

Appendix 7

SWOT Analysis

This appendix should be read in conjunction with Section 8.7.3.

UNDERTAKING SWOT ANALYSIS

There are 17 commonly recognised steps in the implementation of a SWOT analysis as listed below. The term “factor” used below is a descriptive label to describe an issue, subject, or area of influence that will determine a business’s ability to compete in the market place.

1. Establish the individuals who should be involved in the process. It should include employees from all key areas of the business.
2. Consider involving (if appropriate) key customers, suppliers or other sympathetic outsiders who know the market within which the business operates and can provide an objective independent view.
3. Arrange a workshop to identify the business’s strengths and weaknesses and the opportunities and threats facing it.
4. Ask participants to collect and review information on internal management and external factors affecting the market within which the business operates, prior to the workshop.
5. Decide whether there is a suitable individual in-house who would have the skills and objectivity to manage the workshop. Otherwise appoint an external facilitator.
6. Prepare and issue a briefing pack to the participants including some basic details about the structure of the market and the business’s performance within that market, so that discussion within the workshop is less subjective.
7. Decide on how the factors will be measured/quantified.
8. Hold the workshop. Brainstorm the factors.
9. List the strengths, weaknesses, opportunities and threats. Only important factors should be included, but some factors will invariably be more important than others. Each factor should be a short bullet point so that the SWOT analysis fits on one page.
10. Strive to make factor descriptions as specific as possible.
11. Where possible, quantify the factors.
12. Quantify in a readily comprehensible way – an amplification of a statement made about “broad distribution” may be “our products are distributed through 800 outlets compared with our nearest rival’s 300 outlets”.
13. When there are no further suggestions, score each factor and list the factors in order of importance.
14. Provide some explanation of the factors in the form of supporting paragraphs on a separate sheet.
15. Assess the significance of the SWOT analysis completed.
16. Create and execute an action plan to tackle weaknesses, capitalise on strengths and opportunities and deal with threats.
17. Use the analysis and action plan as a review tool before important decisions, so that decisions fit with what the analysis suggests.

RANKING STRENGTHS AND WEAKNESSES

Strengths matter only if a business can use them to exploit an *opportunity* or counter a threat. Similarly, a *weakness* is problematic if it relates to a *threat*. Therefore an external factor can be an *opportunity* or a *threat*. For example, if new technology is becoming available and a power tools company serving the construction industry has an excellent product development department that can take advantage of the new technology, this is an *opportunity*. In contrast, if a business cannot make use of the new technology, there is a *threat* from substitution¹ if rivals make use of the technology. The analysis should be undertaken bearing in mind the objective of strategic planning – to gain sustainable competitive advantage. A *strength* is a potential source of competitive advantage, such as core competencies or financial strength. As competitive advantage can only be sustained if customer needs are addressed, the market analysis is an important input into the SWOT analysis. To derive real advantage from a *strength*, it must be useful in satisfying the needs of customers. Similarly, if a *weakness* relates to specific customers’ needs, this should be addressed as a matter of priority.

Table A7.1 Factors relevant to a SWOT analysis (based on Lynch 2000)

| Strengths | Internal Weaknesses |
|-------------------------------------|---|
| Market dominance | Low market share |
| Core competencies | Few core competencies |
| Economies of scale | Old plant |
| Low-cost position | High-cost base |
| Leadership and management skills | Weak balance sheet and cash flow |
| Financial resources | Low R&R capability |
| Manufacturing skills and technology | Undifferentiated product |
| Research and development | Weak positioning |
| Brand and reputation | Quality problems |
| Differentiated products | Lack of distribution |
| Opportunities | External Threats |
| Technology innovation | New market entrants |
| New demand | Competitive price pressure |
| Diversification opportunity | Higher input prices |
| Market growth | Changing customer needs |
| Demographic and social change | Consolidation among buyers |
| Favourable political support | Threat from substitutes |
| Economic upswing | Capacity growth outstrips demand growth |
| Acquisition and partnerships | Cyclical downturn |
| Cheap funds | Demographic change |
| Trade liberalisation | Regulation and legislation |
| | Threat from imports |

¹ Substitution: substitute products that perform the same function or satisfy the same need as an existing product. The threat from substitute products is particularly severe if the substitute product is cheaper or more cost effective. Whole industries have been wiped out by substitutes.

Table A7.1 provides a non-exhaustive checklist of factors that may be relevant to a SWOT analysis. However, each SWOT analysis will have to be tailored and made specific to the business under examination.

REFERENCE

Lynch, R. (2000) *Corporate Strategy*. Financial Times Management, London.