

# The importance of swot analysis

Business



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One of the things that we know about SWOT analysis is that it stands for strengths, weaknesses, opportunities and threats. This is a type of analysis or research that a company will study to learn about another company. They do the research because they want to learn about a competitor.

Before you set up any type of business, you want to look and see:

- who the neighboring businesses are
- what their strengths are
- areas where they might be weak
- the opportunities that they have

That way you can better understand if you should move into an area. You will also know if you want to work in that industry. Your competitor's threats will also be your threats if you're in the same industry. That means you want to look to see all the competitors so you understand what your business will be up against. You will also have a thorough understanding of who you're going to be competing with.

You don't want to be caught with the lights off!

So what does SWOT analysis have to do with keeping the lights on? Good question!

Have you ever not paid the electric bill? Sometimes people think " Oh, I can get by without paying my electric bill because they won't put my lights out!" You might think that the electric company will always keep the lights on, so that's the strength. They might also be able to turn the service on instantly. Maybe when you first moved into your home and you called them, you didn't

even have to go to their building. They turned your service on ahead of time. That's a really good strength.

One of the weaknesses might be that in the summer time people lose their electricity because they are blackouts at that area. Opportunities might be that you can pay your bill online. You can also go and pay in person, and you can even mail a payment in. But a threat might be when they send you a bill that lets you know that your lights off if you don't pay! They might give you a few days. If you don't pay your bill, your lights will be cut off – even if it's in the summer time and it's 95-degrees out! Remember, they can do it instantly!

That's why you want to make sure you pay attention to the threats that a particular type of company might have. They will be your threats in that industry. As it relates to SWOT analysis, though, SWOT analysis is very important to businesses because it helps to ensure that they can work together in the same areas.

They may have different types of customers. And this can help another business that's moving into an area.

New flower shop in town

For example, if you have a company like a flower shop that moves into an area where they were already two flower shops, they have to know strategically what their strengths are so they can make money. Understand that if they can work alongside two existing flower shops, they might have to

look at their strengths, weaknesses, opportunities and threats. They want to make sure that they can work in those areas and make money, too.

While you might think it would be foolish for them to open in a location where there are already two flower shops, maybe this particular flower company know something that the others don't. For example, this flower company might have a special deal where they sell not only flowers but deliver cards, fruit baskets, balloons and gift baskets. While the other two companies are strictly flower companies, this company might stand out and it's ahead of the competition as they offer more services.

This is considered scaling when a company is able to expand their services and do more than just sell things like flowers. It's very important because that's one of the only ways that this particular type of company would be able to last in an environment where there are similar companies.

Now, what would happen if the other two flower companies finally started realizing that they were losing money and decided to start selling the same products as the new company? You got it:

- there would probably be a price war
- all three might lose money
- and they might start competing with each other

That's why it's very important to do SWOT analysis before you move into an area.

Never ignore the importance of SWOT analysis

Just remember that whether you are looking at an area where there's no competition, or an area where you think you can expand, you have to do your research. Just like in our Con Edison/Gas and Electric Company example, every area of a company is going to have really strong areas and really weak areas. It's just a matter of doing your research to know the difference.

Like with our flower shop example, you want to make sure that you know the competition inside and out. A SWOT analysis is not something that's done just once. You want to try to do this every year or every few years to know what the competition is doing.

Remember the reason you want to do this. Those two flower companies had to find out the hard way that our new flower company moved in; you don't want to wait until you start losing money to realize there's a problem.

Always make sure that you know what your competitors are doing in the neighborhood and in the surrounding areas. You also want to make sure that you do your research online to see who your competition is and who might be trying to take money from your ideas. It will happen!

Because it's about strategy and doing research, SWOT analysis can help you every time you look at the different types of companies that are available in the area, and so you know who your strongest competitor. Since your competitor may change over time, you may have to change your products and services, too. Don't be afraid to expand services to keep up with the competition!

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