

# **ANALYSIS** **WITHOUT** **PARALYSIS**

**10 TOOLS TO MAKE BETTER  
STRATEGIC DECISIONS**

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### Description and Purpose

SWOT (strengths, weaknesses, opportunities, and threats) analysis is used to evaluate the fit between a company's internal resources and capabilities (that is, its strengths and weaknesses) and external possibilities (that is, opportunities and threats).

A company has a greater degree of practical control over its internal environment—which includes resources, culture, operating systems, staffing practices, and the personal values of the company's managers. These areas are generally subject to the discretionary decision making of the organization's executives.

A company has lesser control over its external environment—which includes market demand; the degree of market saturation; government policies; economic conditions; social, cultural, and ethical developments; technological developments; ecological developments (see Chapter 10 for more about STEEP); and factors making up Porter's Five Forces (that is, intensity of rivalry, threat of new entrants, threat of substitute products, bargaining power of buyers, and bargaining power of suppliers). Refer to Chapter 6 for a detailed discussion of the Five Forces model, also known as industry analysis.

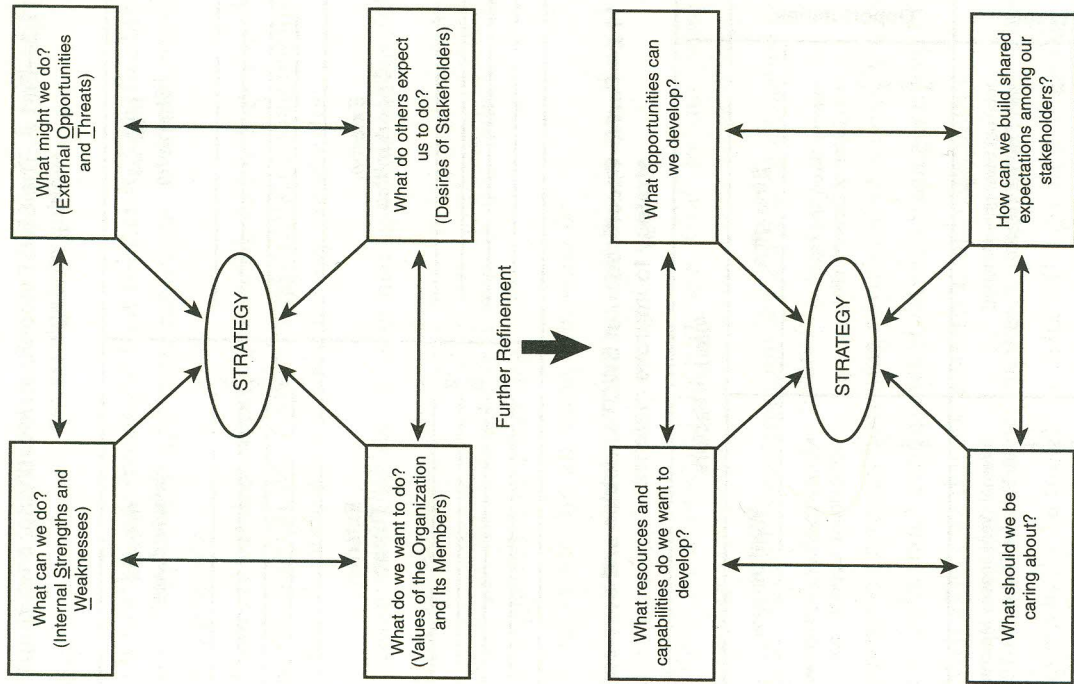
Ken Andrews, regarded as the pioneer of SWOT analysis, in 1971 was one of the first strategy theorists to formally describe the concept of strategic fit between a company's internal environment (its resources and capabilities) and its external environment. He claimed a SWOT analysis could identify the best way for a company to use its strengths to exploit opportunities and to defend both its strengths and weaknesses against external threats. Figure 11.1 demonstrates the thinking and strategic questioning behind the SWOT technique. Figure 11.2 identifies the SWOT process. In reality, most managers generally only undertake Part A—and may not even do that facet properly.

SWOT can be applied to many areas of a company, including products, divisions, and services. The simplicity and ease of use of this model has made it a very popular technique, particularly for determining a company's ability to deal with its environment. However, it is also one of the most misused and poorly understood methods of analysis.

SWOT is a common technique for analyzing and exploring a company's situation and is often popularly thought of as "situation analysis." It guides executives in developing an overall marketplace context for the company.

This analysis consists of both an external and internal component and provides management with an overview and understanding of the forces, trends, and characteristics of a particular market. The insights from this analysis are then used to assist managers to make informed choices about what actions to take to maintain a company's comparative advantage (that is, developing its strengths while minimizing its weaknesses) and increase its ability to achieve its goals and objectives.

A company analyzes its external environment to identify both present and future opportunities and threats that could influence its competitive ability.



**Figure 11.1** The roots of SWOT: key questions that guide strategic choice

Adapted from James G. Clawson, *Strategic Thinking* (University of Virginia Graduate School of Management, UVA-BP-0391, 1998) p.4-5, Darden Graduate Business School Foundation, Charlottesville: VA.

**Figure 11.2—Part A** The SWOT technique: identifying, analyzing, and ranking strategic issues

<p style="text-align: center;"><b>Internal Strengths</b></p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____ etc</p>	<p style="text-align: center;"><b>Internal Weaknesses</b></p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____ etc</p>
<p style="text-align: center;"><b>External Opportunities</b></p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____ etc</p>	<p style="text-align: center;"><b>External Threats</b></p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____ etc</p>

**Figure 11.2—Part B** Specification of SWOT variables and development of strategy to improve matches

<b>Internal Factors</b>	
<b>Strengths</b>	<b>Weaknesses</b>
<p style="text-align: center;">Internal Strengths Matched with External Opportunities</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p>	<p style="text-align: center;">Internal Weaknesses Matched with External Opportunities</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p>
<b>Opportunities</b>	<b>Threats</b>
<p style="text-align: center;">Internal Strengths Matched with External Threats</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p>	<p style="text-align: center;">Internal Weaknesses Matched with External Threats</p> <p>1. _____</p> <p>2. _____</p> <p>3. _____</p> <p>4. _____</p>



**COMPETITIVE ADVANTAGE**

A company's external environment consists of two main areas, including its

- **Operating environment that relates to a particular industry.** Suppliers, competitors, customers, labor, and international components.
- **General environment.** The social, technological, economic, environmental, and political/legal (STEEP) components within which the industry and the company are situated.

Environmental analysis can help managers answer the following critical questions:

- What are the competitive forces in our industry, and how strongly will they affect us?
- What factors are affecting competition?
- What are competitors' assumptions about the changing environment?
- What environmental factors are vital to our competitive success?
- Is the industry's environment attractive or unattractive now, and how will it look in the future?

A company's internal operating environment is equally important. To better understand a company's abilities, a manager needs to look at things such as its cost drivers, resources, and capabilities.

Overall, a SWOT analysis enables managers to better understand and respond to the factors that can have the greatest impact on a company's performance. These factors are called the company's *strategic issues*. A strategic issue exists either inside or outside the company and is likely to have a major and long-term impact on the ability of the company to meet its competitive objectives. Strategic issues typically impact across the entire company and require greater resources to effectively address them.

Information derived from a SWOT analysis assists in the identification of strategic issues—such as new technologies, market trends,

weaknesses, opportunities, and threats closest to their specialties and alert colleagues from other departments and senior executives to the issues they see as critical to the SWOT.

The process of collecting, interpreting, and organizing the many sources of information onto the SWOT grid (see Figure 11.2) also provides an excellent base from which to guide further strategic analysis.

## Weaknesses

The SWOT technique masks a great deal of complexity. The primary concern for managers is the collection and interpretation of what can be a large amount of information concerning environmental factors and then deciding what to do in response to it. Interpretation of the information will likely differ between individual managers—for example, one manager may see the loosening of government-imposed trade barriers between nations as a market expansion opportunity, whereas another may see it as a threat due to competition that might ensue. This far too easily confused set of opportunities and threats is a commonly experienced problem.

Only broadly generalized recommendations are typically offered from a SWOT analysis, such as moving the company away from threats; matching the company's strengths with opportunities; or defending against the weaknesses through divestment or investment. It is also limited in its ability to help a company identify specific actions to follow. It provides little guidance relative to strategy execution.

The data used tends to be qualitative rather than quantitative—and focuses on delivering reactive rather than proactive strategies. Weaknesses tend to be more broadly identified, while strengths tend to be more narrowly defined. In fact, managers are frequently too optimistic in their assessment of a company's strengths and opportunities versus their weaknesses and threats. Weaknesses are often ignored

new competitors, and customer satisfaction trends. These in turn require interpretation and translation, as well as the formulation and execution of strategies to address them.

However, a company's internal and external environment changes over time. Vigilant review of strengths, weaknesses, opportunities, and threats is required to deal with these ever-changing issues.

## Strengths

The SWOT technique is easy to use for organizing large amounts of information and for applying a general framework to understand and manage the environment in which a company operates. It can be used to analyze a variety of issues, including individuals, teams, projects, products, services, functional areas (such as accounting, marketing, production, and sales), business units, and corporations. It works equally well for for-profit and not-for-profit companies. It can provide insight into why a particular company has been successful or unsuccessful in carrying out its strategy.

Compared to other techniques, it does not require a great deal of external information, financial resources, or IT capabilities. It provides an effective framework for identifying the critical issues when dealing with complex situations in a short amount of time.

It enables managers to focus on the issues that have the most impact on the company and those which can be effectively dealt with by their capabilities and resources. It also provides a guide for managers to analyze the options available to them in responding to their competitive environments and assists in evaluating their core capabilities, competencies, and resources.

It can be effective for team building when different areas of the business, such as marketing, production, and finance undertake a SWOT together. Managers, for example, can review the strengths,

entirely, more common in those situations where the SWOT is performed under conditions of political resource scarcity or infighting.

It often fails because of managers' blind spots regarding the company's capabilities (see Chapter 10 in our book *Strategic and Competitive Analysis* for a detailed treatment of blind spot analysis). Due to the subjective nature of this process, it may be appropriate for an outsider to assist managers with the SWOT to ensure biases are kept at a minimum. Otherwise, the results of your SWOT analysis will not be used to inform and drive strategy but will be viewed as a "Substantial Waste Of Time," an outcome you should be careful to avoid!

## How to Do It

The process for gathering and interpreting information in a SWOT analysis should be an interrelated and reinforcing process of consultation and verification with executives, functional experts, and team members. Additionally, acquiring and utilizing the perceptions of customers can also be highly illuminating in this process.

### Step 1: List and Evaluate SWOT Elements

The first step involves listing and evaluating the company's strengths, weaknesses, opportunities, and threats.

- **Strengths** are those factors that make a company more competitive than its rivals. It is where the company has an advantage over or superior assets to the competition. A strength is meaningful only when it is useful to satisfy an existing or prospective customer need. When this is the case, that strength becomes a capability. Strengths are, in effect, capabilities and resources that the company can use effectively to achieve its performance objectives. When addressing strengths, it is important to keep to the facts and not get caught up in cultural biases or blind spots.

- **Weaknesses** are limitations, faults, or defects within the company that can prevent it from achieving its objectives. It is when the company performs poorly or has inferior capabilities or resources to the competition. While some weaknesses may be relatively harmless, those that relate to specific existing or future customer needs should be minimized if possible. Again, you need to be mindful of blind spots.
- **Opportunities** relate to any favorable current or prospective situation in the external environment, such as a trend, change, or overlooked need that supports a product or service and permits the company to enhance its competitive position.
- **Threats** include any unfavorable situation, trend, or impending change in the external environment that currently or potentially damages or threatens the company's ability to compete.

You may want to refer to such techniques as the Value Chain, Porter's Five Forces, or STEEP to ensure that you are identifying a broad range of strengths, weaknesses, opportunities, and threats both for now and in the future.

Although many published SWOT analyses stop at the end of this step, all that you have really done is produce four separate lists of factors. We describe this interim output as "four bunches of bullet points" that have undergone only minimal thought or transformation. This is not analysis in any professional sense and should never be allowed to substitute for constructive analysis. The astute analyst will recognize this step is only a starting point and will proceed with the following steps.

### Step 2: Analyze and Rank Strategic Factors

This step of the SWOT analysis will look similar to Figure 11.2 Part A—a ranked list (by aspects such as importance or magnitude) of factors classified as internal strengths and weaknesses and external opportunities and threats. It is important to widely share criteria for the

ranking so that the company can better understand the basis upon which they are prioritized. Involving both managers, outside experts, as well as customers or other objective parties is important to producing useful and valid outputs in this step. You may want to create a template along the following lines:

SWOT	SCORE				
	1	2	3	4	5
<b>Internal Strengths</b>					
a.					
b.					
c.					
d.					
<b>Internal Weaknesses</b>					
a.	1	2	3	4	5
b.					
c.					

Table 11.1 A SWOT Template

Unfortunately, this is where most managers often stop, believing that the ranking itself is the analytical process of the SWOT analysis. However, strategies for competitive advantage still have to be developed, and this may require further work to identify clearly the causal factors leading to particular strengths or weaknesses of the organization.

**Step 3: Identify Strategic Fit and Develop a Strategy to Improve Matches**

The next step is to identify the company's strategies and strategic fit in light of its internal capabilities and external environment. The resulting fit or misfit should indicate the degree of strategic change the company must make.

In a general sense, you should attempt to develop and recommend strategies that convert important weaknesses into strengths and

important threats into opportunities. Finding new markets for a firm's products or services is often a useful conversion strategy. Conversion strategies often require the investment of additional resources, whether in the form of plant, property, equipment, funds, or human.

You should also consider strategies that minimize those weaknesses or avoid the threats that cannot be converted. One strategy is to become a niche player within the larger industry. Another strategy is to reposition the company's products or services.

Four scenarios will become evident as you fill in the quadrants in Figure 11.2 Part B—these will help to determine the existing strategic fit and develop effective strategies to respond to forecasted environmental issues.

To properly determine the strategic fit, try to visualize the company's performance in the future. What will it be if no changes are made to its strategy and its internal and external environments do not change? Also evaluate alternative strategies to find one that provides a competitive advantage for the company. However, while no strategy may become evident that produces a competitive advantage, a SWOT analysis, at a minimum, will help a company to evaluate current and alternative strategies.

**Quadrant 1: Internal Strengths Matched with External Opportunities**

This is the ideal as it represents the tightest fit between the company's resources and its external competitive opportunities. The strategy would be to protect internal strengths by either finding the combination of resources needed to achieve competitive advantage or augmenting resources to enhance competitive advantage. Explore opportunities to leverage strengths to bolster weaknesses in other areas (most notably those in Quadrant 2).

### Quadrant 2: Internal Weaknesses Relative to External Opportunities

The strategy in this quadrant is to choose the optimal trade-off between investing to turn the weaknesses into strengths, outsourcing a weakness where the company does not have a competitive advantage, or allowing rivals to address this particular area.

### Quadrant 3: Internal Strengths Matched with External Threats

A strategic option here could be to transform external threats into opportunities by changing, altering, or reconfiguring company resources. Alternatively, choose to maintain a defensive strategy in order to focus on more promising opportunities in other quadrants.

### Quadrant 4: Internal Weaknesses Relative to External Threats

This quadrant needs to be carefully addressed and monitored. If the company's survival is at stake as a result of the issues in this quadrant, a proactive strategy may be the only option. If the strategic issues are secondary, a possible option may be to divest in order to focus on other more promising opportunities in other quadrants. It is important, however, to avoid rushing an issue out of this quadrant. Rather, consider the potential it has to provide a significant strategic option to the company or to support more profitable activities in other quadrants. Blind spot analysis to reduce any cultural or thinking biases may be a useful technique for this quadrant.

This step would look like Table 11.2.

Once a strategy is decided on, constantly monitor and analyze current strategies and devise new ones to address developing issues. Consider this approach as a sweep over the environmental radar screen to monitor the movement of identified blips and to benefit from the early warning capabilities afforded by the SWOT technique.

TABLE 11.2 The SWOT Matrix

	Internal	
External	Strengths	Weaknesses
<b>Opportunities</b>	<b>SO Strategies:</b> Strategies that leverage internal strengths matched with external opportunities	<b>WO Strategies:</b> Strategies that leverage external opportunities to overcome or minimize internal weaknesses
<b>Threats</b>	<b>ST Strategies:</b> Strategies that leverage your internal strengths to avoid external threats	<b>WT Strategies:</b> Strategies that minimize your internal weaknesses and avoid external threats

Remember, a separate SWOT analysis is required for each business, product, service, or market. One SWOT analysis cannot be all things to all issues. These analyses should be conducted regularly to address the dynamic environment in which we all operate.

Here are three guidance points to keep in mind when undertaking a SWOT analysis:

- Extremely long lists indicate that the screening criteria used to separate information from the strategic issues is too broad.
- The absence of weighting factors indicates a lack of prioritization.
- Short and ambiguously phrased descriptions within each SWOT factor can indicate that the strategic implications have not been considered.

## Case Study

### Cannondale Bicycle Corporation

Headquartered in Bethel, Connecticut, Cannondale Bicycle Corporation (Cannondale) designs, develops, and produces bicycles at its factory in Bedford, Pennsylvania. The company operates subsidiaries in Holland, Japan, and Australia and is owned by Pegasus Partners II, L.P., a private equity investment firm based in Greenwich, Connecticut. Its mission is to create innovative, quality products that inspire cyclists around the world. Even though it is helped by its three plus decade track record, Cannondale faces an intense and dynamic global industry environment. The following SWOT analysis presents an integrative view of how its external environment combines with its resources and capabilities (the internal factors) to provide for actionable strategies that can assist the company to achieve its mission.

**TABLE 11.3 SWOT Matrix for Cannondale Bicycle Corporation**

STRENGTHS (S)	WEAKNESSES (W)
1. Brand recognition	1. Mixed results in diversification efforts
2. Full-line provider across entire value chain	2. High cost of engineering and design talent
3. Scope of retail channels (high-end bike shops)	3. Less experience with carbon frame production
4. Design and engineering prowess	4. Component range low in market share
5. Commitment and dedication of employees	5. Lack of recognition in apparel markets

**TABLE 11.3 SWOT Matrix for Cannondale Bicycle Corporation**

OPPORTUNITIES (O)	SO Strategies	WO Strategies
1. Co-production of carbon frames in Asia	1. Partner with TopKey for carbon frame production (S2, S4, O1, O3)	1. Tap into waiting sources of investor capital (W1, W3, W5, O3, O5)
2. Competitive road and mountain bike teams on three continents seek sponsors	2. Inexpensively acquire Asian shoe producer (S1, S3, O3, O5)	2. Expand retail partner network in Asia (W5, O2, O3)
3. Consolidation in industry favors full-line operators and wide retail availability	3. Use forward contracts and hedging for carbon fiber supply (S2, O1)	3. Sponsor new Asian professional continental team (W5, O2, O5)
4. Unique designs being favored	4. Leverage Sugoi into carbon fiber shoes, jerseys, and bibs (S1, S3, S5, O4, O5)	
5. Expansion into cycling-related apparel where demand is rising		
THREATS (T)	ST Strategies	WT Strategies
1. Professional cycling under siege	1. Sponsor club teams in key regions (T1, T5, S1, S5)	1. Emphasize aluminum frames and components (W2, W3, T2, T4)
2. Carbon fiber shortages, high cost of supply	2. Rapid prototype components based on relationships developed in testing process (S2, S4, S5, T3, T4)	2. Divest certain component design and production facilities (W1, W4, T3, T4)
3. Boutique shops attacking high end of market	3. Enhance relationships with full range component suppliers such as Shimano, SRAM, and Campagnolo (S2, S4, T4, T5)	3. Restructure distribution locations to more quickly supply high demand regions (W5, T3, T5)
4. Key new components (drive-train) may require design rethinks		
5. Large investments being made into commodity-end (mass market) of business		

Note: The numbers following each strategy reflect the interrelationship between identified factors in the development of a particular strategy.