# S.W.O.T Analysis

A scan of the internal and external environment is an important part of the strategic planning process. Environmental factors internal to the organization usually can be classified as strengths (**S**) or weaknesses (**W**), and those external to the organization can be classified as opportunities (**O**) or threats (**T**). Such an analysis of the strategic environment is referred to as a **SWOT analysis**.

The SWOT analysis provides information that is helpful in matching the organization’s resources and capabilities to the competitive environment in which it operates. As such, it is instrumental in strategy formulation and selection. The following diagram shows how a SWOT analysis fist in to an environment scan:

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### Strengths

An organization’s strengths are its resources and capabilities that can be used as a basis for developing a competitive advantage. Examples of such strengths include:

* Strong brand names
* Good reputation among customers/clients
* Cost advantages from proprietary know-how
* Exclusive access to high grade natural resources
* Favorable access to distribution networks

### Weaknesses

The absence of certain strengths may be viewed as a weakness. For example, each of the following may be considered weaknesses:

* A weak brand name
* Poor reputation among customers/clients
* High cost structure
* Lack of access to natural resources
* Lack of access to key distribution channels

In some cases, a weakness may be the flip side of a strength. Take the case in which a company has a large amount of manufacturing capacity. While this capacity may be considered a strength that competitors do not share, it also may be considered a weakness if the large investment in manufacturing capacity prevents the company from reacting quickly to changes in the strategic environment.

### Opportunities

The external environmental analysis may reveal certain new opportunities for profit and growth. Some examples of such opportunities include:

* An unfulfilled customer need
* Arrival of new technologies
* Loosening of regulations
* Removal of trade barriers

#### The SWOT Matrix

An organization should not necessarily pursue the more lucrative opportunities. Rather, it may have a better chance at developing a competitive advantage by identifying a fit between the organization’s strengths and upcoming opportunities. In some cases, the firm can overcome a weakness in order to prepare itself to pursue a compelling opportunity.

To develop strategies that take into account the SWOT profile, a matrix of these factors can be constructed. The SWOT matrix is shown below:

## SWOT Matrix

|  |  |  |
| --- | --- | --- |
|  | Strengths | Weaknesses |
| Opportunities | S-O strategies | W-O strategies |
| Threats | S-T strategies | W-T strategies |

* **S-O strategies** pursue opportunities that are a good fit to the organization’s strengths.
* **W-O strategies** overcome weaknesses to pursue opportunities.
* **S-T strategies** identify ways that the organization can use its strengths to reduce its vulnerability to external threats
* **W-T strategies** establish a defensive plan to prevent the organization’s weaknesses from making it highly susceptible to external threats