action, which is required. SWOT is more of a descriptive tool to conduct an overview of the environment. It is not a prescriptive tool that determines the nature of strategic planning. An analytical approach should go beyond the mere generation of lists under each heading and should seek to determine the cause and effect arising from each factor in the process. A number of proponents have made various recommendations with a view to enhance the effectiveness of the tool. Strategy scholars have suggested combining the SWOT analysis to the Balanced Score Card and the Quality Function Deployment (QFD) into a single tool for analysis. In spite of its limitations, there is general acceptance that SWOT remains a useful tool for reviewing a firm's competitive position.

See also *dynamic capabilities*; *five forces of competition*; *industry analysis*; *PEST analysis*; *resource-based view*

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