



Questions

- Assuming Geelmuyden.Kiese managers are correct that they have capabilities that provide competitive advantage:
 - What would competitors find difficult to imitate and why?
 - Are there any activities that could be done away with without threatening that advantage?
- If disaggregation (see section 3.4.3) is important, suggest what even more specific activities underpinning those in the activity map might be important.

3.4.4 SWOT²⁸

It can be helpful to summarise the key issues arising from an analysis of strategic capabilities discussed in this chapter and the analysis of the business environment discussed in Chapter 2 to gain an overall picture of an organisation's strategic position. **SWOT** provides a general summary of the Strengths and Weaknesses explored in an analysis of strategic capabilities (Chapter 3) and the Opportunities and Threats explored in an analysis of the environment

(Chapter 2). This analysis can also be useful as a basis for generating strategic options and assess future courses of action.

The aim is to identify the extent to which strengths and weaknesses are relevant to, or capable of dealing with, the changes taking place in the business environment. Illustration 3.6 takes the example of a pharmaceuticals firm (Pharmcare).²⁹ It assumes that key environmental impacts have been identified from analyses explained in Chapter 2 and that major strengths and weaknesses have been identified using the analytic tools explained in this chapter. A scoring mechanism (plus 5 to minus 5) is used as a means of getting managers to assess the interrelationship between the environmental impacts and the strengths and weaknesses of the firm. A positive (+) denotes that the strength of the company would help it take advantage of, or counteract, a problem arising from an environmental change or that a weakness would be offset by that change. A negative (–) score denotes that the strength would be reduced or that a weakness would prevent the organisation from overcoming problems associated with that change.

Pharmcare's share price had been declining because investors were concerned that its strong market position was under threat. This had not been improved by a merger that was proving problematic. The pharmaceutical market was changing with new ways of doing business, driven by new technology, the quest to provide medicines at lower cost and politicians seeking ways to cope with soaring healthcare costs and an evermore informed patient. But was Pharmcare keeping pace? The strategic review of the firm's position (Illustration 3.6a) confirmed its strengths of a flexible sales force, well-known brand name and new healthcare department. However, there were major weaknesses, namely relative failure on low-cost drugs, competence in information and communication technology (ICT) and a failure to get to grips with increasingly well-informed users.

However, in the context of this chapter, if this analysis is to be useful, it must be remembered that the exercise is not absolute but relative to its competitors. So SWOT analysis is most useful when it is comparative – if it examines strengths, weaknesses, opportunities and threats in relation to competitors. When the impact of environmental forces on competitors was analysed (Illustration 3.6b), it showed that Pharmcare was still outperforming its traditional competitor (Company W), but potentially vulnerable to changing dynamics in the general industry structure courtesy of niche players (X and Y).

There are two main dangers in a SWOT exercise:

- *Listing.* A SWOT exercise can generate very long lists of apparent strengths, weaknesses, opportunities and threats, whereas what matters is to be clear about what is really important and what is less important. So prioritisation of issues matters. Three brief rules can be helpful here. First, as indicated above, focus on strengths and weaknesses that differ in *relative* terms compared to competitors and leave out areas where the organisation is at par with competitors. Second, focus on opportunities and threats that are directly *relevant* for the specific organisation and industry and leave out general and broad factors. Third, summarise the *result* and draw concrete conclusions.
- *A summary, not a substitute.* SWOT analysis is an engaging and fairly simple tool. It is also useful in summarising and consolidating other analysis that has been explained in Chapters 2 and 3. It is not, however, a substitute for that analysis. There are two dangers if it is used on its own. The first is that, in the absence of more thorough analysis, managers rely on preconceived, often inherited and biased views. The second is again the danger of a lack of specificity. Identifying very general strengths, for example, does not explain the underlying reasons for those strengths.



ILLUSTRATION 3.6 SWOT analysis of Pharmcare

A SWOT analysis explores the relationship between the environmental influences and the strategic capabilities of an organisation compared with its competitors.

(a) SWOT analysis for Pharmcare

	Environmental change (opportunities and threats)					
	Healthcare rationing	Complex and changing buying structures	Increased integration of healthcare	Informed patients	+	-
Strengths						
Flexible sales force	+3	+5	+2	+2	12	0
Economies of scale	0	0	+3	+3	+6	0
Strong brand name	+2	+1	0	-1	3	-1
Healthcare education department	+4	+3	+4	+5	16	0
Weaknesses						
Limited competences in biotechnology and genetics	0	0	-4	-3	0	-7
Ever lower R&D productivity	-3	-2	-1	-2	0	-8
Weak ICT competences	-2	-2	-5	-5	0	-14
Over-reliance on leading product	-1	-1	-3	-1	0	-6
Environmental impact scores	+9 -6	+9 -5	+9 -13	+10 -12		

(b) Competitor SWOT analyses

	Environmental change (opportunities and threats)				
	Healthcare rationing	Complex and changing buying structures	Increased integration of healthcare	Informed and passionate patients	Overall impact
Pharmcare <i>Big global player suffering fall in share price, low research productivity and post-mega-merger bureaucracy</i>	-3 Struggling to prove cost-effectiveness of new drugs to new regulators of healthcare rationing	+6 Well-known brand, a flexible sales force combined with a new healthcare education department creates positive synergy	-3 Weak ICT and lack of integration following mergers means sales, research and admin. are all underperforming	-2 Have yet to get into the groove of patient power fuelled by the internet	-2 Declining performance over time worsened after merger
Company W <i>Big pharma with patchy response to change, losing ground in new areas of competition</i>	-4 Focus is on old-style promotional selling rather than helping doctors control costs through drugs	-4 Traditional sales force not helped by marketing which can be unaccommodating of national differences	+0 Alliances with equipment manufacturers but little work done across alliance to show dual use of drugs and new surgical techniques	+4 New recruits in the ICT department have worked cross-functionally to involve patients like never before	-4 Needs to modernise across the whole company
Organisation X <i>Partnership between a charity managed by people with venture capital experience and top hospital geneticists</i>	+3 Potentially able to deliver rapid advances in genetics-based illnesses	+2 Able possibly to bypass these with innovative cost-effective drug(s)	+2 Innovative drugs can help integrate healthcare through enabling patients to stay at home	+3 Patients will fight for advances in treatment areas where little recent progress has been made	+10 Could be the basis of a new business model for drug discovery – but all to prove as yet
Company Y <i>Only develops drugs for less common diseases</i>	+3 Partnering with big pharma allows the development of drugs discovered by big pharma but not economical for them to develop	0 Focus on small market segments so not as vulnerable to overall market structure, but innovative approach might be risky	+2 Innovative use of web to show why products still worthwhile developing even for less common illnesses	+1 Freephone call centres for sufferers of less common illnesses Company, like patients, is passionate about its mission	+6 Novel approach can be considered either risky or a winner, or both!

Questions

- 1 What does the SWOT analysis tell us about the competitive position of Pharmcare with the industry as a whole?
- 2 How readily do you think executives of Pharmcare identify the strengths and weaknesses of competitors?
- 3 Identify the benefits and dangers (other than those identified in the text) of a SWOT analysis such as that in the illustration.

Figure 3.6 The TOWS matrix

		Internal factors	
		Strengths (S)	Weaknesses (W)
External factors	Opportunities (O)	SO Strategic options Generate options here that use strengths to take advantage of opportunities	WO Strategic options Generate options here that take advantage of opportunities by overcoming weaknesses
	Threats (T)	ST Strategic options Generate options here that use strengths to avoid threats	WT Strategic options Generate options here that minimise weaknesses and avoid threats

SWOT can also help focus discussion on future choices and the extent to which an organisation is capable of supporting these strategies. A useful way of doing this is to use a TOWS matrix³⁰ as shown in Figure 3.6. This builds directly on the information in a SWOT exercise. Each box of the TOWS matrix can be used to identify options that address a different combination of the internal factors (strengths and weaknesses) and the external factors (opportunities and threats). For example, the top left-hand box prompts a consideration of options that use the strengths of the organisation to take advantage of opportunities in the business environment. An example for Pharmcare might be the re-training of the sales force to deal with changes in pharmaceuticals buying. The bottom right-hand box prompts options that minimise weaknesses and also avoid threats; for Pharmcare this might include the need to develop its ICT systems to better service more informed patients. Quite likely this would also help take advantage of opportunities arising from changes in the buying structure of the industry (top right). The bottom left box suggests the need to use strengths to avoid threats, perhaps by building on the success of the healthcare education department to also better service informed patients.

3.5 MANAGING STRATEGIC CAPABILITY

The previous section was concerned with diagnosing strategic capability. This section considers what managers might do to manage and improve resources and capabilities to the strategic benefit of their organisation.

One lesson that emerges from an understanding of the strategic importance of capabilities is that it can be difficult to discern where the basis of competitive advantage lies. Hence,

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