



SWOT Analysis

One of the simplest tools for mapping the signals relevant to change in the business is the SWOT analysis. SWOT stands for Strengths, Weaknesses, Threats and Opportunities. It is a simple, structured way of exploring the key challenges facing the firm.

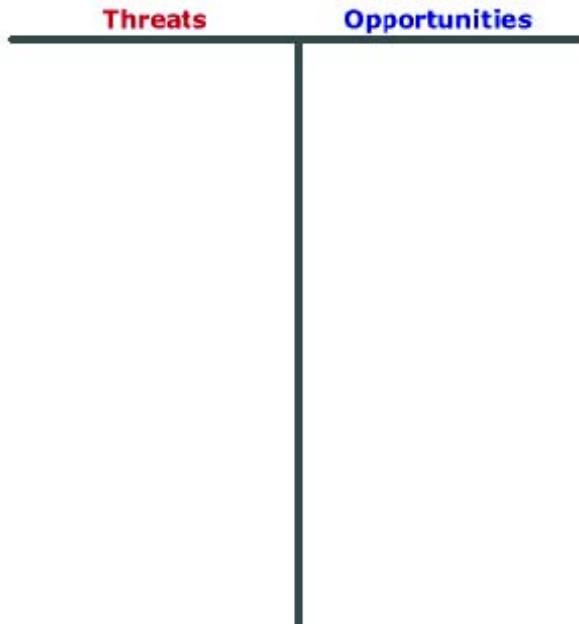
Why and When Is It Used?

Its main purpose is to provide an overview of the key drivers for change in the firm. It is a powerful focusing tool to help develop an understanding of your firm – and to help facilitators orientate themselves quickly.

How Does It Work?

SWOT is a widely used approach and there are many variations on the theme. In essence it follows the following steps.

Step 1 asks the question, ‘What are the key threats and opportunities in our current environment?’ These can be simply listed, or they can be clustered around themes, for example, a common set of clusters is represented by the acronym ‘PEST’ - Political, Economic, Social and Technological factors.





For example, a small metalworking firm in Italy might cite the emergence of the European single currency, the problem of increasing competition from former Eastern European states, the difficulties of obtaining skilled labour, the emergence of substitute materials and the high cost of borrowing as important factors under the 'threats' heading. Equally, they might list the new market opportunities in North Africa, the buoyant demand for bathroom fittings in China, the emergence of cheaper and higher quality surface finishing processes and low labour costs under the 'opportunities' heading.

Step 2 asks a different set of questions, concerned with the perceived strengths and weaknesses of the enterprise. These could be its technological capability, its workforce, its location, its specialist or preferred access to markets, etc., and the contribution could be positive or negative. These are listed as shown below:



Step 3 looks systematically at the four cells in the matrix formed by these two sets of information. In the areas of high opportunity in the external market and high perceived strengths there should be real possibilities for business growth and development. Equally, in the cell concerned with major threats and where the firm is perceived to be weak, there is urgent concern for remedial action.



	Threats	Opportunities
Strengths	How to use strength to defend?	Major possibilities
Weaknesses	High risk	Probably leave these opportunities to others?

Strengths and Weaknesses of SWOT Analysis

SWOT is a simple tool that can help you focus on your strengths, minimize your weaknesses, react timeously to threats and take advantage of opportunities. However, SWOT analysis does not make any strategic choices for you – it simply provides a framework for analysing information, and as such is just the first and most basis step in the strategic decision-making process.

Hints for Using this Tool

Step 1 can be extended into the future by considering how these factors are likely to develop and change over the next 5-10 years. There is no set way of capturing the key threats and opportunities, but it is clearly valuable to build up the picture with different people so as to take advantage of different perspectives. Equally the level of factual information may be limited at first, but the exercise can be repeated around more focused sets of critical issues using more detailed, or even specially commissioned, information.