How to Do a SWOT Analysis

SWOT analysis is a technique for assessing the performance, competition, risk, and potential of a business, as well as part of a business such as a product line or division, an industry, or other entity.

Using [internal and external data](https://www.investopedia.com/articles/active-trading/040915/how-big-data-has-changed-finance.asp), the technique can guide businesses toward strategies more likely to be successful, and away from those in which they have been, or are likely to be, less successful. Independent SWOT analysts, investors, or competitors can also guide them on whether a company, product line, or industry might be strong or weak and why.

Julie Bang. Investopedia, 2019.

A Visual Overview

Analysts present a SWOT analysis as a square segmented into four quadrants, each dedicated to an element of SWOT. This visual arrangement provides a quick overview of the company’s position. Although all the points under a particular heading may not be of equal importance, they all should represent key insights into the balance of opportunities and threats, advantages and disadvantages, and so forth.

*SWOT Analysis was first used to analyze businesses. Now it's often used by governments, nonprofits, and individuals, including investors and entrepreneurs.*

Strengths

Strengths describe what an organization excels at and what [separates it from the competition](https://www.investopedia.com/terms/c/competitive_advantage.asp): a strong brand, loyal customer base, a strong balance sheet, unique technology, and so on. For example, a hedge fund may have developed a proprietary trading strategy that returns market-beating results. It must then decide how to use those results to attract new investors.

Weaknesses

Weaknesses stop an organization from performing at its optimum level. They are areas where the business needs to improve to remain competitive: a weak brand, higher-than-average turnover, high levels of debt, an inadequate supply chain, or lack of capital.

Opportunities

Opportunities refer to favorable external factors that could give an organization a competitive advantage. For example, if a country cuts tariffs, a car manufacturer can export its cars into a new market, increasing sales and [market share](https://www.investopedia.com/terms/m/marketshare.asp).

Threats

Threatsrefer to factors that have the potential to harm an organization. For example, a drought is a threat to a wheat-producing company, as it may destroy or reduce the crop yield. Other common threats include things like rising costs for materials, increasing competition, tight labor supply. and so on.

SWOT Table

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| --- | --- |
| **Strengths** 1. What is our competitive advantage? 2. What resources do we have? 3. What products are performing well? | **Weaknesses** 1. Where can we improve? 2. What products are underperforming? 3. Where are we lacking resources? |
| **Threats** 1. What new regulations threaten operations? 2. What do our competitors do well? 3. What consumer trends threaten business? | **Opportunities** 1. What technology can we use to improve operations? 2. Can we expand our core operations? 3. What new market segments can we explore? |

How to Use a SWOT Analysis

Internal

What occurs within the company serves as a great source of information for the strengths and weaknesses categories of the SWOT analysis. Examples of internal factors include financial and human resources, tangible and intangible (brand name) assets, and operational efficiencies.

Potential questions to list internal factors are:

* (Strength) What are we doing well?
* (Strength) What is our strongest asset?
* (Weakness) What are our detractors?
* (Weakness) What are our lowest-performing product lines?

External

What happens outside of the company is equally as important to the success of a company as internal factors. External influences, such as monetary policies, market changes, and access to suppliers, are categories to pull from to create a list of opportunities and weaknesses.1﻿

Potential questions to list external factors are:

* (Opportunity) What trends are evident in the marketplace?
* (Opportunity) What demographics are we not targeting?
* (Threat) How many competitors exist, and what is their market share?
* (Threat) Are there new regulations that potentially could harm our operations or products?

Use a SWOT analysis to identify challenges affecting your business and opportunities that can enhance it. However, note that it is one of many techniques, not a prescription.

SWOT Analysis Example

In 2015, a Value Line SWOT analysis of The Coca-Cola Company noted strengths such as its globally famous brand name, vast distribution network, and opportunities in emerging markets. However, it also noted weaknesses and threats such as foreign currency fluctuations, growing public interest in "healthy" beverages, and competition from healthy beverage providers.2﻿

Its SWOT analysis prompted Value Line to pose some tough questions about Coca-Cola's strategy, but also to note that the company "will probably remain a top-tier beverage provider" that offered conservative investors "a reliable source of income and a bit of capital gains exposure."

Five years later, the Value Line SWOT analysis proved effective as Coca-Cola remains the 6th strongest brand in the world (as it was then). Coca-Cola's shares (traded under ticker symbol KO) have increased in value by over 60% during the five years after the analysis was completed.

To get a better picture of a SWOT analysis, consider the example of a fictitious organic smoothie company. To better understand how it competes within the smoothie market and what it can do better, it conducted a SWOT analysis. Through this analysis, it identified that its strengths were good sourcing of ingredients, personalized customer service, and a strong relationship with suppliers. Peering within its operations, it identified a few areas of weakness: little product diversification, high turnover rates, and outdated equipment.

Examining how the external environment affects its business, it identified opportunities in emerging technology, untapped demographics, and a culture shift towards healthy living. It also found threats, such as a winter freeze damaging crops, a global pandemic, and kinks in the supply chain. In conjunction with other planning techniques, the company used the SWOT analysis to leverage its strengths and external opportunities to eliminate threats and strengthen areas where it is weak.

Frequently Asked Questions About SWOT Analysis

What Is SWOT Analysis and Examples?

SWOT (strengths, weaknesses, opportunities, and threats) analysis is a method for identifying and analyzing internal strengths and weaknesses and external opportunities and threats that shape current and future operations and help develop strategic goals. SWOT analyses are not limited to companies. Individuals can also use SWOT analysis to engage in constructive introspection and form personal improvement goals.

Home Depot conducted a SWOT analysis, creating a balanced list of its internal advantages and disadvantages and external factors threatening its market position and growth strategy. High-quality customer service, strong brand recognition, and positive relationships with suppliers were some of its notable strengths; whereas, a constricted supply chain, interdependence on the U.S. market, and a replicable business model were listed as its weaknesses.

Closely related to its weaknesses, Home Depot's threats were the presence of close rivals, available substitutes, and the condition of the U.S. market. It found from this study and other analysis that expanding its supply chain and global footprint would be key to its growth.3﻿

How Do You Write a Good SWOT Analysis?

Creating a SWOT analysis involves identifying and analyzing the strengths, weaknesses, opportunities, and threats of a company. It is recommended to first create a list of questions to answer for each element. The questions serve as a guide for completing the SWOT analysis and creating a balanced list. The SWOT framework can be constructed in list format, as free text, or, most commonly, as a 4-cell table, with quadrants dedicated to each element. Strengths and weaknesses are listed first, followed by opportunities and threats.

What Are Threats in a SWOT?

Threats are external forces that may adversely affect the success of a company. They consist of competitive advantages of rivals, uncontrollable influences such as natural disasters, governmental policies, and more. Identifying threats can help expose barriers to success and position companies to develop strategies to overcome them.

What Are Strengths In a SWOT Analysis?

Strengths in a SWOT analysis are the favorable internal activities, processes, and behaviors of a company (what a company does well). These are the factors that contribute to the success of the company and its brand. Strengths, such as highly-rated customer service and effective supply chain management, help companies sustain and enhance their competitive advantage.

The Bottom Line

A SWOT analysis is a great way to guide business-strategy meetings. It's powerful to have everyone in the room discuss the company's core strengths and weaknesses, define the opportunities and threats, and brainstorm ideas. Oftentimes, the SWOT analysis you envision before the session changes throughout to reflect factors you were unaware of and would never have captured if not for the group’s input.

A company can use a SWOT for overall business strategy sessions or for a specific segment such as marketing, production, or sales. This way, you can see how the overall strategy developed from the SWOT analysis will filter down to the segments below before committing to it. You can also work in reverse with a segment-specific SWOT analysis that feeds into an overall SWOT analysis.

Although a useful planning tool, SWOT has limitations. It is one of several business planning techniques to consider and should not be used alone. Also, each point listed within the categories is not prioritized the same. SWOT does not account for the differences in weight. Therefore, a deeper analysis is needed, using another planning technique.