SWOT Analysis

Strategy Skills

Team FME

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Preface

This eBook describes the SWOT analysis, a technique that you can perform for products, services, and markets when deciding on the best strategy for achieving future growth.

You will learn:

- How SWOT can be used to guide strategy at the highest level or be tied to a specific business objective
- How to identify internal factors including: organizational culture, expertise, resources, and unique qualities
- How to identify internal factors including the market and 'ecosystem'
- How to use 'matching' and 'converting' when analyzing SWOT results
- The advantages and limitations of this popular and versatile analysis method

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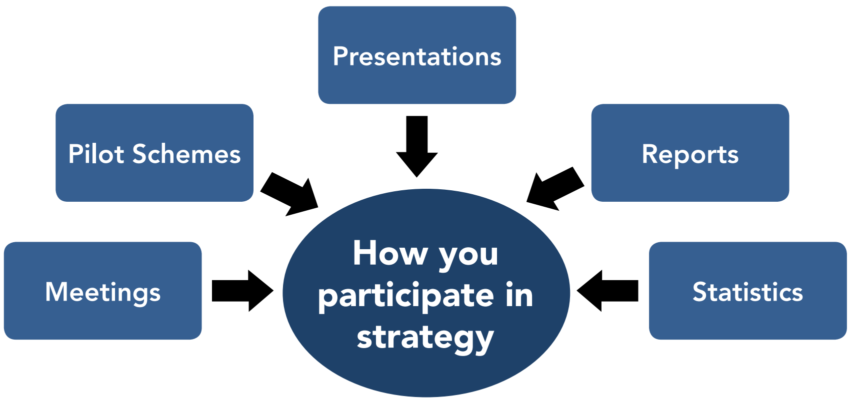
Introduction

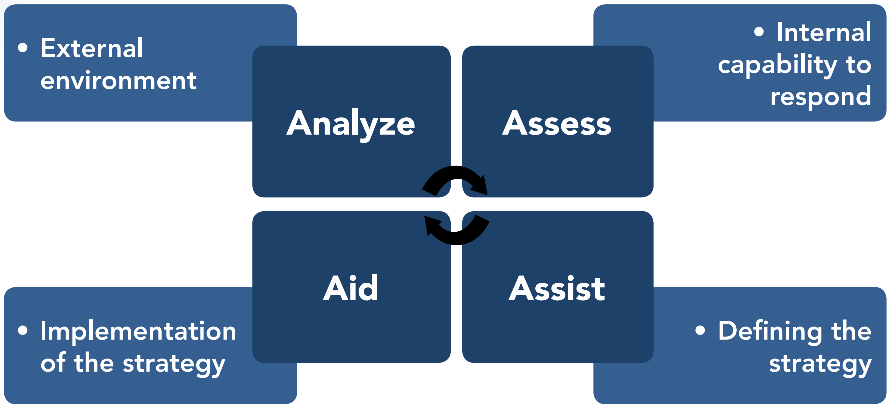
Today's organizations find themselves operating in an environment that is changing faster than ever before. The process of analyzing the implications of these changes and modifying the way that the organization reacts to them is known as business strategy.

> ***'Strategy is the direction and scope of an organization over the long term, which achieves advantage in a changing environment through its configuration of resources and competences' Johnson et al. (2009).***

While your role as a manager is unlikely to require you to make decisions at the strategic level, you may be asked to contribute your expertise to meetings where strategic concerns are being discussed. You may also be asked to comment on pilot schemes, presentations, reports, or statistics that will affect future strategy.

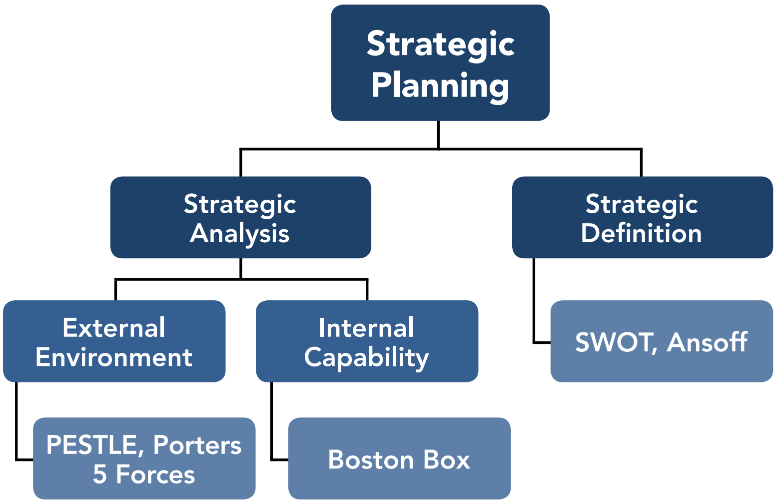


Whether you work in a large multinational corporation or a small organization, a good understanding of the appropriate business analysis techniques and terminology will help you to contribute to the strategic decision-making processes.



Typical scenarios where you could be asked to provide information and data for your organization's strategic decision making include:

- Analyzing the organization's external environment.
- Assessing the organization's internal capabilities and how well it can respond to external forces.
- Assisting with the definition of the organization's strategy.
- Aiding in the implementation of the organization's strategy.



The diagram above shows where five widely used business analysis tools fit into the strategic planning process. This series of eBooks will give you a solid understanding of how these tools can be used, as well as an appreciation of their limitations.

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This knowledge will enable you to take an active and productive role when asked to participate in the strategic decision-making process.

KEY POINTS

- ✔ You may be asked to contribute your expertise to meetings where strategic concerns are being discussed.
- ✔ Typical scenarios where you could be asked to provide information for strategic decision making include: analyzing the organization's external environment, assessing internal capabilities, assisting strategy definitions, and aiding in the implementation.

SWOT Analysis

The SWOT analysis is a business analysis technique that your organization can perform for each of its products, services, and markets when deciding on the best way to achieve future growth. The process involves identifying the strengths and weaknesses of the organization, and opportunities and threats present in the market that it operates in. The first letter of each of these four factors creates the acronym SWOT.

	Helpful	Harmful
Internal Origin	Strengths	Weaknesses
External Origin	Opportunities	Threats

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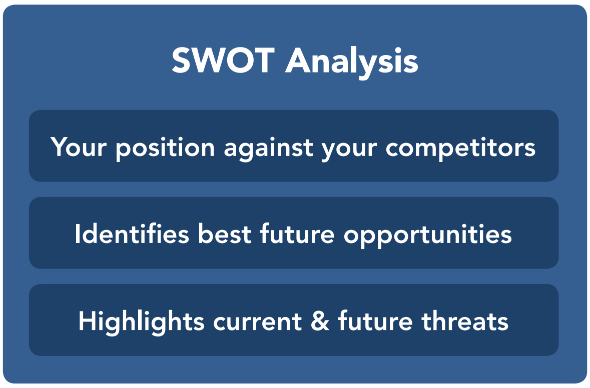
As a manager, your role in any strategic planning is likely to involve providing operational data to help assess the internal capabilities, and (depending on your job function) you may also be asked to provide market intelligence.

The completion of a SWOT analysis should help you to decide which market segments offer you the best opportunities for success and profitable growth over the life cycle of your product or service.



The SWOT analysis is a popular and versatile tool, but it involves a lot of subjective decision making at each stage. It should always be used as a guide rather than as a prescription and it is an iterative process. There is no such thing as a definitive SWOT for any particular organization because the strengths, weaknesses, opportunities, and threats depend to a large extent on the business objective under consideration. This concept is described in detail later in this eBook.

After completing a SWOT analysis, your organization will then use an analysis tool such as the Ansoff Matrix to define the best growth strategy to achieve the chosen objective. If you are unfamiliar with the Ansoff Matrix or want to understand it in greater detail then visit our website www.free-management-ebooks and download our free 'Ansoff Matrix' business strategy eBook.

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KEY POINTS

- ✔ SWOT Analysis provides information that helps in synchronizing an organization's resources and capabilities with the external environment in which the organization operates.
- ✔ The acronym SWOT stands for Strengths, Weaknesses, Opportunities, and Threats.
- ✔ Strengths and weaknesses are considered to be internal factors over which you have some measure of control.
- ✔ Opportunities and threats are considered to be external factors over which you have no control.
- ✔ SWOTs depend on the business objective under consideration.
- ✔ There is NO definitive SWOT analysis for any organization.
- ✔ SWOT is often the first step in a more complex and in-depth analysis.

Importance of Clear Definitions

Before looking at how the SWOT analysis can be applied to your organization, it is important to be clear about what exactly we mean by the terms Strengths, Weaknesses, Opportunities, and Threats.

> ***Strengths****—Internal factors that are favorable for achieving your organization's objective.*
>
> ***Weaknesses****—Internal factors that are unfavorable for achieving your organization's objective.*
>
> ***Opportunities****—External factors that are favorable for achieving your organization's objective.*
>
> ***Threats****—External factors that are unfavorable for achieving your organization's objective.*

These definitions are open to interpretation and a weakness of the SWOT technique is that it can be highly subjective. For example, if your organization was dependent on one single large distributor then this could be seen as a strength, as you would be able to get your products into the market quickly and efficiently. However, it could also be seen as a weakness because you are totally dependent on them to do so.

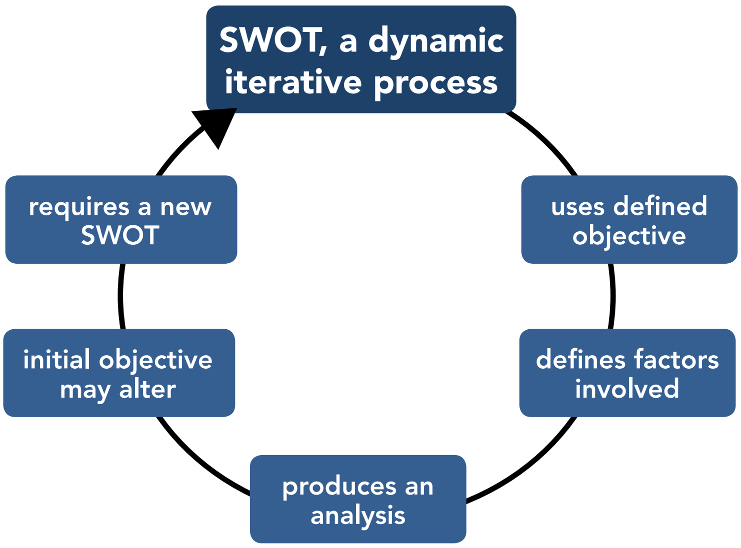
Some factors will always be easy to categorize. For example, it is difficult to imagine huge financial resources, a broad product line, no debt, and committed employees being anything other than strengths, whatever the objective of the organization may be.

However, some factors can be either strengths or weaknesses depending upon the business objective. For example, a large number of distributors could be a strength if your objective is to place your products in as many outlets as possible. But if could be a weakness if your objective was to control your retail prices and prevent discounting.

The strength of the SWOT analysis comes from the fact that it can be applied to many different organizational scenarios, but its weakness is that it requires clear thinking and good judgment to obtain any real value from using it. You will often see SWOT analysis for an organization in which no specific business objective has been stated (see the example for Audi later in this eBook). These top-level SWOTs can have value in guiding strategy at the very highest level, but when a potential strategy has been identified and is being considered as a business objective then additional SWOTs will be required at this lower level.

Remember, when you are using the SWOT analysis technique, the processes of clearly identifying the business objective and categorizing the SWOT factors are equally important because they are interdependent.

This interdependence means that the SWOT analysis is often an iterative process in which the findings cause the objective to be reset and another analysis made. The output of any particular analysis is not necessarily definitive.



The analysis is normally performed at a meeting involving representatives from the necessary stakeholders groups that have specialist knowledge and supporting data. Each of these individuals brings their own particular perspectives and expertise to the discussion.

The end result of such a meeting or series of meetings is a completed SWOT report. The success of this type of meeting relies on a strong and effective Chair who is familiar with the SWOT process and can successfully manage discussions, drawing out key points to gain consensus.

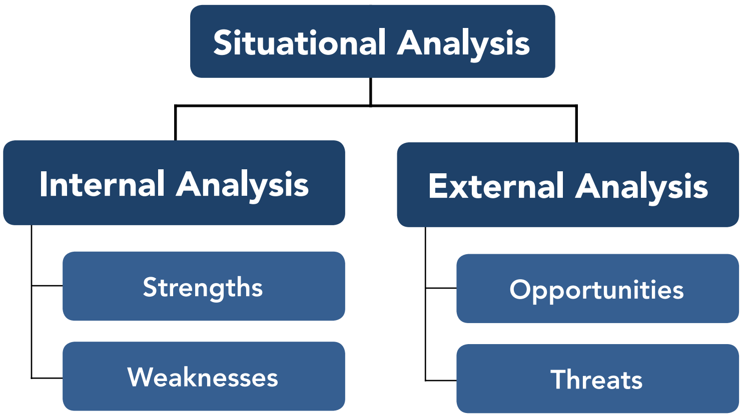
The Chair needs to take an active role in encouraging attendees to contribute to such discussions and brainstorm through the SWOTs in order to identify as many factors as possible. This is important when opportunities and threats are being considered, as these are often things that people within the organization have certain preconceptions about, or may be actively hostile to admitting the existence of.

For example,

> ***The rapid uptake by music lovers of the MP3 format seemed to take many established record companies by surprise. Whilst the record companies must have been aware of the existence of this new format, it is not difficult to imagine a scenario where people in strategy meetings would be reluctant to point out just how much of a threat (or opportunity) this new way of consuming music could be.***
>
> ***As the implications would have threatened the established organizational structure, as well as rendering obsolete a business model that had remained unchanged for over 50 years, it must have been a difficult subject to discuss objectively!***

The difficulty of admitting the existence of internal weaknesses in the organization is even more problematic and in some organizations it is impossible to talk about weaknesses objectively because senior management are in a state of denial about them. This can completely emasculate the SWOT analysis process, a problem that is discussed later in this eBook.

It is extremely important that those involved in such strategy meetings are encouraged by the Chair to think of and generate ideas for deliberation, no matter how far-fetched they may appear. By suspending criticism and judgment till the final stages of the process, participants will feel free to generate unusual ideas that could prove to be valuable.



One of the most effective ways to achieve this is to focus on internal aspects to begin with and then on external ones later. Once all of these have been cataloged, then discussions on each point's relevance and likelihood can take place.

KEY POINTS

- ✔ Strengths are internal factors that are favorable for achieving your organization's objective.
- ✔ Weaknesses are internal factors that are unfavorable for achieving your organization's objective.
- ✔ Opportunities are external factors that are favorable for achieving your organization's objective.
- ✔ Threats are external factors that are unfavorable for achieving your organization's objective.
- ✔ Some factors can be either strengths or weaknesses depending on the business objective.
- ✔ SWOTs can be used to guide strategy at the very highest level but they can also be tied to a specific business objective.

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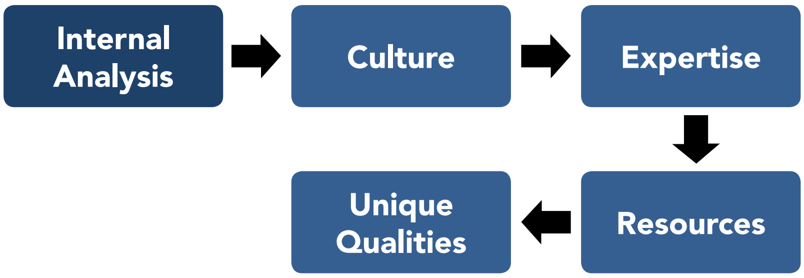
Internal Analysis

The internal analysis of your organization should include its culture, expertise, resources, and unique qualities within the market place. The extent to which your organization could adapt to changing circumstances is also a factor that needs to be considered.



Within the broad area of 'culture' you should consider the different aspects of your organization's ethos, beliefs, public image, and structure.

Regarding expertise, how easy is this to retain or increase? How many of your people play a key role or have vital skills, and how does this compare to your competitors? To what extent does this 'expertise' help to maintain your organization's market share and brand positioning?

Resources include: financial position, buildings, plant, machinery, and other physical infrastructure.

Unique Qualities are those 'things' that are exclusive to your organization, such as special contracts, customers, patents, and trade secrets. Within this area you should also consider your research and development (R&D) capabilities.

You can then use the SWOT analysis as an interpretative filter to reduce the information to a manageable quantity of key issues that are relevant to your organization or to the business objective, depending on the level of the SWOT. At this stage you do not need to elaborate on each topic; you just need to decide if it is a strength or weakness.

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Strengths

A 'strength' is something that has a positive implication. It adds value, or offers your organization a competitive advantage. Strengths include tangible assets such as available capital, equipment, credit, established and loyal customers, existing channels of distribution, copyrighted materials, patents, information and processing systems, and other valuable resources.

You may want to look at and evaluate your strengths by function, for example marketing, finance, production, and support. Looking at things in this way can make it easier to identify the positive attributes within each function.

Certain teams may have specialist or unique knowledge, education, credentials, contacts, reputations, or backgrounds that provide a competitive advantage or add value to your product or service.

The sort of questions you can ask to ascertain your strengths are:

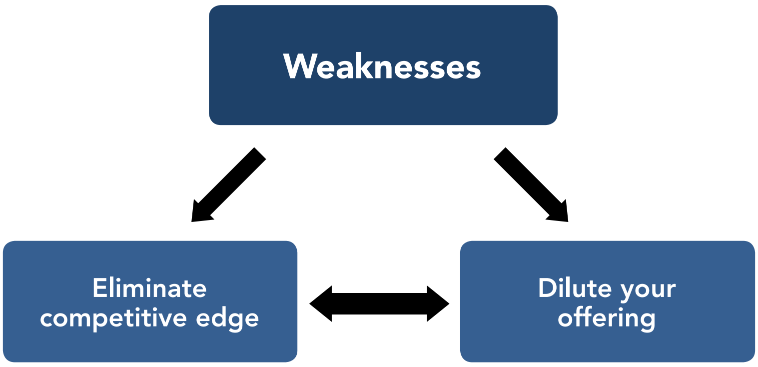
- What do we do well?
- What qualities or aspects persuaded our customers to choose our product or service?
- What resources do we have at our disposal?
- What do others see as our strengths?

- What areas are we seen as being expert in?
- What advantages do we have over our competition?

However you judge the responses to these questions it must be from the perspective of your operating environment and not from an internal aspect. For example, if 'guaranteed next day delivery' is the norm within your industry then this cannot really be considered a strength because your customers would expect it. On the other hand, if 'guaranteed next day delivery' is not normal in your industry then it could legitimately be classified as a strength.

Weaknesses

These are the characteristics of your product or service that are detrimental to growth. Weaknesses are those things that detract from the value of your offering or place you at a disadvantage when compared with your competitors.



An obvious weakness would be an unsuitable location for your organization. For example,

> ***You are located in the north of the country but 85% of your customers are in the south. This means that not only are your distribution costs significantly higher than some of your competitors but you are unable to offer guaranteed next day delivery in line with your competition.***

Factors that are identified as weaknesses can often be remedied with suitable investment or restructuring. In the example above, it might be possible to relocate the business or set up a distribution center in the south of the country, but both of these things would require changes to the way the business currently operates.

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The type of questions you would be asking and discussing to identify your weaknesses are:

- What can be improved or altered?
- What do we do badly?
- How do we compare with others?
- How does our performance compare with our competitors?
- What have our customers told us?
- How did we respond to this feedback?
- What should we avoid?
- How do third parties judge our performance or service?
- Have we self-imposed any constraints?

The more accurately you identify your weaknesses, the more valuable the SWOT analysis will be. However, because weaknesses are by definition internal there can be a lot of resistance to admitting to them. In fact, highlighting weaknesses can be synonymous with drawing attention to areas of the organization which have been badly managed or where poor decisions have been made. This can make it very difficult to talk about weaknesses objectively if you want to keep your job.

Do not lose sight of the fact that the existing senior management will be responsible for the current state of the organization. This is often an obstacle to a full and frank admission of organizational weaknesses.

Assuming that you do feel able to discuss your organization's weaknesses honestly, then it is important that you do so because the more realistic your assessment is at this stage the more value the SWOT analysis will have.

Many organizations use a simple matrix to compare the importance and significance of each of its strengths and weaknesses, referred to as a Performance-Importance Matrix. The level of importance is often simply shown as high, medium, or low, with the degree of significance rated as key, significant, minor, or neutral.

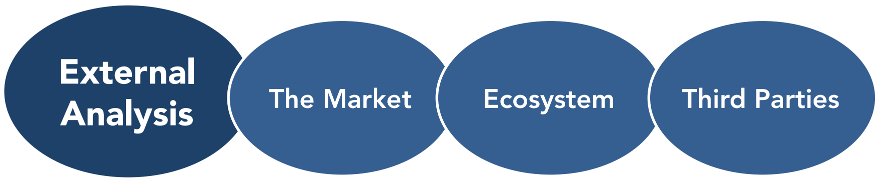
Those items you identify as being both important to your success and show a low performance for the organization are the factors your strategy should be addressing.

KEY POINTS

- ✔ The internal analysis of your organization should include its culture, expertise, resources, and unique qualities within the market place.
- ✔ Strengths are things that add value or offer your organization a competitive advantage.
- ✔ Weaknesses are those things that detract from the value of your offering or place you at a disadvantage when compared with your competitors.
- ✔ Weaknesses can be difficult to discuss honestly and objectively because doing so can imply criticism of the way that the organization has been managed.

External Analysis

External factors include the environment your organization operates in, its market, ecosystem, and all of the third parties involved.



The market refers to the market sector you supply your goods or services to even if this is done on a not-for-profit basis. It includes all of your customers.

The ecosystem is something that exists beyond the market per se and includes current and future technologies as well as current and proposed business models. For example, the ecosystem in which book publishing exists consists of high street bookshops, non-specialist retailers (supermarkets etc.), online book retailers (Amazon, Smashwords, etc.), as well as libraries and other places where people can obtain books. It also encompasses the technologies available, including those still in their infancy like 'printing on demand.' These new technologies can destabilize your existing business strategy if they are ignored or disparaged simply because they are as yet unproven. Aside from technology, the ecosystem includes the social, economic, and political environment that you operate in.

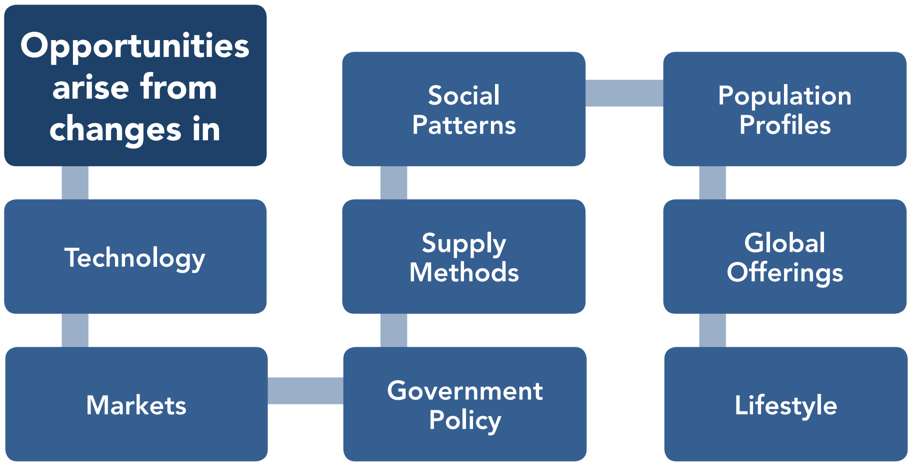
Third parties are all of the other entities you deal with who are not your customers (and therefore part of the 'market'). They include your suppliers, partners, and competitors, and may also include government and regulatory bodies, the media, or any other group that you need to deal with in the course of doing business.

The ecosystem can also be analyzed using the PESTLE strategic analysis technique, which focuses on macro-environmental variables. If you are unfamiliar with the PESTLE technique or you want to understand it in greater detail then visit our website www.free-management-ebooks.com and download our free 'PESTLE Analysis' eBook.

As you identify these external factors you should classify them into potential opportunities or threats.

Opportunities

Opportunities can occur for a variety of reasons and may result from changes within the market, customer lifestyle changes, advances in technology, new production methods, etc.



These opportunities for growth can also occur from a resolution of a problem associated with your current product. For example, Skoda's market share rose considerably once its cars were known to be reliable.

Successful organizations are constantly reviewing their market and services to see how they can increase their market share. Opportunities have a wide variety of origins as shown in the diagram above.

In recent years, the increased pace of technological change has enabled many organizations to achieve rapid growth using outsourcing and off-shoring.

Alterations in the structure of markets along with changing social and lifestyle patterns also provide opportunities for expansion. For example,

> ***Most supermarkets provide a vast range of everyday products from books to power tools. Having begun as little more than large grocery stores, they have taken the opportunities offered by changing lifestyles to meet the need of one-stop shopping by people of both sexes who work full time and prefer to buy everything they need from as few shops as possible.***

Another area that can serve as a source of opportunistic growth is that of changes to government policy or regulations. For example,

> ***In the UK the deregulation of utilities such as gas, electricity, and water enabled utilities organizations to have the freedom to offer their clients any service or product they felt was worthwhile, which has led to water companies selling insurance and electricity companies supplying domestic gas.***
>
> ***Also, the changes in legislation throughout the European Union that made it compulsory for children under a certain height or age to have a car seat offered anyone manufacturing these products a significant growth opportunity.***

All of the opportunities you identify in the SWOT analysis will be external to your organization and some may be time limited. For example,

> ***When the European Union passed legislation forcing all suppliers of electrical goods to comply with new waste disposal legislation by January 2007, this created a short-term opportunity for companies that offered consultancy services in this area.***

As you work through this external analysis part of the SWOT process you must be aware that what is seen as an opportunity in one market or for one product or service may be considered a threat for another.

Threats

The final part of the SWOT process involves assessing the external risks your organization faces. These are referred to as threats and are made up of external factors that are beyond your control.

Even though they are external, which means that you have little or no control over them, your organization should consider making contingency plans, no matter how sketchy. This will ensure that you are not taken completely by surprise, but perhaps more importantly, it can put items 'on the agenda' for discussion that people may be more comfortable ignoring.

The greater your ability to identify potential threats the more proactive you will be able to be in your planning for and responding to such events. Anticipating and responding to your competitors' actions is one of the biggest challenges your organization has to face and clearly indicates the need for gathering good market intelligence.

Threats

- Competitors reducing prices
- Supply costs increase
- New technology
- Government regulations
- Economic slumps or recessions
- Demographics alter
- Changes in consumer behavior

Other significant threats are those associated with the supply chain. For example, your suppliers could increase their prices, transport costs, or terms and conditions in a way that is harmful to you. This change may come about because of a change in their own external environment, such as increasing raw material costs or labor costs.

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Changes within the market itself can pose a threat to your organization, such as a new market entrant who significantly alters the product offering. For example, Apple's iTunes and Spotify radically changed the market for recorded music.

There may also be unexpected changes in consumer behavior that can significantly impact your product sales. For example, the almost universal social acceptance of copyright theft in the form of illegal downloading has meant that something that was once a minority activity is now ubiquitous. The important point here is not that the enabling technology became available but that so many people who would never normally take something without paying for it now routinely do exactly that. These types of change in behavior are almost impossible to predict, can be quite sudden, and have far reaching consequences.

Other potential threats are far more predictable—for example the effects of the economic cycle. Developed economies routinely undergo what are popularly known as 'boom and bust' phases. Discussing the threat of economic recession can seem unnecessarily pessimistic when the economy is booming, but investment in new capacity and product development is always most tempting at the top of the boom, exactly when it represents the biggest threat.

Identifying potential threats is a key part of the SWOT analysis. During this stage of the process individuals should not be hesitant in bringing their worst fears to the discussions. Some issues may be highly speculative but debating them adds value to the SWOT analysis.

When assessing the likelihood of either of these external aspects many organizations use a matrix for the opportunities and threats that compares the probability of it happening with the impact it may have on the organization. You can apply a score to each issue, and where this factor has a high score on both the likelihood of it occurring and the likely impact on the organization it should be investigated thoroughly.

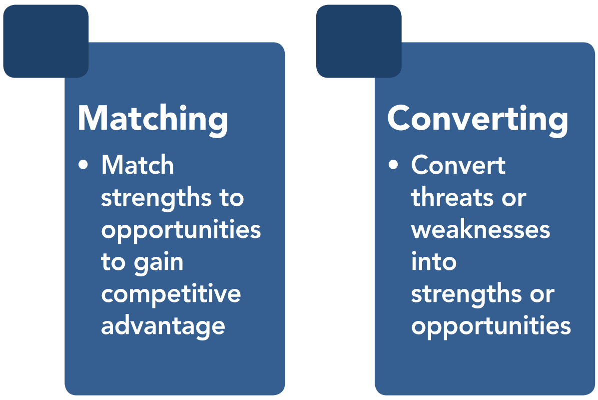
KEY POINTS

- ✔ External factors include the environment your organization operates in, its market, ecosystem, and all of the third parties involved.
- ✔ The market includes all of your customers.
- ✔ The ecosystem includes the technological, social, economic, and political environment that you operate in.

- ✔ The ecosystem can also be analyzed using the PESTLE strategic analysis technique.
- ✔ Third parties include all of the other entities you deal with who are not your customers.
- ✔ Opportunities can result from changes within the market, customer lifestyle changes, advances in technology, or new production methods.
- ✔ Threats are external factors that are beyond your control and can originate in the supply chain, from changes in consumer behavior, from the economic cycle, etc.

Matching and Converting

There are two simple methods, referred to as 'matching' and 'converting,' that organizations can utilize when applying the results of the SWOT analysis to strategy decisions.



Matching uses competitive advantage to pair strengths with opportunities. For example,

> ***In the 1980s UK clothing retailer Marks and Spencer had a strong presence in the high street and a customer base that bought on the basis of quality rather than price. M&S were able to leverage these strengths to exploit the opportunity to sell high-quality food and beverages to its customers. The company began by selling pre-prepared sandwiches and snacks that were made from higher-quality ingredients than its competitors were using. This focus on quality was unique at the time and enabled M&S to corner the market until its competitors began to copy the formula. Thirty years later M&S***

is still a major player in the UK quality food and beverage market and these items account for a substantial portion of its total profits.

Converting means converting weaknesses or threats to strengths or opportunities. For example,

Many island-based Scottish whisky distilleries are unable to expand their production facilities because of environmental or logistical issues. This weakness can be converted into a strength by stressing the artisan nature of the product and making the limited production synonymous with exclusivity. This means that they can maintain high retail prices and reasonable profits even when losing market share to industrial scale producers.

Whilst these techniques can be useful, they do need to be put into perspective. In the first example, it would have been far from obvious that selling quality sandwiches represented an opportunity for a clothing retailer with no experience in that sector. In addition, there was no shortage of established competitors, albeit not selling the type of sandwiches that M&S chose to offer its customers. The point is that even if a SWOT analysis is used to highlight opportunities that 'match' the organization's strengths, the best option may be far from obvious. Whoever suggested that M&S begin retailing food probably had quite a struggle to get the idea taken seriously because even though this undoubtedly represented an opportunity, there would have been many other more obvious opportunities available.

In the second example, converting can amount to little more than making a virtue out of a necessity. The small whisky distilleries simply cannot increase production to any significant degree and their marketing strategy is arguably an inevitable result of this, rather than one option chosen from several other possibilities.

Matching and converting are useful ways of looking at the output from the SWOT analysis but both require a lot of debate and analysis rather than instant answers.

KEY POINTS

- ✔ Matching uses competitive advantage to pair strengths with opportunities.
- ✔ Converting means converting weaknesses or threats to strengths or opportunities.

Advantages and Disadvantages

The popularity of SWOT analysis is down to its simplicity and flexibility. It is easy for everyone to understand and its implementation does not require any technical knowledge or specialist training.

The SWOT methodology can condense a large number of situational factors into a manageable number but it does encourage a tendency to oversimplify the situation and it can be unduly influenced by vested interests within the organization. This is particularly apparent when conducting a high-level organizational SWOT. For example,

> ***It is a subjective decision as to whether or not a particular organizational culture should be classified as a strength or a weakness. Those responsible for the prevailing culture will see it as a strength no matter what, whereas those who have less invested may be more objective and see it as a weakness in certain circumstances.***
>
> ***A technological change may be considered a threat or an opportunity depending on perspective. Those who owe their jobs and status to an existing technology are likely to view any change as a threat to their position and therefore to be avoided. Others who have no vested interest may consider it is as an opportunity.***

Those responsible for developing strategy need to be aware of these issues of oversimplification and vested interests, and try to take them into account. This is always going to be difficult, however, if senior management has a reputation for being unwilling to consider options that may threaten the current business model.

Another problem with SWOT is that there are no obvious limits as to what is and is not relevant. The Chair managing the SWOT discussions needs to keep everyone involved focused on what is important in achieving the objectives, rather than just creating lists of issues and classifying them arbitrarily without any external reference.

It is also necessary to add an element of priority to the list of factors in each of the four categories. Otherwise you may decide that opportunities and threats balance each other out, when in fact the threats pose a greater risk to your organization than the weaker opportunities it could take advantage of.

Anyone using the SWOT technique must also be mindful that its simplicity does not provide a mechanism for solving any disagreements that arise from the discussion. Because this technique is often used in a brainstorming or blue-sky thinking environment there is usually little opportunity to verify statements with hard data or assess the practicalities of implementation.

Although this business analysis technique has its limitations it does play a valuable role in enabling unusual and non-conformist issues to be raised and discussed. It also has a role to play in developing a strategy objective when it is used as part of the process, but its limitations must be acknowledged.

KEY POINTS

- ✔ SWOT can condense a lot of situational factors into a manageable number.
- ✔ SWOT can encourage oversimplification, particularly at the highest level.
- ✔ There are no obvious limits as to what is and is not relevant.
- ✔ Some areas may be difficult to discuss objectively because of vested interests.

SWOT Analysis Example

This example uses the international car manufacturer Audi to illustrate how the SWOT analysis can be applied at the organizational level. It is a well-known and popular example that is frequently used to illustrate SWOT in action.

Under each of the SWOT categories there is a list of key facts, as you would expect in such a report. This is followed by a fuller explanation as to why each fact has been categorized in this way giving you an insight into the type of discussions that would normally take place as part of this process.

Background to Audi

Audi is one of the major car manufacturers in the premium and supercar segments. The company has a strong brand image, giving it a competitive advantage that enables it to record high sales growth in both its domestic and international markets.

Strengths

- Backed by Volkswagen, the second largest automotive corporation in the world.
- Presence through its parent company in over 153 countries.
- Parent is financially secure—recorded revenues of €126,875 million ($168,325.1 million) in 2010.
- Audi's backing by Volkswagen gives it significant competitive advantage.
- Audi's track record shows high domestic and international sales growth.
- It has high return on equity (ROE) and return on assets (ROA) compared to its competitors.

Explanation

As a subsidiary of Volkswagen Audi has the financial backing and expertise of this corporation's substantial development in vehicles, engines, parts, production, distribution, and sales at its disposal.

Volkswagen's expertise covers a wide range of vehicle types—passenger cars, commercial vehicles, trucks, and buses.

Volkswagen's financial track record is secure, ranking 13th in the Fortune Global 500 list of companies.

Audi's return on equity (ROE) was 23.1% in 2010. This compares to significantly lower ROE for two of its main competitors in the same period: 13.9% ROE for BMW and 12.4% ROE for Daimler.

High ROE shows Audi are efficiently using their shareholders' investments and rewarding them with higher returns than their competitors.

Audi's return on assets (ROA) was 8.4% in 2010, substantially more than BMW's ROA at 2.9% and Daimler's ROA at 3.3% for the same year.

Its high ROA indicates that Audi is efficiently deploying its assets and allocating its resources in comparison to its competitors.

Weaknesses

- Significant product recalls over recent years shows poor control over parts and/or product quality.
- High recall levels in recent years have reduced consumer confidence in Audi's brand which could result in lower sales.
- Its market share in terms of revenue means its lacks the scale to compete with large players such as Ford, BMW, and Daimler.

Explanation

Recalls:

34,000 problem Audi A4 and Audi A6 vehicles in August 2011 due to defective engine fuel pump.

5,992 units of Audi A6 (2001–04), RS6 (2003) & S6 (2002–03) in May 2011 due to a fuel system flaw.

10,200 Audi TTs (2010) in April 2011 due to problems with the fuel tank ventilation system's spring.

In 2010 Ford recorded revenues of $128,954 million, BMW recorded revenues of €60,477 million ($80,283 million), and Daimler recorded revenues of €97,761 million ($129,777 million). This compares to Audi's recorded revenues of €35,441 million ($47,047 million), which is roughly 36% of Ford's, 57% of BMW's and 35% of Daimler's.

Opportunities

- Audi has placed considerable focus on developing hybrid electric vehicles (HEVs) for which demand worldwide is expected to grow.
- Rising energy costs and increased emissions regulations are likely to increase demand for HEVs.
- Global environmental issues and legislation to control global warming plus the need to conserve worldwide resources are key motivators for consumers in finding HEVs more acceptable.

Explanation

By 2015, the largest market for HEVs and plug-in hybrid electric vehicles is expected to be the US, with China second.

Sales are forecast to be in the region of 640,000 in the US and 560,000 in China for these two vehicles types combined.

Audi is one of the major manufacturers of electric vehicles having launched several hybrid models in 2010 (e-tron Spyder, e-tron Silvretta, and A1 e-tron). Its research and development is also looking into plug-in and full hybrid vehicles as well as other electric concepts for plug-in hybrids, ranging from the fuel cell to the battery-only electric vehicle.

Threats

- The global automotive industry is highly competitive and Audi is not one of the larger corporations.
- Recessions in Europe, the US, and other parts of the world have resulted in sharp falls in demand.
- Car manufacturers face relatively high fixed labor costs.
- Manufacturers' ability to close facilities and reduce fixed costs is significantly limited.
- Sales offerings of subsidized financing or leasing programs, or price reductions impacts Audi's ability to maintain its profitability per vehicle and its market share.
- The introduction of environmental engine emissions and fuel (bio and fossil fuels) requirements significantly increase R&D costs and margins.

Explanation

Some of Audi's key competitors are BMW, General Motors, Honda, Hyundai, Nissan, Peugeot Citroen, Porsche, Renault, and Toyota.

EU regulations introduced a wide range of stricter requirements, primarily impacting diesel technology, e.g. after-treatment system for nitrogen oxide.

70% of Audi's revenue is from the US and Europe.

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Diesel technology needs to alter significantly to cater for biofuels.

EU Regulation requires average carbon dioxide (CO2) emissions to be reduced to 130 grams per kilometer (g/km) for all new vehicles by 2015. Any manufacturer not meeting these targets faces penalties.

The US requires uniform consumption and CO2 regulation for all 2012–16.

The Japanese government has statutory regulations for 2010–15 to reduce consumption.

The IMF expects the output of the European and US regions to remain well below potential. Tentative signs or recovery at the end of 2010 were not realized as certain setbacks and new risks came to light.

The US GDP growth rate was 1.6% in 2011 and 1.1% in 2012.

The European Commission expects EU recovery to remain sluggish, especially in view of relatively high consumer-price inflation.

Summary

A SWOT analysis is useful for any kind of strategic planning. It's a relatively quick way to look at organizational strengths, weaknesses, opportunities, and threats. The overall purpose of a SWOT analysis is to examine the internal and external factors that help or hinder you in achieving each of your objectives. It can be used as a brainstorming tool or to help focus your attention on key areas.

You can use your SWOT analysis as a means of gathering information from a range of perspectives or you may be able to use your results to strategic advantage by either matching your strengths to opportunities or converting threats or weaknesses into strengths or opportunities.

SWOT analysis can play a valuable role in enabling unusual and non-conformist issues to be raised and discussed. It also has a role to play in developing a strategy objective when it is used as part of the process, but its limitations must be acknowledged.

The most obvious limitations are: the risks of oversimplification; the fact that vested interests can prevent weaknesses and threats from being acknowledged; and the danger of information overload as there are no obvious limits as to what is and is not relevant.

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