

# “SWOT” Analysis

**General Idea:** Our definition of strategic planning is the process by which missions and purposes are pursued, strategies implemented and results reviewed. We will further examine the forces which play on these activities and the abilities of the organizations themselves in order to gain a better understanding of strategic planning.

**Parts:** Classic analysis breaks the investigation into two parts.

- Part one is the examination of **forces external** to or outside the control of the company itself. These forces are further categorized by separating them into “**opportunities**” and “**threats.**”
- Part two is the examination of the **traits** of the organization’s **internal** environment and/or **abilities**. This analysis is called a “**strengths**” and “**weaknesses**” analysis.
- “SWOT” is the acronym created from the first letters of each and this in term is called a SWOT analysis.

**Forces:** In general, a business unit has to monitor key external forces and associated tell-tale signs at two levels:

- **macroenvironment** forces (demographic/economic, technological, political/legal, and social/cultural) and
- **microenvironmental actors** (customers, competitors, distribution channels, suppliers) that affect its ability to earn profits.

**Tracking Trends:** The enterprise uses market research to track trends and important developments. As noted, for each tell-tale sign or trend, management seeks to identify the associated opportunities and threats.

## **Part One: External Environment or Forces: Opportunity and Threat Analysis<sup>1</sup>**

**Opportunities:** From a marketing perspective, an opportunity is “an area of buyer need in which a company can perform profitably. *Opportunities can refer to both existing operations as well as potential new undertakings.* Opportunities can be classified according to:

- their *attractiveness* and
- their *success probability*. The company’s success probability depends on whether its business strengths not only match the key success requirements for operating in the target market but also exceeds those of its competitors. Mere competence does not constitute a competitive advantage (to be discussed in lecture 8). The best-performing company will be the one that can generate the greatest customer value and sustain it over time.”

**Opportunity Example<sup>2</sup>:** “Examine the opportunity matrix in Exhibit 1,

- the best marketing opportunities facing the TV-lighting-equipment company are listed in the upper-left cell (#1); management should pursue these opportunities.
- The opportunities in the lower-right cell (#4) are too minor to consider.
- The opportunities in the upper-right cell (#2) and lower-left cell (#3) should

---

<sup>1</sup> Philip Kotler, Marketing Management 1997

<sup>2</sup> Philip Kotler, Marketing Management 1997 pg 82

- he monitored in the event that any of them improve in their attractiveness and success probability.
- The business manager knows the macro and micro parts of the environment it needs to monitor to achieve its goals. For example, the television-lighting-equipment company needs to watch the growth rate in the number of television studios, its own financial health, current and new competitors, new technological developments, laws and regulations that might affect equipment design or marketing, and distribution channels for selling lighting equipment.”

**Threats:** From a marketing perspective, an external threat is a challenge posed by an unfavorable **existing condition, trend** or **future** development that would lead, in the absence of defensive marketing action, to deterioration in sales or profit. Threats are classified according to:

- Their *seriousness* and
- Their *probability of occurrence*.

**Threats - examples of forces:**

- Competitors
- New technologies, products or materials
- Changing markets
- Laws, legislations, regulations, codes, industry standards or rules.
- Demographic and sociological change
- Psychological change
- Economic change

**Threats - characterization diagram:** <sup>3</sup>Examine the threat matrix in Exhibit 1,

- The threats in the upper-left cell are major threats, since they can seriously hurt the company and have a high probability of occurrence. To deal with these threats, the company needs to prepare contingency plans that spell out what changes the company can make before or during the threat’s occurrence.
- The threats in the lower-right cell are very minor and can be ignored.
- The threats in the upper-right and lower-left cells do not require contingency planning but need to be carefully monitored in the event that they grow more serious.
- Once management has identified the major opportunities and threats facing a specific business unit, it can characterize that business’s overall attractiveness. Four outcomes are possible:
  - An *ideal business* is high in major opportunities and low in major threats.
  - A *speculative business* is high in both major opportunities and threats.
  - A *mature business* is low in major opportunities and low in threats
  - A *troubled business* is low in opportunities and high in threats.”

**Exercise:** The attached “Marketing Memo” breaks down the enterprise into the following functional categories.

- Marketing, Finance, Manufacturing and Organizational Behavior.”
- The Performance and Importance of each category is then rated.
- Apply this to a company in a case study we are using

**“Value Chain:”** A similar analysis is made, again breaking the enterprise into set of functional units (different than above) so as to understand where value is created and where it is captured. We will deal with this separately.

---

<sup>3</sup> ibid

See Next Page for Exhibit 1

**Opportunity and Threat Matrixes**

Exhibit 1

(a) Opportunity matrix

1. Company develops a more powerful lighting system
2. Company develops a device for measuring the energy efficiency of any lighting system
3. Company develops a device for measuring illumination level
4. Company develops a software program to teach lighting fundamentals to P/studio personnel

Opportunities		Success Probability	
		hi	low
	hi	1	2
	low	3	4

**(b) Threat matrix**

- Threats
1. Competitor develops a superior lighting system
  2. Major prolonged economic depression
  3. Higher costs
  4. Legislation to reduce number of V/studio licenses

Threats		Probability of Occurrence	
		hi	low
	hi	1	2
	seriousness	3	4
	low		

