SWOT & TOWS Analysis

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Understanding SWOT Analysis

Why use the tool?

SWOT Analysis is an effective way of identifying your Strengths and Weaknesses, and of examining the Opportunities and Threats you face.

How to use tool:

To carry out a SWOT Analysis, write down answers to the following questions. Where appropriate, use similar questions:

Strengths:

- What advantages do you have?
- What do you do well?
- What relevant resources do you have access to?
- What do other people see as your strengths?

Consider this from your own point of view and from the point of view of the people you deal with. Don't be modest. Be realistic. If you are having any difficulty with this, try writing down a list of your characteristics. Some of these will hopefully be strengths!

In looking at your strengths, think about them in relation to your competitors - for example, if all your competitors provide high quality products, then a high quality production process is not strength in the market, it is a necessity.

Weaknesses:

- What could you improve?
- What do you do badly?
- What should you avoid?

Again, consider this from an internal and external basis: Do other people seem to perceive weaknesses that you do not see? Are your competitors doing any better than you? It is best to be realistic now, and face any unpleasant truths as soon as possible.

Opportunities:

- Where are the good opportunities facing you?
- What are the interesting trends you are aware of?

Useful opportunities can come from such things as:

- Changes in technology and markets on both a broad and narrow scale
- Changes in government policy related to your field
- Changes in social patterns, population profiles, lifestyle changes, etc.
- Local Events

A useful approach to looking at opportunities is to look at your strengths and ask yourself whether these open up any opportunities. Alternatively, look at your weaknesses and ask yourself whether you could open up opportunities by eliminating them.

Threats:

- What obstacles do you face?
- What is your competition doing?
- Are the required specifications for your job, products or services changing?
- Is changing technology threatening your position?
- Do you have bad debt or cash-flow problems?
- Could any of your weaknesses seriously threaten your business?

Carrying out this analysis will often be illuminating - both in terms of pointing out what needs to be done, and in putting problems into perspective.

You can also apply SWOT analysis to your competitors. This may produce some interesting insights!

Example:

A start-up small consultancy business might carry out the following SWOT analysis:

Strengths:

- We are able to respond very quickly as we have no red tape, no need for higher management approval, etc.
- We are able to give really good customer care, as the current small amount of work means we have plenty of time to devote to customers
- Our lead consultant has strong reputation within the market
- We can change direction quickly if we find that our marketing is not working
- We have little overhead, so can offer good value to customers

Weaknesses:

- Our company has no market presence or reputation
- We have a small staff with a shallow skills base in many areas
- We are vulnerable to vital staff being sick, leaving, etc.
- Our cash flow will be unreliable in the early stages

Opportunities:

- Our business sector is expanding, with many future opportunities for success
- Our local council wants to encourage local businesses with work where possible
- Our competitors may be slow to adopt new technologies

Threats:

- Will developments in technology change this market beyond our ability to adapt?
- A small change in focus of a large competitor might wipe out any market position we achieve

The consultancy might therefore decide to specialize in rapid response, good value services to local businesses. Marketing would be in selected local publications, to get the greatest possible market presence for a set advertising budget. The consultancy should keep up-to-date with changes in technology where possible.

Key points:

SWOT analysis is a framework for analyzing your strengths and weaknesses, and the opportunities and threats you face.

This will help you to focus on your strengths, minimize weaknesses, and take the greatest possible advantage of opportunities available. SWOT analysis becomes a USELESS exercise if it is not extended TOWS where

- **the strengths are used to capitalize on opportunities and to counter threats,**
- **the weaknesses are minimized using opportunities and both weaknesses and threats are avioided**

Carrying out a personal SWOT Analysis is an important step in finding life and career direction.

Case Study-SWOT Analysis Wal-Mart

Strengths

- Wal-Mart is a powerful retail brand. It has a reputation for value for money, convenience and a wide range of products all in one store.
- Wal-Mart has grown substantially over recent years, and has experienced global expansion (for example its purchase of the United Kingdom based retailer ASDA).
- The company has a core competence involving its use of information technology to support its international logistics system. For example, it can see how individual products are performing country-wide, store-by-store at a glance. IT also supports Wal-Mart's efficient procurement.
- A focused strategy is in place for human resource management and development. People are key to Wal-Mart's business and it invests time and money in training people, and retaining a developing them.

Weaknesses

- Wal-Mart is the World's largest grocery retailer and control of its empire, despite its IT advantages, could leave it weak in some areas due to the huge span of control.
- Since Wal-Mart sell products across many sectors (such as clothing, food, or stationary), it may not have the flexibility of some of its more focused competitors.
- The company is global, but has has a presence in relatively few countries Worldwide.

Opportunities

- To take over, merge with, or form strategic alliances with other global retailers, focusing on specific markets such as Europe or the Greater China Region.
- The stores are currently only trade in a relatively small number of countries. Therefore there are tremendous opportunities for future business in expanding consumer markets, such as China and India.
- New locations and store types offer Wal-Mart opportunities to exploit market development. They diversified from large super centers, to local and mall-based sites.
- Opportunities exist for Wal-Mart to continue with its current strategy of large, super centers.

Threats

- Being number one means that you are the target of competition, locally and globally.
- Being a global retailer means that you are exposed to political problems in the countries that you operate in.
- The cost of producing many consumer products tends to have fallen because of lower manufacturing costs. Manufacturing cost has fallen due to outsourcing to low-cost regions of the World. This has lead to price competition, resulting in price deflation in some ranges. Intense price competition is a threat.

'Wal-Mart Stores, Inc. is the world's largest retailer, with $256.3 billion in sales in the fiscal year ending Jan. 31, 2004. The company employs 1.6 million associates worldwide through more than 3,600 facilities in the United States and more than 1,570 units . . .

Case Study-SWOT Analysis Starbucks

Strengths

- Starbucks Corporation is a very profitable organization, earning in excess of $600 million in 2004.The company generated revenue of more than $5000 million in the same year.
- It is a global coffee brand built upon a reputation for fine products and services. It has almost 9000 cafes in almost 40 countries.
- Starbucks was one of the *Fortune Top 100 Companies to Work For* in 2005. The company is a respected employer that values its workforce.
- The organization has strong ethical values and an ethical mission statement as follows, *'Starbucks is committed to a role of environmental leadership in all facets of our business.'*

Weaknesses

- Starbucks has a reputation for new product development and creativity. However, they remain vulnerable to the possibility that their innovation may falter over time.
- The organization has a strong presence in the United States of America with more than three quarters of their cafes located in the home market. It is often argued that they need to look for a portfolio of countries, in order to spread business risk.
- The organization is dependant on a main competitive advantage, the retail of coffee. This could make them slow to diversify into other sectors should the need arise.

Opportunities

- Starbucks are very good at taking advantage of opportunities.
- In 2004 the company created a CD-burning service in their Santa Monica (California USA) cafe with Hewlett Packard, where customers create their own music CD.
- New products and services that can be retailed in their cafes, such as Fair Trade products.
- The company has the opportunity to expand its global operations. New markets for coffee such as India and the Pacific Rim nations are beginning to emerge.
- Co-branding with other manufacturers of food and drink, and brand franchising to manufacturers of other goods and services both have potential.

Threats

- Who knows if the market for coffee will grow and stay in favor with customers, or whether another type of beverage or leisure activity will replace coffee in the future?
- Starbucks are exposed to rises in the cost of coffee and dairy products.
- Since its conception in Pine Place Park, Seattle in 1971, Starbucks' success has lead to the market entry of many competitors and copy cat brands that pose potential threats.

'Starbucks' mission statement is *'Establish Starbucks as the premier purveyor of the finest coffee in the world while maintaining our uncompromising principles while we grow.'*

Case Study- SWOT Analysis AT&T

AT&T Wireless

Strengths

- Significant enterprise experience and nationwide EDGE coverage
- Best spectrum position among U.S. carriers
- Strong developer-support program

Weaknesses

- Low subscriber growth and high churn rate
- Poor reputation for coverage and service

Opportunities

- Merger with Cingular provides dominant market and spectrum positions
- Aggressive deployment of UMTS enhances perception of technology leadership

Threats

- Verizon may be first with nationwide 3G EV-DO services
- Integration of Cingular and AT&T workforces will be challenging

Understanding TOWS Matrix

Why use the tool?

TOWS Analysis is an effective way of combining a) internal strengths with external opportunities and threats, and b) internal weaknesses with external opportunities and threats to develop a strategy.

How to use tool:

To carry out a TOWS Analysis, consider the following combinations:

Strengths/Opportunities:

Consider all strengths one by one listed in the SWOT Analysis with each opportunity to determine how each internal strength can help you capitalize on each external opportunity.

Strength/Threats:

Consider all strengths one by one listed in the SWOT Analysis with each threat to determine how each internal strength can help you avoid every external threat.

Weaknesses/Opportunities:

Consider all weaknesses one by one listed in the SWOT Analysis with each opportunity to determine how each internal weakness can be eliminated by using each external opportunity.

Weaknesses/Threats:

Consider all weaknesses one by one listed in the SWOT Analysis with each threat to determine both can be avoided.

Case Study- Application of the TOWS Matrix to Volkswagen

Volkswagen (VW) was chosen because it demonstrates how **a** successful company experienced great difficulties in the early 1970s, but then developed a strategy that resulted in an excellent market position in the late 1970s. The TOWS Matrix shown in Figure 1 will focus on the crucial period from late 1973 to early 1975. The external threats and opportunities pertain mostly to the situation VW faced in the United States, but a similar situation prevailed in Europe at that time.

Weaknesses and Threats (WT)

A company with great weaknesses often has to resort to a survival strategy. VW could have seriously considered the option of a joint operation with Chrysler or American Motors. Another alternative would have been to withdraw from the American market altogether. Although in difficulties VW did *not* have to resort to a survival strategy because the company still had much strength. Consequently, a more appropriate strategy was to attempt to overcome the weaknesses and develop them into strengths. In other words, the direction was toward the strength-opportunity position (SO) in the matrix shown as Figure 1. Specifically, the strategy was to reduce the competitive threat by developing a more flexible new product line that would accommodate the needs and desires of the car-buying public.

Weaknesses and Opportunities (WO)

The growing affluence of customers has resulted in 'trading up' to more luxurious cars. Yet, VW had essentially followed a one-model policy which presented a problem when the design of the Beetle became obsolete A new model line had to be introduced to reach a wider spectrum of buyers. In order to minimize the additional costs of a multi product line, the building block principle was employed in the design of the new cars. This allowed using the same parts for different models that ranged from the relatively low-priced Rabbit to the higher priced Audi line.

Another weakness at VW was the rising costs in Germany. For example, in 1973 wages and salaries rose 19 per cent over the previous year. Similarly, increased fuel costs made the shipping of cars to the United States more costly. This situation favored setting up an assembly plant in the United States. However, this also created some problems for VW because it had no experience in dealing with American organized labor. To overcome this weakness, VW's tactic was to recruit managers from Detroit who were capable of establishing good union relations.

Strengths and Threats (ST)

One of the greatest threats to VW was the continuing appreciation of the Deutsche Mark against the dollar. For example, from October 1972 to November 1973 the mark appreciated 35 percent. This meant higher prices for the buyer. The result, of course, was a less competitive posture. Japanese and American automakers obtained an increasingly larger share of the small-car market. To reduce the threats of competition and the effects of the unfavorable exchange rate, VW was forced to build an assembly plant in the United States.

Another strategy for meeting competitive pressures was to build on VW's strengths by developing a car based on advanced-design technology. The result of this effort was the Rabbit, a model with features later adopted by many other car manufacturers.

The oil crisis in 1973-1974 not only caused a fuel shortage, but also price rises, a trend that has continued. To meet this threat, VW used its technological capabilities not only to improve its engines (through the use of fuel injection, for examples), but also to develop the very fuel-efficient Diesel engine. This tactic, which was congruent with its general strategy, helped improve the firm's market position.

Strengths and Opportunities (SO)

In general, successful firms build on their strengths to take advantage of opportunities. VW is no exception. Throughout this discussion VW's strengths in research, development, engineering, and its experience m production technology became evident. These strengths, under the leadership of Rudolf Leiding, enabled the company to develop a product line that met market demands for an economical car (the Rabbit, successor to the Beetle), as well as the tastes for more luxurious cars with many available options (Scirocco and the Audi line). Eventually the same company's strengths enabled VW to plan and build the assembly facility in New Stanton, Pennsylvania. Thus, YW could benefit from substantial concessions granted by the state government to attract VW which, in turn, provided many employment opportunities.

In another tactical move, VW manufactured and sold small engines to Chrysler and American Motors. These companies urgently needed small engines for installation in their own cars and revenues from these sales improved the financial position of VW.

Figure 1: VW TOWS Matrix

	Internal Strengths: **1.** Strong R & D and Engineering **2.**Strong Sales and Service Network **3.**Efficient Production/Automation Capabilities	**Internal Weaknesses**: **1.** Heavy Reliance on One Product (Although Several Less Successful Models were Introduced) **2.**Rising Costs in Germany **3.**No Experience With U.S. Labor Unions if Building Plant in the U.S.
External Opportunities: (Also Consider Risks) **1.**Growing Affluent Market Demands More Luxurious Cars with Many Options **2.**Attractive Offers to Build an Assembly Plant in U.S. **3.**Chrysler and American Motors Need Small Engines	**SO**: **1.** Develop and Produce Multiproduct Line with Many Options, in Different Price Classes (Dasher, Scirocco, Rabbit, Audi Line) (O1S1S2) **2.**Build Assembly Plant Using R & D, Engineering, and Production/Automation Experience (O2 S1S3) **3.**Build Engines for Chrysler and AMC (O3S3)	**WO**: **1.** Develop Compatible Models for Different Price Levels (Ranging from Rabbit to Audi Line) (O1W1) **2.**To Cope with Rising Costs in Germany, Build Plant in U.S., Hiring U.S. Managers with Experience in Dealing with U.S. Labor Unions (O2 W2W3)
External Threats: **1.** Exchange Rate: Devaluation of Dollar in Relation to Deutshe Mark (DM) **2.**Competition from Japanese and U.S. Automakers **3.** Fuel Shortage and Price	**ST**: **1.** Reduce Effect of Exchange Rate by Building a Plant in the U.S. (T1T2S1S3) **2.**Meet Competition with Advanced Design Technology - e.g. Rabbit (T2T3 S1S2) **3.**Improve Fuel Consumption Through Fuel Injection and Develop Fuel Efficient Diesel Engines (T3S1)	**WT**: **A.** Overcome Weaknesses by Making Them Strengths (Move Toward OS Strategy) **1.**Reduce Threat of Competition by Developing Flexible Product Line (T2 W1) **B.** Possible Options *not* Exercised by VW: **1.**Engage in Joint Operation with Chrysler or AMC **2.**Withdraw From U.S. Market