Are You Doing the SWOT Analysis Backwards?

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There are few tools more ubiquitous in management, marketing, and other key business functions than the SWOT analysis: It involves listing the strengths, weaknesses, opportunities, and threats facing your firm, division, functional area, or other aspects of your organization, products, or services. The results of a SWOT analysis can be (and almost always are) presented simply as a 2 x 2 grid, with one dimension representing the internal versus external factors, and the other depicting positive versus negative valence.

The problem is, as typically conducted, the SWOT is not really an analysis or diagnosis at all. It is simply list and categorization of the internal and external situational factors related to the subject that you're evaluating, usually produced during a group brainstorming session. The resulting document is typically less than insightful and does not offer a clear path to action. It is simply an elegant organizational tool. That might be part of its attractiveness — besides its catchy acronym — and a key reason for its popularity.

There are a few reasons that SWOT, in its current form, falls short of desired outcomes. First, the traditional 2 x 2 grid layout for the analysis, which encourages users to present all of the information on a single PowerPoint slide or piece of paper, often leads to exceedingly short, often one- or two-word descriptions. This desire for brevity also often leads to shortcuts in thinking. In our experience as both consultants and teachers, for instance, we've found that an important attribute like "price" might be listed as a strength, weakness, opportunity, and threat without any further explanation. The SWOT offers no analysis or insight as to whether the price is too comparatively high, if competitors can undercut it, if a firm can run a promotion, or any other factor related to pricing.

Second, the SWOT analysis is surprisingly difficult to interpret, primarily because of the lack of a hierarchy. All four quadrants of the grid are emphasized equally. It is merely a snapshot of the current situation — or, worse, a snapshot of what's currently on the minds of brainstorming session attendees.

Third, our natural instinct is to jump to solutions, particularly when it comes to listing opportunities. In too many cases that we've seen, SWOT users misinterpret what "opportunities" are, presuming that they are recommendations of "what could be done." For instance, we once saw a bicycle tour service provider list "create a mobile application with a live map" as an opportunity. But this isn't an opportunity in the SWOT sense of the word; rather, it is merely a recommendation that has not been fully processed. Rather, an opportunity might be the growth in the adoption of voice technology. Another: That phone apps are becoming easier to develop, yet the competition isn't using them.

Despite these issues, SWOT can still be helpful tool for insight or planning if you change the way you use it. How do we mean? By turning the SWOT process on its head.

Drawing from our experience coaching leading brands and thousands of students, as well as building on the research of others, we have found that the traditional approach of identifying internal factors first (strengths and weaknesses) and then moving to external factors (opportunities and threats) just isn't effective. To improve the inventory collection, you should start with the external factors, then turn your attention to the firm's internal ones.

There are several reasons we recommend taking this approach. First, these environmental conditions exist not only for your firm but for all competitors. In effect, the external factors create the arena in which the competition takes place. Managers must adjust their strategies to reflect it, even as this environment changes. Since no business operates in a vacuum, it is the context around it that helps determine to what extent any particular internal attribute is relevant. Meanwhile, focusing on the external factors first can get you thinking more broadly about the internal factors, reducing the risk of myopia. In other words, taking this approach can lead you to uncover internal factors that you might not have otherwise considered.

Then, once you complete your inventory, you can actually use the factors to conduct a true analysis that can result in strategic recommendations for planning. Specifically, here's how we recommend proceeding.

First, gather an inventory of relevant environmental conditions — the threats and opportunities. At this stage, don't worry about whether these are positive or negative. Remember, we don't want to take shortcuts. There are existing tools designed for organizing an environmental scan, such as the PEST, PESTEL, and STEEP, but don't feel limited to these tools. If you have other preferred tools to help you organize the external factors, you can use them.

Next, explore internal strengths and weaknesses. Here, too, ignore whether they are potentially positive or negative. Your first job is to inventory the attributes. The relative positivity or negativity of a factor included in the inventory may again be a function of the external environment. At this early stage of the analysis, it is more important that the factors are included than how they're categorized beyond simply being external or internal. Don't settle for one- or two-word descriptors like "price" or "technology." Explicitly spell out the situation with a detailed phrase or a sentence.

Generate recommendations with a simple sentence. With your external and internal inventories in hand, generating recommendations is now much easier. Simply consider each external factor's relationship to each internal factor. To help, you might want to complete this sentence:

> *Given the condition of [external factor], our ability to [internal factor] leads to our recommendation that we [recommendation].*

You may find that some external factors will not readily apply to certain internal factors, which means they might not lead to a recommendation. Yet, given enough time or with a creative group working on this analysis, you might develop options that you would not expect to reach, based on combinations of external factors and internal factors.

Let's take an example, using the external factor of an economic recession as a starting point.

In a traditionally conducted SWOT analysis, one might include the objectively internal attribute of "price" in all four of the cells because it's a strength (the firm's product costs less to purchase than the competition's), a weakness (people have less money to spend on the product), an opportunity (the firm can afford to run a price promotion), and a threat (the competition can easily undercut what the firm charges). This is not an analysis; it is merely a set of poorly supported suggestions.

In our model, the template listed above could lead to one or more thoughtfully developed recommendations such as:

> *Given the condition of* our current recession*, our ability to* realize cost savings over our competitors *leads to our recommendation that we* reduce our price*.*

The model doesn't stop there. Several other recommendations might flow from the use of this template, under the stated conditions. For instance, following the prescribed process for the analysis, the external factor would then be combined with another factor from the internal inventory, and then another, with each possibly (but not necessarily) leading to a unique recommendation:

> *Given the condition of* our current recession*, our ability to* maintain strong relationships throughout our distribution channel *leads to our recommendation that we* offer discounts to our channel partners to help them weather the storm*.*

Or, for a perceived weakness:

> *Given the condition of* our current recession*, our* low brand recognition *leads to our recommendation that we* target this brand for reduced marketing support, in favor of our stronger brands*.*

By looking at the external conditions, in conjunction with internal attributes, a set of clear-cut and supported recommendations can be generated. And this should be your goal: Using an analytical tool to help you identify a wide range of possible actionable outcomes. The process is straightforward and demands attention to a range of internal and external factors, and the results are recommendations that are more thoroughly developed and grounded. Try this approach the next time you're asked to generate a SWOT and see the power of it for yourself.

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