

SWOT Analysis

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What is SWOT Analysis?

SWOT analysis is a basic, straightforward model that provides direction and serves as a basis for the development of marketing plans. It accomplishes this by assessing an organizations strengths (what an organization can do) and weaknesses (what an organization cannot do) in addition to opportunities (potential favorable conditions for an organization) and threats (potential unfavorable conditions for an organization). SWOT analysis is an important step in planning and its value is often underestimated despite the simplicity in creation. The role of SWOT analysis is to take the information from the environmental analysis and separate it into internal issues (strengths and weaknesses) and external issues (opportunities and threats). Once this is completed, SWOT analysis determines if the information indicates something that will assist the firm in accomplishing its objectives (a strength or opportunity), or if it indicates an obstacle that must be overcome or minimized to achieve desired results (weakness or threat) (Marketing Strategy, 1998).

Elements of SWOT Analysis

Strengths and Weaknesses

Relative to market needs and competitors' characteristics, a manager must begin to think in terms of what the firm can do well and where it may have deficiencies. Strengths and weaknesses exist internally within a firm, or in key relationships between the firm and its customers. SWOT analysis must be customer focused to gain maximum benefit, a strength is really meaningful only when it is useful in satisfying the needs of a customer. At this point, the strength becomes a capability (Marketing Strategy, 1998).

When writing down strengths, it is imperative that they be considered from both the view of the firm as well as from the customers that are dealt with. These strengths should be realistic and not modest. A well-developed listing of strengths should be able to answer a couple of questions. What are the firm's advantages? What does the firm do well (PMI, 1999)?

A customer-focused SWOT may also uncover a firm's potential weaknesses. Although some weaknesses may be harmless, those that relate to specific customer needs should be minimized if at all possible. In addition, a focus on a firm's strengths in advertising is important to increase awareness in areas that a firm excels in. This method not only evokes a positive response within the minds of the consumer, but pushes the weaknesses further from the decision making process (Marketing Strategy, 1998).

Weaknesses should also be considered from an internal and external viewpoint. It is important that listing of a firm's weaknesses is truthful so that they may be overcome as quickly as possible. Delaying the discovery of weaknesses that already exist within a company will only further hurt the firm. A well-developed listing of weaknesses should be able to answer a few questions. What can be improved? What is done poorly? What should be avoided (PMI, 1999)?

The role of the internal portion of SWOT is to determine where resources are available or lacking so that strengths and weaknesses can be identified. From this, the marketing manager can then develop marketing strategies that match these strengths with opportunities and thereby create new capabilities, which will then be part of subsequent SWOT analysis. At the same time, the manager can develop strategies to

overcome the firm's weaknesses, or find ways to minimize the negative effects of these weaknesses (Marketing Strategy, 1998).

Opportunities and Threats

Managers who are caught up in developing strengths and capabilities may ignore the external environment. A mistake of this magnitude could lead to an efficient organization that is no longer effective when changes in the external environment prohibit the firm's ability to deliver value to its targeted customer segments. These changes can occur in the rate of overall market growth and in the competitive, economic, political/legal, technological, or sociocultural environments (Marketing Strategy, 1998).

Changes in the Competitive Environment

One of the largest trends in the U.S. economy in recent years has been the rapid decline in the number of small, independently owned retail businesses. Small mom-and-pop supermarkets and locally owned bookstores are fading away quickly and will soon be extinct. Likewise, many locally owned restaurants around the country are experiencing difficulties due to the growth of large, national restaurant chains. The most recent businesses to face extinction are neighborhood hardware stores, which have lost customers to retail giants such as Home Depot and Lowes. Although they cannot be competitive with pricing, hardware retailers such as Ace Hardware and True Value expect to survive by offering outstanding service and convenient locations (Marketing Strategy, 1998).

Changes in the Sociocultural Environment

Social and cultural influences cause changes in attitudes, beliefs, norms, customs, and lifestyles. A firm's ability to foresee changes in these areas can prove beneficial while failure to react to these changes can be devastating. For example, the sales of Mexican-food products have increased at an annual rate of approximately 12 percent. The trend went unnoticed by major food producers for a long time. However, Heinz Company recognized the existence of a viable opportunity and responded by introducing two versions of salsa-style ketchup. Although Heinz's strategy was sound, its salsa ketchup eventually failed due to poor distribution during the implementation phase (Marketing Strategy, 1998).

Product modifications are often used to take advantage of market opportunities. However, these changes can also create potential new competitive threats. When Heinz introduced salsa-flavored ketchup, it added Old El Paso and Pace to its set of brand competitors that previously included Hunt's and Del Monte. Likewise, the action of other companies can also change the competitive set. Failure to re-evaluate and realign the threats and opportunities in the sociocultural environment can hurt a firm (Marketing Strategy, 1998).

Changes in the Political/Legal Environment

Regulatory actions by government agencies often restrict the activities of companies in affected industries. The American Disabilities Act of 1990 placed restrictions on the way firms construct their places of business and design jobs. Companies with significant investment facilities that did not comply with the law viewed its implementation as a major threat. On the other hand, companies that market products designed to assist disabled shoppers and employees saw the act as a key opportunity (Marketing Strategy, 1998).

Lawsuits against the tobacco industry have led to dramatic changes in the way cigarette companies market their product. Today, companies such as Phillip Morris are airing advertisements illustrating the

negative effects of their products. In addition, a proposed settlement agreement between the industry and the attorney general of several states represent a threat that could result in a ban on some types of cigarette advertising and the regulation of nicotine by the FDA. As can be seen, it is important to identify political/legal threats and opportunities in order to keep an edge on the market (Austainer, 1999).

Changes in the Internal Organizational Environment

Various elements within an organization's internal environment can also have an impact on marketing activities. Changes in the structuring of departments, lines of authority, top management, or internal political climate can all create internal weaknesses that must be considered during the SWOT analysis as well as in the development of the marketing plan. McDonald's has recently been feeling increased competitive pressure from Wendy's and Burger King. In order to increase market share, McDonald's created new marketing campaigns and new sandwiches. However, McDonald's failed to get the cooperation of all its franchisees. When store sales began to fall, individual franchisees started to band together to gain power to protect their investments. The increased power of the franchisees forced McDonald's to pull several advertisement campaigns due to lack of support. Prior to this McDonald's was used to getting their way with franchisees. Now, the shift in power from McDonald's to its franchisees has created an internal weakness that the company must address as it develops and implements new marketing strategies. Again, it is necessary to emphasize the importance of evaluating specific opportunities and threats within your company (Marketing Strategy, 1998).

Conclusion

It is not simply enough to identify the strengths, weaknesses, opportunities, and threats of a company. In applying the SWOT analysis it is necessary to minimize or avoid both weaknesses and threats. Weaknesses should be looked at in order to convert them into strengths. Likewise, threats should be converted into opportunities. Lastly, strengths and opportunities should be matched to optimize the potential of a firm. Applying SWOT in this fashion can obtain leverage for a company (Marketing Strategy, 1998).

As can be seen, SWOT analysis can be extremely beneficial to those who objectively analyze their company. The marketing manager should have rough outline of potential marketing activities that can be used to take advantage of capabilities and convert weaknesses and threats. However, at this stage, there will likely be many potential directions for the managers to pursue. Due to the limited resources that most firms have, it is difficult to accomplish everything at once. The manager must prioritize all marketing activities and develop specific goals and objectives for the marketing plan (Contemporary Marketing, 1992).

References

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