

Want to Know What's What? Know SWOT!

by Bruce A. Love

To develop successful business plans and marketing strategies, organizations must first understand the forces impacting them. A SWOT analysis (an acronym for Strengths, Weaknesses, Opportunities, and Threats) is the perfect tool for doing just that. With SWOT, a business conducts an assessment of the organization's internal strengths and weaknesses, and scans their external environment to see what threats and opportunities may influence their operations. This article focuses on the external forces, and demonstrates how, by understanding these forces, we can make knowledgeable decisions regarding strategic direction.

External forces can be attributed to five sources: competition, economics, technology, political/legal factors, and forces in the sociocultural environment. International forces, if they are present in your situation, can add another dimension to each of these five elements.

Consider, for example, the impact on *our* lemonade stand if another kid in the neighborhood opens a stand. According to the economic principle of supply and demand, this increase in competition may cause us to lower our prices to stay competitive. Alternatively, we could move our operation, find some way to make our lemonade distinctly different, or promote heavily using cheerleaders from our local school – just like the big companies do! Notice that these strategies address one change in each of the four elements of the marketing mix. The marketing mix (product, price, place, and promotion) includes the only weapons we have to counter forces in our external environment.

External forces can affect businesses in both positive and negative ways. Consider the effect of the Atkins Diet on your lemonade sales. Recent interest in this diet is an example of a sociocultural force. Sociocultural forces relate to demographic, social and cultural shifts in society. In the case of the Atkins movement, devotees of this group avoid foods containing carbohydrates. Sales of our sugar-loaded beverage could be affected. If we move quickly to offer a sugar-free version of our drink, however, we could beat the competition to this lucrative market!

Political/legal forces include local, state and federal laws that regulate when, where, and how we are allowed to conduct business. In our lemonade stand scenario, the regulatory agency is Mom. In the grown-up world, governments regulate what countries you may buy from, the seating capacities of restaurants, and even the size of signs businesses display. For the most part, businesses can do little to influence external forces. Sometimes, however, businesses and trade associations can lobby governments to change unfair laws. Some laws and programs that governments create can benefit your business. Patents and copyrights, for example, protect inventors of new products. Businesses may also benefit from recent loan guaranty programs.

The economy influences big and small businesses alike. Most businesses react adversely to poor economic conditions. If you have a car dealership, you may find it hard to sell luxury cars during a recession. If you offer used cars, or adjust some other component in the marketing mix, you will be better positioned to deal with a fluctuating economy.

Technology advancements can have a profound impact on whole industries. Many companies use e-commerce to reach new markets. While e-commerce opens new markets for progressive companies, it increases competition for companies not involved in e-commerce. Companies using e-mail and video conferencing can substantially reduce phone bills, shipping costs, and travel expenses. On the flip side, these advancements potentially threaten the profits of hotels, airlines, and phone companies.

The SWOT analysis can help you understand forces impacting your company and industry. Once you address your company's internal strengths and weaknesses, and anticipate the way in which external forces influence your company, you will be better equipped to formulate strategies to deal with your market environment.

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