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Situational Analysis: SWOT Approach

Strategy formulation, often referred to as strategic planning or long-range planning, is concerned with developing a corporation's mission, objectives, strategies, and policies. It begins with situation analysis: the process of finding a strategic fit between external opportunities and internal strengths while working around external threats and internal weaknesses. As shown in the Strategic Decision-Making Process in **Figure 1–5**, step 5(a) is analyzing strategic factors in light of the current situation using a SWOT approach. **SWOT** is an acronym used to describe the particular **S**trengths, **W**eaknesses, **O**pportunities, and **T**hreats that are potential strategic factors for a specific company. A SWOT approach should not only result in the identification of a corporation's distinctive competencies—the particular capabilities and resources that a firm possesses and the superior way in which they are used—but also in the identification of opportunities that the firm is not currently able to take advantage of due to a lack of appropriate resources.

It can be said that the essence of strategy is opportunity divided by capacity.[1] An opportunity by itself has no real value unless a company has the capacity (i.e., resources) to take advantage of that opportunity. By itself, a distinctive competency in a key resource or capability is no guarantee of competitive advantage. Weaknesses in other resource areas can prevent a strategy from being successful. SWOT can thus be used to take a broader view of strategy through the formula $SA = O/(S-W)$—that is, (Strategic Alternative equals Opportunity divided by Strengths minus Weaknesses). This reflects an important issue strategic managers face: Should we invest more in our strengths to make them even stronger (a distinctive competence) or should we invest in our weaknesses to at least make them competitive?

SWOT, by itself, is just a start to a strategic analysis. Some of the primary criticisms of SWOT are:

- It is simply the opinions of those filling out the boxes
- Virtually everything that is a strength is also a weakness
- Virtually everything that is an opportunity is also a threat
- Adding layers of effort does not improve the validity of the list
- It uses a single point in time approach
- There is no tie to the view from the customer
- There is no validated evaluation approach

Originally developed in the 1970s, SWOT was one of the original approaches as the field moved from business policy (looking at examples and inferring long-range plans) to strategy. In the intervening years, many techniques have developed that provide strategists with a keener insight into the elements of SWOT. However, as strategists, we need to understand our strengths, calculate the impact of weaknesses (whether they are real or perceived), take advantage of opportunities that match our strengths and minimize the impact of outside threats to the success of the organization. Thus, SWOT as a means of conceptualizing the organization is quite effective.

GENERATING A STRATEGIC FACTORS ANALYSIS SUMMARY (SFAS) MATRIX

The EFAS and IFAS Tables plus the SFAS Matrix have been developed to deal with the criticisms of SWOT analysis. When used together, they are a powerful analytical set of tools for strategic analysis. The **SFAS (Strategic Factors Analysis Summary) Matrix** summarizes

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an organization's strategic factors by combining the external factors from the EFAS Table with the internal factors from the IFAS Table. The EFAS and IFAS examples given of Maytag Corporation (as it was in 1995) in **Table 4–5** and **Table 5–2** list a total of 20 internal and external factors. These are too many factors for most people to use in strategy formulation. The SFAS Matrix requires a strategic decision maker to condense these strengths, weaknesses, opportunities, and threats into fewer than 10 strategic factors. This is done by reviewing and revising the weight given each factor. The revised weights reflect the priority of each factor as a determinant of the company's future success. The highest-weighted EFAS and IFAS factors should appear in the SFAS Matrix.

As shown in **Figure 6–1**, you can create an SFAS Matrix by following these steps:

1. In **Column 1** ***(Strategic Factors)***, list the most important EFAS and IFAS items. After each factor, indicate whether it is a Strength **(S)**, Weakness **(W)**, an Opportunity **(O)**, or a Threat **(T)**.
2. In **Column 2** ***(Weight)***, assign weights for all of the internal and external strategic factors. As with the EFAS and IFAS Tables presented earlier, the **weight column must total 1.00**. This means that the weights calculated earlier for EFAS and IFAS will probably have to be adjusted.
3. In **Column 3** ***(Rating)*** assign a rating of how the company's management is responding to each of the strategic factors. These ratings will probably (but not always) be the same as those listed in the EFAS and IFAS Tables.
4. In **Column 4** ***(Weighted Score)*** multiply the weight in **Column 2** for each factor by its rating in **Column 3** to obtain the factor's rated score.
5. In **Column 5** ***(Duration)***, depicted in **Figure 6–1**, indicate **short-term** (less than one year), **intermediate-term** (one to three years), or **long-term** (three years and beyond).
6. In **Column 6** ***(Comments)***, repeat or revise your comments for each strategic factor from the previous EFAS and IFAS Tables. **The total weighted score for the average firm in an industry is always 3.0.**

The resulting SFAS Matrix is a listing of the firm's external and internal strategic factors in one table. The example given in **Figure 6–1** is for Maytag Corporation in 1995, before the firm sold its European and Australian operations and it was acquired by Whirlpool. The SFAS Matrix includes only the most important factors gathered from environmental scanning, and thus provides information that is essential for strategy formulation. The use of EFAS and IFAS Tables together with the SFAS Matrix deals with some of the criticisms of SWOT analysis. For example, the use of the SFAS Matrix reduces the list of factors to a manageable number, puts weights on each factor, and allows one factor to be listed as both a strength and a weakness (or as an opportunity and a threat).

FINDING A PROPITIOUS NICHE

One desired outcome of analyzing strategic factors is identifying a niche where an organization can use its core competencies to take advantage of a particular market opportunity. A niche is a need in the marketplace that is currently unsatisfied. The goal is to find a **propitious niche**—an extremely favorable niche—that is so well suited to the firm's internal and external environment that other corporations are not likely to challenge or dislodge it.[2] A niche is propitious to the extent that it currently is just large enough for one firm to satisfy its demand. After a firm has found and filled that niche, it is not worth a potential competitor's time or money to also go after the same niche.

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FIGURE 6–1 **Strategic Factor Analysis Summary (SFAS) Matrix**

Internal Strategic Factors (1)	Weight (2)	Rating (3)	Weighted Score (4)	Comments (5)
Strengths				
S1 Quality Maytag culture	.15	5.0	.75	Quality key to success
S2 Experienced top management	.05	4.2	.21	Know appliances
S3 Vertical integration	.10	3.9	.39	Dedicated factories
S4 Employee relations	.05	3.0	.15	Good, but deteriorating
S5 Hoover's international orientation	.15	2.8	.42	Hoover name in cleaners
Weaknesses				
W1 Process-oriented R&D	.05	2.2	.11	Slow on new products
W2 Distribution channels	.05	2.0	.10	Superstores replacing small dealers
W3 Financial position	.15	2.0	.30	High debt load
W4 Global positioning	.20	2.1	.42	Hoover weak outside the United Kingdom and Australia
W5 Manufacturing facilities	.05	4.0	.20	Investing now
Total Scores	1.00		3.05	

External Strategic Factors (1)	Weight (2)	Rating (3)	Weighted Score (4)	Comments (5)
Opportunities				
O1 Economic integration of European Community	.20	4.1	.82	Acquisition of Hoover
O2 Demographics favor quality appliances	.10	5.0	.50	Maytag quality
O3 Economic development of Asia	.05	1.0	.05	Low Maytag presence
O4 Opening of Eastern Europe	.05	2.0	.10	Will take time
O5 Trend to "Super Stores"	.10	1.8	.18	Maytag weak in this channel
Threats				
T1 Increasing government regulations	.10	4.3	.43	Well positioned
T2 Strong U.S. competition	.10	4.0	.40	Well positioned
T3 Whirlpool and Electrolux strong globally	.15	3.0	.45	Hoover weak globally
T4 New product advances	.05	1.2	.06	Questionable
T5 Japanese appliance companies	.10	1.6	.16	Only Asian presence is Australia
Total Scores	1.00		3.15	

*The most important external and internal factors are identified in the EFAS and IFAS Tables as shown here by shading these factors.

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1	2	3	4	5 Duration			6
Strategic Factors (Select the most important opportunities/threats from EFAS, Table 4–5 and the most important strengths and weaknesses from IFAS, Table 5–2)	**Weight**	**Rating**	**Weighted Score**	**SHORT**	**INTERMEDIATE**	**LONG**	**Comments**
S1 Quality Maytag culture (S)	.10	5.0	.50			X	Quality key to success
S5 Hoover's international orientation (S)	.10	2.8	.28	X	X		Name recognition
W3 Financial position (W)	.10	2.0	.20	X	X		High debt
W4 Global positioning (W)	.15	2.2	.33		X	X	Only in N.A., U.K., and Australia
O1 Economic integration of European Community (O)	.10	4.1	.41			X	Acquisition of Hoover
O2 Demographics favor quality (O)	.10	5.0	.50		X		Maytag quality
O5 Trend to super stores (O + T)	.10	1.8	.18	X			Weak in this channel
T3 Whirlpool and Electrolux (T)	.15	3.0	.45	X			Dominate industry
T5 Japanese appliance companies (T)	.10	1.6	.16			X	Asian presence
Total Scores	1.00		3.01				

NOTES:

1. List each of the most important factors developed in your IFAS and EFAS Tables in Column 1.
2. Weight each factor from **1.0** (Most Important) to **0.0** (Not Important) in Column 2 based on that factor's probable impact on the company's strategic position. **The total weights must sum to 1.00.**
3. Rate each factor from **5.0** (Outstanding) to **1.0** (Poor) in Column 3 based on the company's response to that factor.
4. Multiply each factor's weight times its rating to obtain each factor's weighted score in Column 4.
5. For the duration in Column 5, check the appropriate column (short term—less than 1 year; intermediate—1 to 3 years; long term—over 3 years).
6. Use Column 6 (comments) for rationale used for each factor.

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Finding such a niche or sweet spot is not easy. A firm's management must continually look for a *strategic window*—that is, a unique market opportunity that is available only for a particular time. The first firm through a strategic window can occupy a propitious niche and discourage competition (if the firm has the required internal strengths). One company that successfully found a propitious niche was Frank J. Zamboni & Company, the manufacturer of the machines that smooth the ice at ice skating rinks. Frank Zamboni invented the unique tractor-like machine in 1949 and no one has found a substitute for what it does. Before the machine was invented, people had to clean and scrape the ice by hand to prepare the surface for skating. Now hockey fans look forward to intermissions just to watch "the Zamboni" slowly drive up and down the ice rink, turning rough, scraped ice into a smooth mirror surface—almost like