Using SWOT analysis

This article highlights some of the benefits and limitations of SWOT analysis, and considers how this technique should be used by managers

SWOT analysis is a planning tool intended to help managers decide on a future strategy for a business. Managers who adopt this approach begin by examining the business itself to determine its internal strengths and weaknesses. These may be found in any area of the business, such as marketing, finance, operations or human resource management.

Strengths and weakneses

Imagine a small family business called Chocs Ltd that produces luxury chocolates and a few other products, such as rock and toffee. It is trying to decide on a future strategy. Figure 1 shows a list of its strengths and weaknesses.

This list describes the internal position of the business but remember that producing this list can be revealing in itself. Not everyone will view the strengths and weaknesses in the same way. There may even be disagreement over whether something is a strength or a weakness. Take the fact that the business is a family business: how does this help the firm? How does it limit it? This could be either a strength or a weakness (or both) depending on the family, their skills and how they are working together.

What about the fact that the firm is at maximum capacity? The finance director may think this is excellent news — the firm is producing as much as it can and the cost per unit may be relatively low as overheads are spread over many units. However, the marketing director may regard this as a weakness because the firm cannot produce more if demand grows.

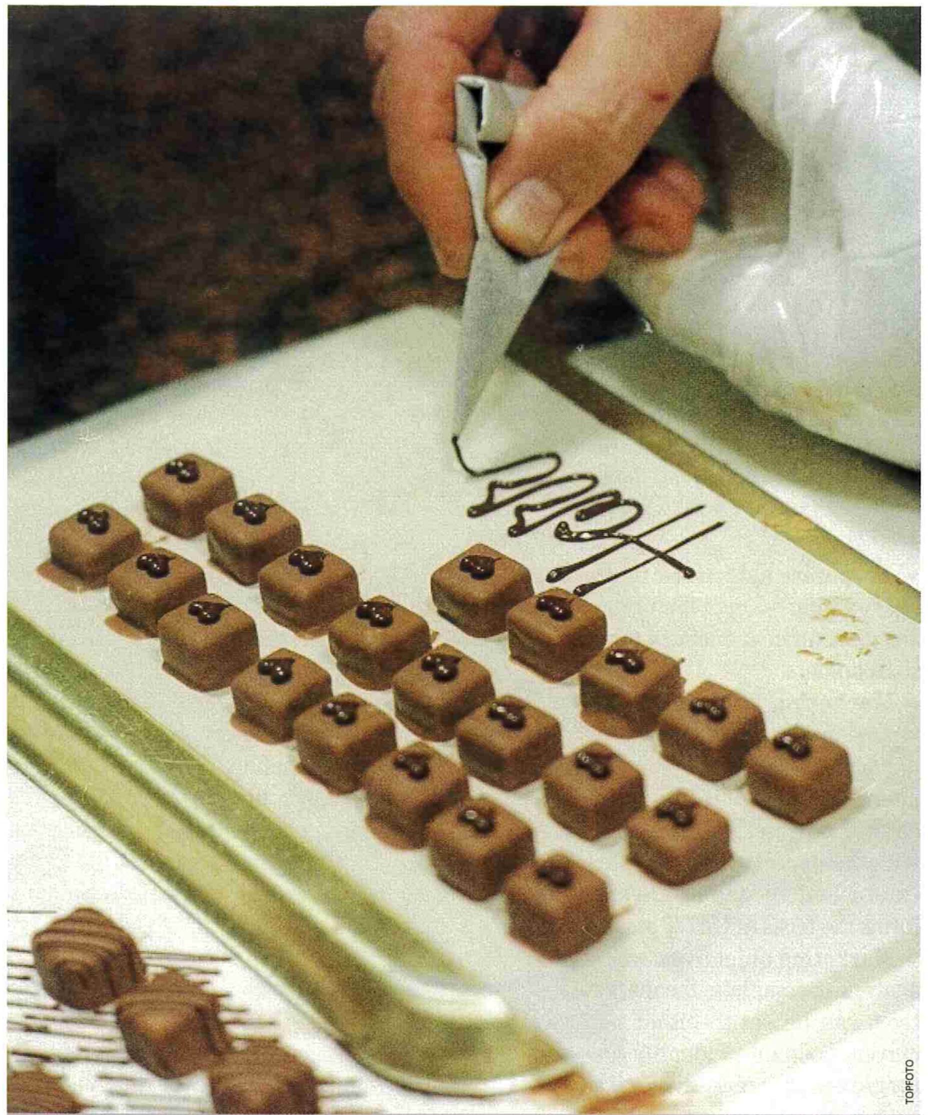

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Figure 1 *Possible SWOT analysis for Chocs Ltd*

Strengths
- Low level of borrowing
- Factory in city-centre location with a high sale value
- Highly skilled product developers (called 'chocolatiers')
- Reputation for high-quality chocolate
- Several retail outlets in prime locations with high sales
- Family business

Weaknesses
- Low morale due to uncertainty over the future of the business
- At maximum capacity, so cannot produce more on its existing site
- Falling sales of non-chocolate products
- Conflict of objectives between senior managers

Opportunities
- Develop a fair trade range of chocolate
- Promote its chocolates using a celebrity or develop a 'front person' for the brand
- Exploit the growth of the premium chocolate market
- Exploit the growth of boxed chocolates

Threats
- The decline in the market for toffee and rock
- The expansion of major producers into the luxury chocolate market
- An increase in interest rates

As it stands, the list of strengths and weaknesses is precisely that: a list. It does not show the extent to which these factors are important. It is simply describing the different factors. Managers may, therefore, want to try to quantify the strengths or weaknesses. They may do this by allocating a score (e.g. out of 5) which may help them to assess the relative significance of the different elements. This may cause debate between different managers but this in itself is beneficial. It forces managers to share views and opinions and perhaps understand each others' perspectives a little bit more.

Exam advice

The AQA AS Units 2 and 3 are based on a pre-issued case study. Undertaking a SWOT analysis is a useful exercise when preparing for the exam. Get a piece of paper and divide it into four sections for the strengths, weaknesses, opportunities and threats. Go through the case identifying relevant factors for each one. Then try to evaluate the relative importance of each factor and draw lines linking the different factors, for example the strengths to the opportunities or the threats to the weaknesses. This should help you to think of a relevant future strategy for the business.

Opportunities and threats

The next stage in the planning process is to examine the external environment with the aim of highlighting the opportunities and threats open to the business. This can begin using the PESTEL framework in which political, economic, social, technological, environmental and legal trends are analysed. The aim here is to identify the factors that are key to this particular business rather than produce a list of general trends. It may well be, for example, that social trends are crucial but technological changes are not, or vice versa. Once again, debate is needed about the relative importance of the trends. Having examined future changes, managers should be able to identify what positive options they have (opportunities) and what factors might negatively affect them (threats).

For our imaginary chocolate company, the list shown in Figure 1 emerged, based on the managers' expected developments in the market.

Once again, the managers must consider the significance of these different factors. The likelihood of major firms such as Cadbury and Nestlé moving further into the luxury market is low, for example, as they have actually been pulling out of this segment. An increase in interest rates might also have limited relevance because the firm has low levels of borrowing and because interest rates may not affect spending on luxury chocolates that much. Although it is a possible threat, it is not a key one.

Pulling it all together

The third stage in the strategic planning process is to combine the strengths and weaknesses and the opportunities and threats. What matters here is that managers look for:

- strengths that can be used to exploit opportunities
- strengths than can be used to protect against threats
- ways of removing weaknesses

The strategy that develops should relate directly to the strengths and weaknesses and the opportunities and threats that have been identified. It should build on earlier analysis. Our luxury chocolate manufacturer might:

- Sell the existing factory which will generate a high level of funds. This can then be used to develop a new site with more capacity (overcoming the maximum capacity issue) and possibly expand the retail operations to build the brand further.
- Build on the reputation it has already in the high-quality end of the market to exploit the growth in luxury fair trade chocolate. This could be developed by the highly skilled product development team. It might also be possible to build a promotional story about these individuals and their expertise to promote them as specialists.
- Get rid of the non-chocolate products that have falling sales and are in a declining market.
- Announce the new developments to staff, stressing the development of the business and a clear strategy for the future; this should help reduce their uncertainty.
- Hopefully resolve the conflicting objectives among senior managers which were a problem by going through the process of SWOT analysis.

This set of recommendations addresses the key issues raised by the SWOT analysis. If done effectively, the strategy should be clear once the SWOT has been done (in theory). The real challenge facing the managers is to implement the chosen plan in time. The danger is that conditions change as the strategy is being implemented. This highlights the fact that strategic planning is an ongoing process. Managers may also find opposition to the strategy because it involves change and a reallocation of resources.

Answers to AS revision brainteasers on p. 6

1 (a) Plc is a public limited company (shares can be sold to the general public, e.g. on the stock market); Ltd is a limited liability, family-run business.
(b) Production level is the amount produced; productivity is the efficiency of producing it.
(c) Revenue is the value of sales; profit is revenue minus costs.
(d) Aims are a generalised statement; objectives are specific, measurable goals.

2 (a) Strategy
(b) Time
(c) On-the-job training
(d) Capacity
(e) Kaizen
Word: STOCK

3 (a) Interest rates
(b) Reorder level
(c) Threats

4 (a) (i) £500
(ii) 300 units
(iii) 100 units
(iv) £2,400
(b) (i) Price elastic.
(ii) Up 15% to 2,300 units.
(iii) Was £20,000, now £20,700, so up by £700.

Making connections

Answers to A–Z of AS/A2 business studies on p. 23

Ansoff; **B**oston; **C**hina; **D**ecision; **E**xpected; **F**irst-mover; **G**lobal; **H**uman; **I**nvestment; **J**ust-in-time; **K**aizen; **L**aissez-faire; **M**erger; **N**okia; **O**bjectives; **P**orter; **Q**uantified; **R**evenue; **S**ynergy; **T**actics; **U**ncertainty; **V**irgin; **W**indow-dressing; **X**-Box; **Y**ield; **Z**ero.