Limitations of swot analysis

Business

A SWOT analysis is looking at strengths, weaknesses, opportunities and threats. In order to find out this information about companies, we have to do research. That means we have to look at them online. One thing that can happen is that we can sometimes find that we get stuck in the research that we have.

That might mean that if you're looking at companies like Walmart or Target, you might forget that there are other competitors who move into the area. You might also fail to address that there are stores that sell similar products. They might not be a bigger competitor like these two.

Let's look at a few examples to help you understand how there are limitations of SWOT analysis that you have to be careful to avoid.

Mistakes with SWOT Analysis

Assuming your SWOT analysis is the same year after year

When Blockbuster was renting videos and DVDs, they never stopped to look at Netflix as a competitor. That's because Netflix was going in a different direction. That's why you have to make sure that if you're looking at your competitor, and you're doing a SWOT analysis you understand they might work differently. They might be working in a different market that might take your business away.

Netflix was developing a strategy and a new business model. That meant a new business plan and a new way of doing things that Blockbuster didn't know anything about.

Sometimes companies forget to look at these new avenues or ideas because they don’t really see where they might be going. Had Blockbuster looked at the Netflix business model, they would have understood that Netflix was going completely online and was going to take all of the competition from them.

Assuming a competitor may be too big based on your SWOT analysis

When Walmart started selling in different stores, a lot of smaller stores that were like mom and pop stores lost money because they couldn’t keep up. That’s because Walmart became very popular and big in a very short time period. What ended up happening though, was Walmart tried to dominate the market by saying they had the best bottom line prices. That was true when they first moved into various neighborhoods but then they raised their prices.

The competitors left. They had to. They couldn’t afford to stay. For any mom and pop store, they probably thought “ Wow, we can’t keep up with Walmart.” They packed up and they left and never came back. The problem with that was that Walmart then raised their prices. That’s when people realized that:

- they were not the best prices
- they didn’t have the best customer service
- and they didn’t even take care of their workers

Had some of those mom and pop stores that had to close, come back a few years later, they would have looked at the Walmart business model again. When they did a new SWOT analysis, they would have realized that they stood a better chance of competing with them. The reason is because a lot of people don’t necessarily like the Walmart brand.

This is where a SWOT analysis can change into something that you have to be careful with it. It can actually limit your SWOT analysis. You might predict what the market is going to do and you might be wrong. In this example, because Walmart changed how they did business and they raised their prices, they changed their business model.

Walmart strengths were cheap products for people who needed them. Weaknesses were that they were selling cheap products in stores all over the world and forcing other businesses to close. That made them a threat for competitors like Target. That was the initial SWOT analysis for them. What ended up happening with that as Walmart started to raise prices and they didn’t treat their workers fairly, they had a lot of bad press. Turned off by their bad business practices, customers started to look at stores like Target, Whole Foods, and even Costco.

Losing customer loyalty

When you have customers who shift in this type of manner, they are shifting their brand equity. That means that instead of being loyal to Walmart, their shift is to a different company because they don’t like that first company. Because they had no brand equity in Walmart, that meant that other stores could then move in. That’s why you have to be careful with SWOT analysis because it has to be current and it has to relate to what a company is doing now, not when they first open.

Another area where there are limitations of SWOT analysis could be not doing research to follow up with the company as it relates to SWOT analysis. What this means is when you have a company that you're following and you do a SWOT analysis on them, you have to make sure you check back in to see if the SWOT analysis is still the same.

The case of Sling

A lot of people who use Roku players to watch movies online have switched over to a service called sling. Sling is owned by the Dish Network. A lot of people don't know this because it's not under the Dish name. Anyone who does a SWOT analysis on the cable companies, while they might say cable companies, are losing money because they have not expanded and scaled themselves successfully. Scaling is expanding, and cable hasn't been able to do that, but Dish has.

What the Dish Network did early on was they started out with cable service just like Time Warner Cable, and just like to Cablevision. They then created their own SWOT analysis and realized they could find more customers online through streaming media, (showing movies faster) the way that Netflix does.

They are now making more money than some of the other companies like Time Warner and Cablevision. That's why you have to be careful when you do SWOT analysis because your research might be limited to the same old companies. You might not see what the new thing that a particular company is doing if they change the brand name for it. That's how they can secretly expand in a test environment.

That’s why in the case of Dish and Sling, it helps to read the new and different research about companies so that way you know ultimately when they make a move into other directions to grow. This can help you to better understand how to update the SWOT analysis and where to get better videos!

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