Role and components of swot analysis

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Contemporary organizations implement SWOT analysis to scrutinize their competitive position and strategy. By examining a firm's policies and objectives and deciding on competitive strategy, SWOT analysis is a strategic tool to capitalize on competitive advantages and improve weaknesses.

SWOT analysis is a framework based on the analysis of a firm's Strengths (S), Weaknesses (W), Opportunities (O) and Threats (T). Strengths and Weaknesses refer to the internal factors that contribute to firm's growth or hinder organizational performance. Key internal forces include the firm's distinctive competencies that can turn the firm's weaknesses into strengths. Opportunities and Threats refer to the external factors that have an impact on a firm's performance and business operations. Key external forces include (1) economic forces; (2) social, cultural, demographic, and environmental forces; (3) political, governmental, and legal forces; (4) technological forces; and (5) competitive forces.

Any firm has strengths that can be its distinctive competencies (competitive advantages that competitors cannot match), and weaknesses that needs to improve. Internal strengths and weaknesses combined with external opportunities and threats are used in the context of SWOT analysis as strategic tools to ensure effective strategic management.

Evaluating SWOT Effectiveness

Using SWOT analysis for effective decision making requires the assessment of each SWOT component separately. Managers evaluate the quality of information they receive by analyzing both the internal and external factors that impact their decisions.

Strengths

A firm’s strengths build distinctive competencies by focusing on strong brand name, high quality products and/or services, superior customer service, competitive pricing, competitive market positioning, innovative R&D and so on. Strengths are evaluated realistically and from the point of view of the market to ensure effective strategic decision making.

Questions that identify a firm’s strengths are:

What are the firm’s distinctive competencies?

Does the firm have competitive pricing?

Is the firm strategically positioned?

What unique or lowest-cost resource does the firm have available?

What are the firm’s perceived strengths?

Weaknesses

A firm's weaknesses can include weak brand name, low quality products and/or services, poor customer service, lack of marketing expertise, high cost structure, poor reputation, poor or no access to key distribution channels and so on. Once weaknesses are identified, managers realistically craft suitable strategies to improve or alleviate them. With proper evaluation, weaknesses are turned into strengths.

Questions that identify a firm's weaknesses are:

What needs to be improved / avoided in the firm's competitive strategy?

What factors cause the firm to lose market share?

What are the firm's perceived weaknesses?

Opportunities

A firm's opportunities are favorable environmental factors that impact a firm's operations. Such factors can include the development of new technologies, unmet customer needs, identification of niche markets, strategic alliances and joint ventures, loosening or abolition of governmental regulations, elimination of trade restrictions and so on.

Questions that identify a firm's opportunities are:

Can the firm exploit favorable industry trends?

Can the firm satisfy unfulfilled customer needs?

Can the firm capitalize on technological developments related to its operations?

Can the firm capitalize on changes in government policies related to its operations?

Threats

A firm's threats are unfavorable environmental factors that can hinder a firm's performance. Such factors can include entrance of new competitors, shifts in consumer preferences, substitute products, raised trade barriers, new distribution channels from competitors, price wars, high taxation, and so on.

Questions that identify a firm's threats are:

Where are the firm's competitors standing?

Is changing technology threatening the firm's positioning?

Do substitute products affect the firm's sales?

The Importance of SWOT Analysis

Strengths, Weaknesses, Opportunities and Threats are an opportune way for a firm to identify its relative position in the market and assess how customers perceive its products and services in relation to competition. SWOT analysis contributes to the evaluation of the functional areas of the firm by involving employees of all organizational levels but also by bringing in the process individuals from outside of the firm. This allows decision-makers to expand strategic thinking and maximize the value of SWOT analysis by taking into account the views of customers and suppliers but also of the organizational members on the firm's Strengths, Weaknesses, Opportunities and Threats. In this context, SWOT analysis as a strategic planning tool provides management the opportunity to gain new perspective on the relative effectiveness of the firm.

Conclusively, SWOT analysis should realistically and distinctively portray a firm's Strengths and Weaknesses to help management evaluate where the firm stands today and where it aspires to be in the future. Moreover, SWOT analysis should always take into account the competition to offer a comparative analysis of a firm and identify possible distinctive competencies. Through SWOT analysis, decision-makers assess their strategic objectives and decide on the proper competitive strategy in view of customer segments, trends and competitors.