SWOT Analysis – A Key Competitive Intelligence Tool

Introduction. The state of the current global business environment has dictated that we must learn to operate our businesses with much less expense – that, in fact, the very survival of our businesses now depends on successfully meeting this demand to significantly cut costs. To that end, we must face the reality of operating in a business climate that clearly enforces a greatly reduced margin of error. However, in confronting these pressures to control costs, we should take extra care to maintain a viable process for gaining and keeping a competitive advantage in acquiring new work, the lifeblood of any enterprise. So . . . how do we keep our balance as we continue to walk this tightrope?

A CI Tool to Help. In these circumstances, firms must broaden the search for approaches to work through this dilemma in a manner that makes the most business sense. Clearly, the same old tried and true ways of doing things will not guide business firms to where they need to be. For many, an increasing reliance on competitive intelligence (CI) offers the best path to follow. Briefly defined, CI is the “value-added product resulting from the collection, evaluation, analysis, integration, and interpretation of all available information” that a business executive would consider vital to decision making (from Strategic and Competitive Analysis, by Craig Fleisher & Babette Benoussan). Implicit in this definition of CI is the unmistakable link between the early identification of a firm’s competitive problems and the increased likelihood of reducing the risks in taking the corrective actions.

There are many analytical tools available in the use of CI, but one of the most widely known and utilized is the SWOT analysis – in many ways the fundamental building block for any CI effort. SWOT is the acronym for “Strengths, Weaknesses, Opportunities, Threats.” The remainder of this article offers a summary of the excellent chapter on SWOT analysis found in Strategic and Competitive Analysis, by Fleisher and Benoussan (Prentice Hall, 2003, pp. 92-103.)

SWOT Rationale. In use for several decades now, the SWOT analysis tool provides business strategists with a means to articulate the strategic fit for an organization between its resources / capabilities and the particular demands of its competitive marketplace. The specific objective of SWOT analysis is to determine the best way for a firm to use its strengths to exploit opportunities, while also identifying both the firm’s weaknesses and strengths against perceived threats. Like the many other CI tools available, the SWOT analysis when used judiciously will ultimately lead to a practical set of options for action – the kind of action making the most business sense.

Process for Using the SWOT. The first step in using a SWOT analysis is to list and evaluate the firm’s strengths, weaknesses, opportunities, and threats. Here below are the brief descriptions of these four elements, which form the backbone of the SWOT effort.
1. **Strengths** – those factors that make an organization more competitive than its peers. Strengths are what the company possesses that are available to be used in achieving its performance objectives. Strengths might include, for example, the knowledge, background, and credentials of the organization’s staff. Strengths might also include tangible assets, such as capital, equipment, patents, and other valuable resources within the company.

2. **Weaknesses** – those identified areas within a company that are perceived as limits or poor performance that acts as obstacles in the path to achieving the firm’s goals and objectives. For these particular areas, the company is clearly seen as being in an inferior position relative to its competition. Some examples might include lack of expertise, poor level of technology advancement, limited resources, and so on.

3. **Opportunities** – any marketplace trend or situation that might have a favorable impact on the organization’s future results, in terms of increased demand for its products or services. The potential result of the company taking advantage of these opportunities would be to enhance its overall competitive position. As identified by marketing efforts, opportunities may stem from growth of the general market in which the company competes. Critical to identifying the opportunity is establishing the timing involved. For example, is there a window of opportunity or is it one that is ongoing?

4. **Threats** – those market trends or situations that could conceivably have a deleterious impact on the company’s prospects, thereby reducing significantly its competitive standing in the marketplace. Threats include factors external to the organization and beyond its control. Examples of threats would include a prime competitor unreasonably cutting its prices, a severe economic downturn, intolerable increase in supplier prices, new government regulations impacting the market, and so on. Identifying potential threats, and assigning their likely probability, should lead to generating contingency plans that will offset the risk to an organization’s overall market position.

What is critical to the overall SWOT process is the manner in which the above information is gained, that is, how the lists in each of the four areas above are generated and finally decided upon. In a word, this process must be a team effort, with the makeup of this team depending on the particular situation. The mix of team members could range from executives to functional experts to sales team members, and so on. Again, judgment must be exercised to arrive at the composition of the team with the appropriate number of members and the best mix of personnel.

After the listing of and agreement upon the firm’s strengths, weaknesses, opportunities, and threats, the SWOT process will reach the next step: the ranking of each issue within each SWOT quadrant according to its relative criticality. See Figure 1 (the upper “First Draft” section of the figure) below for an example of the typical layout of this step. Ranking these strategic issues requires a clear communication – and consensus by the group performing the SWOT – of the criteria and weighting factors used to accomplish this step.
The next step in the SWOT process forms the degree of strategic fit (or misfit) the firm has with its competitive market place. The results of this part of the SWOT will indicate the strategic change necessary for the firm to improve its performance. Again, the typical layout of this step is shown in Figure 1-B above (the lower “Second Draft” section), which indicates the four scenarios that will become evident as progress is made during this step.

If done with due diligence, the SWOT analysis delivers a prognostic tool for evaluating the organization’s current and alternative strategies for gaining a competitive advantage. The summary below illustrates how in the final stages of analysis the tool can illuminate the path to reaching a set of specific strategic conclusions that can in turn help guide the firm to meeting its objectives. Using the quadrant framework, as shown in the lower half of Figure 1, the firm’s strategies begin to take shape. The summary of how the SWOT quadrants function is below.

These scenarios or quadrants and the identified strategic issues for each are as follows:

![Figure 1 (from Fleisher and Bensoussan)](image-url)
- **Quadrant 1 – Internal strengths matched with external opportunities**
  o *This is the ideal match since it’s the result of the best fit between the firm’s resources and the competitive opportunities in the external environment. The strategy for this quadrant would be to find ways to protect and bolster and, possibly, to extend these internal strengths.*

- **Quadrant 2 – Internal weaknesses relative to external opportunities**
  o The general strategic response for this quadrant is to attempt to make the best of an unfavorable situation – i.e., what is the best trade-off between making the necessary changes to turn the weakness into a strength and giving up the share of the market to a rival.

- **Quadrant 3 – Internal strengths matched with external threats**
  o The strategic question for this quadrant is how to create opportunities from the perceived threats, which will likely involve a major change in the firm’s strategic objectives. The alternative option is to play defense and possibly find more lucrative strategies in the other quadrants.

- **Quadrant 4 – Internal weaknesses relative to external threats**
  o This quadrant is clearly the worst of the four. Depending on the particular situation, the range of responses might include a proactive one (if the firm’s survival is at stake), or the more defensive divesting in order to focus on more promising strategies in other quadrants.

Fleisher and Benoussan use as an example of a final SWOT analysis one designed for Winnebago Industries, Inc. that reflects its competitive environment from the 1970s. This example is Figure 2. One must keep in mind the amount of significant analysis that would lead to completing a matrix such as this one.

**Figure 2**
**Conclusion.** While the SWOT analysis is an important building block of any serious CI investigation, it is not a “silver bullet,” capable of solving every strategic dilemma. It has its own set of strengths and weaknesses, and the user of this form of analysis should be aware of both. A sample of some of these is shown below.

<table>
<thead>
<tr>
<th>SWOT Analysis Strengths &amp; Weaknesses</th>
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<tbody>
<tr>
<td><strong>Strength</strong></td>
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<tr>
<td>1. Wide applicability: can be used for individuals, teams, projects, function areas, business units, etc.</td>
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<tr>
<td>2. Does not require a great deal of financial or computational resources to perform</td>
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<tr>
<td>3. Can be an effective team-building exercise</td>
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<td>4. Provides a means to gather, interpret, and organize the sources of data used in the analysis – all of which can be applied to similar types of analysis in the future.</td>
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Fleisher and Benoussan aptly summarize the benefits and concerns of using a SWOT analysis: “An appropriate analogy would be that the SWOT analysis only identifies the chess pieces on the board and the opponent’s possible moves. It is up to the analyst to calculate the series of moves leading to the ultimate winning chess move in the business world – that of achieving competitive advantage.”