

SWOT Analysis

SWOT analysis is a simple framework for generating strategic alternatives from a situation analysis. It is applicable to either the corporate level or the business unit level and frequently appears in marketing plans. SWOT (sometimes referred to as TOWS) stands for Strengths, Weaknesses, Opportunities, and Threats. The SWOT framework was described in the late 1960's by Edmund P. Learned, C. Roland Christiansen, Kenneth Andrews, and William D. Guth in *Business Policy, Text and Cases* (Homewood, IL: Irwin, 1969). The General Electric Growth Council used this form of analysis in the 1980's. Because it concentrates on the issues that potentially have the most impact, the SWOT analysis is useful when a very limited amount of time is available to address a complex strategic situation.

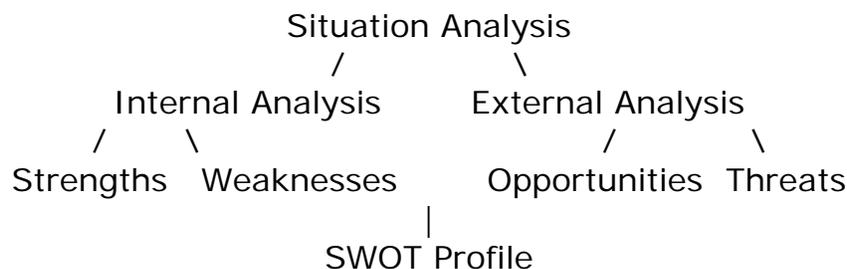
The following diagram shows how a SWOT analysis fits into a strategic situation analysis.

The internal and external situation analysis can produce a large amount of information, much of which may not be highly relevant. The SWOT analysis can serve as an interpretative filter to reduce the information to a manageable quantity of key issues. The SWOT analysis classifies the internal aspects of the company as strengths or weaknesses and the external situational factors as opportunities or threats. Strengths can serve as a foundation for building a competitive advantage, and weaknesses may hinder it. By understanding these four aspects of its situation, a firm can better leverage its strengths, correct its weaknesses, capitalize on golden opportunities, and deter potentially devastating threats.

Internal Analysis

The internal analysis is a comprehensive evaluation of the internal environment's potential strengths and weaknesses. Factors should be evaluated across the organization in areas such as:

- Company culture
- Company image
- Organizational structure
- Key staff



- Access to natural resources
- Position on the experience curve
- Operational efficiency
- Operational capacity
- Brand awareness
- Market share
- Financial resources
- Exclusive contracts
- Patents and trade secrets

The SWOT analysis summarizes the internal factors of the firm as a list of strengths and weaknesses.



External Analysis

An opportunity is the chance to introduce a new product or service that can generate superior returns. Opportunities can arise when changes occur in the external environment. Many of these changes can be perceived as threats to the market position of existing products and may necessitate a change in product specifications or the development of new products in order for the firm to remain competitive. Changes in the external environment may be related to:

- Customers
- Competitors
- Market trends
- Suppliers
- Partners
- Social changes
- New technology
- Economic environment
- Political and regulatory environment

The last four items in the above list are macro-environmental variables, and are addressed in a PEST analysis.

The SWOT analysis summarizes the external environmental factors as a list of opportunities and threats.

SWOT Profile

When the analysis has been completed, a SWOT profile can be generated and used as the basis of goal setting, strategy formulation, and implementation. The completed SWOT profile sometimes is arranged as follows:

Strengths	Weaknesses
1.	1.
2.	2.
3.	3.
.	.
.	.
.	.
Opportunities	Threats
1.	1.
2.	2.
3.	3.
.	.
.	.
.	.

When formulating strategy, the interaction of the quadrants in the SWOT profile becomes important. For example, the strengths can be leveraged to pursue opportunities and to avoid threats, and managers can be alerted to weaknesses that might need to be overcome in order to successfully pursue opportunities.

Multiple Perspectives Needed

The method used to acquire the inputs to the SWOT matrix will affect the quality of the analysis. If the information is obtained hastily during a quick interview with the CEO, even though this one person may have a broad view of the company and industry, the information would represent a single viewpoint. The quality of the analysis will be



improved greatly if interviews are held with a spectrum of stakeholders such as employees, suppliers, customers, strategic partners, etc.

SWOT Analysis Limitations

While useful for reducing a large quantity of situational factors into a more manageable profile, the SWOT framework has a tendency to oversimplify the situation by classifying the firm's environmental factors into categories in which they may not always fit. The classification of some factors as strengths or weaknesses, or as opportunities or threats is somewhat arbitrary. For example, a particular company culture can be either a strength or a weakness. A technological change can be either a threat or an opportunity. Perhaps what is more important than the superficial classification of these factors is the firm's awareness of them and its development of a strategic plan to use them to its advantage.