SWOT Analysis: What It Is and When to Use It

Use a SWOT (strengths, weaknesses, opportunities, threats) analysis to grow your business.

- A SWOT analysis is a compilation of your company's strengths, weaknesses, opportunities, and threats.
- The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors involved in making a business decision.
- Perform a SWOT analysis before you commit to any sort of company action, whether you are exploring new initiatives, revamping internal policies, considering opportunities to pivot or altering a plan midway through its execution.
- Use your SWOT analysis to discover recommendations and strategies, with a focus on leveraging strengths and opportunities to overcome weaknesses and threats.

To run a successful business, you should regularly analyze your processes to ensure you are operating as efficiently as possible. While there are numerous ways to assess your company, one of the most effective methods is to conduct a SWOT analysis.

A SWOT (strengths, weaknesses, opportunities, and threats) analysis is a planning process that helps your company overcome challenges and determine what new leads to pursue.

The primary objective of a SWOT analysis is to help organizations develop a full awareness of all the factors involved in making a business decision. This method was created in the 1960s by Albert Humphrey of the Stanford Research Institute, during a study conducted to identify why corporate planning consistently failed. Since its creation, SWOT has become one of the most useful tools for business owners to start and grow their companies.

"It is impossible to accurately map out a small business's future without first evaluating it from all angles, which includes an exhaustive look at all internal and external resources and threats," Bonnie Taylor, chief marketing strategist at CCS Innovations, told Business News Daily. "A SWOT accomplishes this in four straightforward steps that even rookie business owners can understand and embrace."

When should you perform a SWOT analysis?

You can employ a SWOT analysis before you commit to any sort of company action, whether you are exploring new initiatives, revamping internal policies, considering opportunities to pivot or altering a plan midway through its execution. Sometimes it's wise to perform a general SWOT analysis just to check on the current landscape of your business so you can improve business operations as needed. The analysis can show you the key areas where your organization is performing optimally, as well as which operations need adjustment.

Don't make the mistake of thinking about your business operations informally, in hopes that they will all come together cohesively. By taking the time to put together a formal SWOT analysis, you can see the whole picture of your business. From there, you can discover ways to improve or eliminate your company's weaknesses and capitalize on its strengths.

While the business owner should certainly be involved in creating a SWOT analysis, it is often helpful to include other team members in the process. Ask for input from a variety of team members and openly discuss any contributions made. The collective knowledge of the team will allow you to adequately analyze your business from all sides.

Characteristics of a SWOT analysis

A SWOT analysis focuses on the four elements of the acronym, allowing companies to identify the forces influencing a strategy, action, or initiative. Knowing these positive and negative elements can help companies more effectively communicate what parts of a plan need to be recognized.

When drafting a SWOT analysis, individuals typically create a table split into four columns to list each impacting element side by side for comparison. Strengths and weaknesses won't typically match listed opportunities and threats verbatim, although they should correlate, since they are ultimately tied together.

Billy Bauer, managing director of Royce Leather, noted that pairing external threats with internal weaknesses can highlight the most serious issues a company faces.

"Once you've identified your risks, you can then decide whether it is most appropriate to eliminate the internal weakness by assigning company resources to fix the problems, or to reduce the external threat by abandoning the threatened area of business and meeting it after strengthening your business," said Bauer.

Internal factors

Strengths (S) and weaknesses (W) refer to internal factors, which are the resources and experience readily available to you.

These are some commonly considered internal factors:

- Financial resources (funding, sources of income and investment opportunities)
- Physical resources (location, facilities, and equipment)
- Human resources (employees, volunteers, and target audiences)
- Access to natural resources, trademarks, patents and copyrights
- Current processes (employee programs, department hierarchies and software systems – like CRM Software and Accounting Software)

External factors

External forces influence and affect every company, organization and individual. Whether these factors are connected directly or indirectly to an opportunity (O) or threat (T), it is important to note and document each one.

External factors are typically things you or your company do not control, such as the following:

- Market trends (new products, technology advancements and shifts in audience needs)
- Economic trends (local, national, and international financial trends)
- Funding (donations, legislature, and other sources)
- Demographics
- Relationships with suppliers and partners
- Political, environmental, and economic regulations

After you create your SWOT framework and fill out your SWOT analysis, you will need to come up with some recommendations and strategies based on the results. Linda Pophal, owner, and CEO of consulting firm Strategic Communications said these strategies should focus on leveraging strengths and opportunities to overcome weaknesses and threats.

"This is actually the area of strategy development where organizations have an opportunity to be most creative and where innovative ideas can emerge, but only if the analysis has been appropriately prepared in the first place," said Pophal.

SWOT analysis example

Bryan Weaver, a partner at Scholefield Construction Law, was heavily involved in creating a SWOT analysis for his firm. He provided Business News Daily with a sample SWOT analysis template and example that was used in the firm's decision to expand its practice to include dispute mediation services. His SWOT matrix included the following:

STRENGTHS	WEAKNESSES
Construction law firm with staff members who are trained in both law and professional engineering/general contracting. Their experience gives a unique advantage. Small (three employees) – can change and adapt quickly.	No one has been a mediator before or been through any formal mediation training programs. One staff member has been a part of mediations but not as a neutral party.

OPPORTUNITIES	THREATS
Most commercial construction contracts require mediation. Despite hundreds of mediators in the marketplace, only a few have actual construction experience. For smaller disputes, mediators don't work as a team, only as individuals; Scholefield staff can offer anyone the advantage of a group of neutrals to evaluate a dispute.	Anyone can become a mediator, so other construction law firms could open up their own mediation service as well. Most potential clients have a negative impression of mediation, because they feel mediators don't understand or care to understand the problem, and rush to resolve it.

Resulting strategy: Take mediation courses to eliminate weaknesses and launch Scholefield Mediation, which uses name recognition with the law firm, and highlights that the firm's construction and construction law experience makes it different.

"Our SWOT analysis forced us to methodically and objectively look at what we had to work with and what the marketplace was offering," Weaver said. "We then crafted our business plan to emphasize the advantages of our strongest features while exploiting opportunities based on marketplace weaknesses."

Additional business analysis strategies

The SWOT analysis is a simple but comprehensive strategy for identifying not only the weaknesses and threats of an action plan but also the strengths and opportunities it makes possible. However, a SWOT analysis is just one tool in your business strategy. Additional analytic tools to consider include the PEST analysis (political, economic, social and technological), MOST analysis (mission, objective, strategies and tactics) and SCRS analysis (strategy, current state, requirements and solution).

Consistent business analysis and strategic planning is the best way to keep track of growth, strengths and weaknesses. Use a series of analysis strategies, like SWOT, in your decision-making process to examine and execute strategies in a more balanced, in-depth way.

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