# SWOT analysis

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**SWOT Analysis**, is a [strategic planning](http://en.wikipedia.org/wiki/Strategic_planning#Elements) tool used to evaluate the ***S***trengths, ***W***eaknesses, ***O***pportunities, and ***T***hreats involved in a [project](http://en.wikipedia.org/wiki/Project) or in a [business](http://en.wikipedia.org/wiki/Business) venture. It involves specifying the objective of the business venture or project and identifying the internal and external factors that are favorable and unfavorable to achieving that objective. The technique is credited to [Albert Humphrey](http://en.wikipedia.org/wiki/Albert_S_Humphrey), who led a research project at [Stanford University](http://en.wikipedia.org/wiki/Stanford_University) in the 1960s and 1970s using data from [Fortune 500](http://en.wikipedia.org/wiki/Fortune_500) companies.

## Strategic and Creative Use of S.W.O.T Analysis

### Strategic Use: Orienting SWOTs to An Objective

If SWOT analysis does not start with defining a desired end state or objective, it runs the risk of being useless. A SWOT analysis may be incorporated into the [strategic planning](http://en.wikipedia.org/wiki/Strategic_planning) model. An example of a strategic planning technique that incorporates an objective-driven SWOT analysis is [SCAN](http://www.mbatoolbox.org/stories/storyReader$19) analysis. Strategic Planning, including SWOT and SCAN analysis, has been the subject of [much research](http://www.rh.edu/~chan7578/wacra/abstract_marseille_1998.html#IY23).

If a clear objective has been identified, SWOT analysis can be used to help in the pursuit of that objective. In this case, SWOTs are:

* **S**trengths: attributes of the organization that are helpful to achieving the objective.
* **W**eaknesses: attributes of the organization that are harmful to achieving the objective.
* **O**pportunities: *external* conditions that are helpful to achieving the objective.
* **T**hreats: *external* conditions that are harmful to achieving the objective.

Identification of SWOTs is essential because subsequent steps in the process of planning for achievement of the selected objective are to be derived from the SWOTs.

First, the decision makers have to determine whether the objective is attainable, given the SWOTs. If the objective is NOT attainable a different objective must be selected and the process repeated.

### Creative Use of SWOTs: Generating Strategies

If, on the other hand, the objective seems attainable, the SWOTs are used as inputs to the creative generation of possible strategies, by asking and answering each of the following four questions, many times:

1. How can we **U**se each Strength?
2. How can we **S**top each Weakness?
3. How can we **E**xploit each Opportunity?
4. How can we **D**efend against each Threat?

Ideally a [cross-functional team](http://en.wikipedia.org/wiki/Cross-functional_team) or a [task force](http://en.wikipedia.org/wiki/Task_force) that represents a broad range of perspectives should carry out the SWOT analysis. For example, a [SWOT team](http://en.wikipedia.org/w/index.php?title=SWOT_team&action=edit) may include an accountant, a salesperson, an executive manager, an engineer, and an [ombudsman](http://en.wikipedia.org/wiki/Ombudsman).

### Evidence on the Use of SWOT

SWOT analysis may limit the strategies considered in the evaluation. "In addition, people who use SWOT might conclude that they have done an adequate job of planning and ignore such sensible things as defining the firm's objectives or calculating ROI for alternate strategies." [[1]](http://en.wikipedia.org/wiki/SWOT#_note-0#_note-0) Findings from Menon et al. (1999) [[2]](http://en.wikipedia.org/wiki/SWOT#_note-1#_note-1) and Hill and Westbrook (1997) [[3]](http://en.wikipedia.org/wiki/SWOT#_note-2#_note-2) have shown that SWOT may harm performance. As an alternative to SWOT, [J. Scott Armstrong](http://en.wikipedia.org/wiki/J._Scott_Armstrong) describes a 5-step approach alternative that leads to better corporate performance.[[4]](http://en.wikipedia.org/wiki/SWOT#_note-3#_note-3)

These criticisms are addressed to an old version of SWOT analysis that precedes the SWOT analysis described above under the heading "Strategic and Creative Use of S.W.O.T. Analysis." This old version did not require that SWOTs be derived from an agreed upon objective. Examples of SWOT analyses that do not state an objective are provided below under "Human Resources" and "Marketing."

## Internal and external factors

The aim of any SWOT analysis is to identify the key internal and external factors that are important to achieving the objective. SWOT analysis groups key pieces of information into two main categories:

* Internal factors – The *strengths* and *weaknesses* internal to the organization.
* External factors – The *opportunities* and *threats* presented by the external environment.

The internal factors may be viewed as strengths or weaknesses depending upon their impact on the organization's objectives. What may represent strengths with respect to one objective may be weaknesses for another objective. The factors may include all of the [4P](http://en.wikipedia.org/wiki/4P)'s; as well as personnel, finance, manufacturing capabilities, and so on. The external factors may include macroeconomic matters, technological change, legislation, and socio-cultural changes, as well as changes in the marketplace or competitive position. The results are often presented in the form of a matrix.

SWOT analysis is just one method of categorization and has its own weaknesses. For example, it may tend to persuade companies to compile lists rather than think about what is actually important in achieving objectives. It also presents the resulting lists uncritically and without clear prioritization so that, for example, weak opportunities may appear to balance strong threats.

It is prudent not to eliminate too quickly any candidate SWOT entry. The importance of individual SWOTs will be revealed by the value of the strategies it generates. A SWOT item that produces valuable strategies is important. A SWOT item that generates no strategies is not important.

## Avoiding Errors

1. Conducting a SWOT analysis before defining and agreeing upon an objective (a desired end state). SWOTs should not exist in the abstract. They can exist only with reference to an objective. If the desired end state is not openly defined and agreed upon, the participants may have different end states in mind and the results will be ineffective.
2. Opportunities external to the company are often confused with strengths internal to the company. They should be kept separate.
3. SWOTs are sometimes confused with possible strategies. SWOTs are descriptions of conditions, while possible strategies define actions. This error is made especially with reference to opportunity analysis. To avoid this error, it may be useful to think of opportunities as "auspicious conditions".

## Examples of SWOTs

|  |
| --- |
| Strengths and weaknesses  * Resources: financial, intellectual, location * Cost advantages from proprietary know-how and/or location * Creativity (ability to develop new products) * Valuable intangible assets: intellectual capital * Competitive capabilities * Effective recruitment of talented individuals  Opportunities and threats  * Expansion or down-sizing of competitors * Market trends * Economic conditions * Expectations of stakeholders * Technology * Public expectations * All other activities or inactivities by competitors * Criticisms by outsiders * Changes in markets * All other environmental conditions |

## Use of SWOT Analysis

The usefulness of SWOT analysis is not limited to profit-seeking organizations. SWOT analysis may be used in any decision-making situation when a desired end-state (objective) has been defined. Examples include: [non-profit organizations](http://en.wikipedia.org/wiki/Non-profit_organizations), governmental units, and individuals. SWOT analysis may also be used in pre-crisis planning and preventive [crisis management](http://en.wikipedia.org/wiki/Crisis_management).

### Corporate planning

As part of the development of strategies and plans to enable the organization to achieve its objectives, then that organization will use a systematic/rigorous process known as [corporate planning](http://en.wikipedia.org/w/index.php?title=Corporate_planning&action=edit). SWOT alongside [PEST](http://en.wikipedia.org/wiki/PEST)/[PEST](http://en.wikipedia.org/wiki/PEST)LE can be used as a basis for the analysis of business and environmental factors.[[5]](http://en.wikipedia.org/wiki/SWOT#_note-4#_note-4)

* **Set objectives** – defining what the organisation is intending to do
* **Environmental scanning**
  + Internal appraisals of the organisations SWOT, this needs to include an assessment of the present situation as well as a portfolio of products/services and an analysis of the product/service life cycle
* **Analysis of existing strategies**, this should determine relevance from the results of an internal/external appraisal. This may include [gap analysis](http://en.wikipedia.org/wiki/Gap_analysis) which will look at environmental factors
* **Strategic Issues** defined – key factors in the development of a corporate plan which needs to be addressed by the organization
* **Develop** new/revised strategies – revised analysis of strategic issues may mean the objectives need to change
* **Establish** [critical success factors](http://en.wikipedia.org/wiki/Critical_success_factor) – the achievement of objectives and strategy implementation
* **Preparation** of operational, resource, projects plans for strategy implementation
* **Monitoring** results – mapping against plans, taking corrective action which may mean amending objectives/strategies.[[6]](http://en.wikipedia.org/wiki/SWOT#_note-5#_note-5)

### Human resources

A SWOT carried out on a Human Resource Department may look like this:

|  |  |  |  |
| --- | --- | --- | --- |
| **Strengths** | **Weaknesses** | **Opportunities** | **Threats** |
| Developed techniques for dealing with major areas of HR, job evaluation, psychometric testing and basic training | Reactive rather than pro-active; needs to be asked rather than developing unsolicited ideas | New management team, wanting to improve overall organizational effectiveness through organizational development and cultural management programmes | HR contribution not recognised by top management who by-pass it by employing external consultants |

A SWOT carried by an individual manager could look like this:

|  |  |  |  |
| --- | --- | --- | --- |
| **Strengths** | **Weaknesses** | **Opportunities** | **Threats** |
| Enthusiasm, energy, imagination, expertise in subject area, excellent track record in specialized area | Not good at achieving results through undirected use of personal energies, trouble at expressing themselves orally and on paper – may have ideas but these come over as incoherent, management experience and expertise limited | More general management opportunities requiring development of new managers | De-centralisation having the effect of removing departments where the individual is employed and eliminating middle management layers to form flatter structure of organization |

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### Marketing

In competitor analysis, marketers build detailed profiles of each competitor in the market, focusing especially on their relative competitive strengths and weaknesses using SWOT analysis. Marketing managers will examine each competitor's cost structure, sources of profits, resources and competencies, competitive positioning and product differentiation, degree of vertical integration, historical responses to industry developments, and other factors.

Marketing management often finds it necessary to invest in research to collect the data required to perform accurate marketing analysis. As such, they often conduct market research (alternately marketing research) to obtain this information. Marketers employ a variety of techniques to conduct market research, but some of the more common include:

* Qualitative marketing research, such as focus groups
* Quantitative marketing research, such as statistical surveys
* Experimental techniques such as test markets
* Observational techniques such as ethnographic (on-site) observation
* Marketing managers may also design and oversee various environmental scanning and competitive intelligence processes to help identify trends and inform the company's marketing analysis.

Using SWOT to analyse the market position of a small management consultancy with specialism in HRM.[[7]](http://en.wikipedia.org/wiki/SWOT#_note-6#_note-6)

|  |  |  |  |
| --- | --- | --- | --- |
| **Strengths** | **Weaknesses** | **Opportunities** | **Threats** |
| Reputation in marketplace | Shortage of consultants at operating level rather than partner level | Well established position with a well defined market niche. | Large consultancies operating at a minor level |
| Expertise at partner level in HRM consultancy | Unable to deal with multi-disciplinary assignments because of size or lack of ability | Identified market for consultancy in areas other than HRM | Other small consultancies looking to invade the marketplace |
| Track record – successful assignments |  |  |  |

strength- market related , finance related , operational related , research and development related, hr related

market related- product quality, packaging , advertisement, service, distribution channel finance related- optimum debt/equity ratio, number of share holders, inventory size , optimum use of the financial resources, low cost of borrowings proper investment of the financial products

operational related- low cost , higher productivity , excellent quality , modernized technology,

## References

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# PEST analysis

### From Wikipedia, the free encyclopedia

**PEST analysis** stands for "**P**olitical, **E**conomic, **S**ocial, and **T**echnological analysis" and describes a framework of macroenvironmental factors used in [environmental scanning](http://en.wikipedia.org/wiki/Environmental_scanning). It is also referred to as the STEP, STEEP, PESTEL, PESTLE or LEPEST (or Political, Economic, Socio-cultural, Technological, Legal, Environmental). Recently it was even further extended to STEEPLE and STEEPLED, including ethics and demographics.

PEST/PESTLE alongside [SWOT](http://en.wikipedia.org/wiki/SWOT_analysis) and [SLEPT](http://en.wikipedia.org/wiki/SLEPT_analysis) can be used as a basis for the analysis of business and environmental factors. [[1]](http://en.wikipedia.org/wiki/PEST_analysis#_note-0#_note-0) PEST analysis is a useful strategic tool for understanding market growth or decline, business position, potential and direction for operations.

It is a part of the external analysis when doing [market research](http://en.wikipedia.org/wiki/Market_research) and gives a certain overview of the different macroenvironmental factors that the company has to take into consideration. **Political** *factors* include areas such as tax policy, employment laws, environmental regulations, trade restrictions and tariffs and political stability. The **economic** factors are the [economic growth](http://en.wikipedia.org/wiki/Economic_growth), [interest rates](http://en.wikipedia.org/wiki/Interest_rate), [exchange rates](http://en.wikipedia.org/wiki/Exchange_rate) and [inflation rate](http://en.wikipedia.org/wiki/Inflation_rate). **Social** factors often look at the cultural aspects and include health consciousness, population growth rate, age distribution, career attitudes and emphasis on safety. The **technological** factors also include ecological and environmental aspects and can determine [barriers to entry](http://en.wikipedia.org/wiki/Barrier_to_entry), minimum efficient production level and influence outsourcing decisions. It looks at elements such as R&D activity, automation, technology incentives and the rate of technological change. Technological can also affect hoovers in the business.

The PEST factors combined with external microenvironmental factors can be classified as opportunities and threats in a [SWOT analysis](http://en.wikipedia.org/wiki/SWOT_analysis).

## References

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