

Edition 2

Small Business

QUICK Guide

to understanding a

SWOT

ANALYSIS

By Mark Laing

 **FORMIDABLE**
BUSINESS

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Small Business *QUICK* Guide to Understanding a SWOT Analysis

By Mark Laing B.Bus MBA
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FORMIDABLE Business Program

This is a FREE Guide. You are welcome to forward copies of this complementary guide to your clients and other contacts.

The content in this document is taken from the comprehensive 55 page “**Small Business Guide to Completing a FORMIDABLE SWOT Analysis**”.

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NOTE: The information in this guide is of a general nature only. When making decisions regarding your own business it is strongly recommended that you seek qualified advice tailored to your own particular needs and business situation.

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Note: A comprehensive approach to completing a SWOT Analysis, including templates, checklists and instructions, is in the “**Small Business Guide to Completing a FORMIDABLE SWOT Analysis**” on sale for AUD\$19.75 (including GST) at www.formidable.com.au.

About The Author

Mark Laing is a professional business coach based in Melbourne, Australia. For more than a decade he has coached business owners in dozens of different industries in four Australian states. He has a Bachelor of Business, majoring in marketing, and an MBA. Mark spends over 80 percent of his business life working directly with small business owners.

He has spent the past few years developing and testing a comprehensive range of tools, checklists and practical ‘action-based’ materials to provide business owners with a successful business. As his clients are business owners, he knows they don’t want unnecessary ‘padding’ or theories but practical actions that deliver results.

In 2006 he established the ‘FORMIDABLE Business Program’ as the brand for his materials and resources to assist small business owners. He also published a booklet on the topic of ‘Business Focus’. Since mid 2009 he has written a range of practical small business guides that can be downloaded as PDF files from www.formidable.com.au.

Welcome

A SWOT Analysis is a powerful tool for reviewing and setting the future direction of your business.

There has never been a better time for business owners to “work smart” by implementing proven actions that strengthen and grow their businesses. After 16 years coaching small business owners on how to improve the performance of their businesses, I appreciate how a properly conducted SWOT Analysis is a powerful initial step in the business planning process.

If you are a business owner, or about to start a business, then a SWOT Analysis is a great means of reviewing your business in terms of its Strengths, Weaknesses, Opportunities and Threats. The effectiveness of a SWOT Analysis must always be measured by the actions taken after the SWOT has been completed. In other words, the actions taken to capitalise on strengths, overcome weaknesses, grasp opportunities and minimise threats.

Too many business owners don't invest enough time implementing new ideas or proven strategies to improve their results. They are caught in the day-to-day treadmill of running a business. The FORMIDABLE Business range of guides means you don't have to spend hours on the internet looking for new strategies to improve or grow your business.

This *QUICK* Guide provides an abbreviated explanation of the SWOT Analysis process for a small business. As small business owners are time-poor, they need to have action oriented tools that allow them to achieve immediate results. A SWOT Analysis is a tool for reviewing your business.

NOW is the time to take action to make your business work for you in achieving outstanding results.

Regards and best wishes



Mark Laing
Business Coach and Author

15th January 2012
Edition 2.2

Note: This *QUICK* Guide provides an abbreviated explanation of the SWOT Analysis process. It is based on the 55 page ebook “**Small Business Guide to Completing a FORMIDABLE SWOT Analysis**” that contains comprehensive instructions, checklists and templates on this topic. It is available as a PDF download from www.formidable.com.au with a 34% discount off the hard copy price.

1. What is a SWOT Analysis?

SWOT is the acronym of **S**trengths, **W**eaknesses, **O**pportunities and **T**hreats. It is a simple but powerful tool for reviewing all or part of your business, and assisting with decision making.

The review of Strengths and Weaknesses focuses on the internal operations of the business. The analysis of Opportunities and Threats looks at factors external to the business. It is essential to remember that **a SWOT Analysis is largely subjective** – it is based on both facts and opinions.

When applied to the business as a whole, the SWOT Analysis requires you to analyse the following:

- “The Strengths of my business are...”
- “The Weaknesses of my business are...”
- “The Opportunities for my business are...”
- “The Threats to my business are...”

The outcomes from conducting a SWOT Analysis include:

- Clearly identifying the competitive advantages of the business.
- Identifying where action is required to improve the results of the business, and ensure it achieves the objectives.
- Benchmarking how the business is currently performing against its own standards, competitors and long-term objectives.
- Identifying Opportunities for growth and improving how the business operates.
- Developing the solutions for resolving potential risks and short-term problems.
- Obtaining feedback and ideas from other stakeholders.

You will have a greater understanding of the business and will be ready to make informed decisions regarding the changes to be implemented in order to improve its performance.

A SWOT Analysis enables you to complete a thorough review of the business, and plan for its future success.

Whilst conducting the SWOT Analysis seems straightforward, my experience is that business owners rarely use it effectively for decision making or improving performance. A SWOT is often only used during the business planning process (if at all); but this flexible tool can be applied not only to the whole business but to any of its operations, decisions or ideas.

Some examples of a SWOT Analysis being applied include:

- Reviewing a business function e.g. manufacturing or sales.
- Reviewing a single product, range of products or product development.
- Evaluating a new supplier's products.
- Reconsidering an existing distribution channel.
- Analysing an investment opportunity.
- Evaluating a merger or acquisition: and studying a competitor.

The SWOT Analysis aids decision making and provides a framework for evaluating a wide variety of issues and opportunities. The primary advantage of the SWOT Analysis is that it causes the owner to think about the business and work on it, not just in it.

2. Capitalising on Strengths

The “**Strengths**” of the business are the assets, resources, intellectual property and client solutions that provide it with a competitive advantage or benefit e.g. income, profits, equity appreciation, profitable clients, ability to achieve objectives and meet the needs of clients.

The objective is to take full advantage of your Strengths. Leverage them to maximise returns and achieve objectives. By definition, the more time and resources invested in Strengths, the more successful the business will be.

Traits of a business Strength:

- Is ranked in the top quartile (25%) for the industry, the higher a Strength is ranked relative to a competitor the greater the advantage it provides to the business. Whilst you cannot always exactly know how strong a Strength is, it is important to always obtain feedback from clients and suppliers as to how they view the business.
- In the FORMIDABLE Business Program, Strengths are ranked in terms of their contribution to the business achieving its long-term objectives or a specific objective.
- Provide the benefits and solutions wanted by clients. They are the reasons why clients choose to be clients.
- Provide a distinct competitive advantage that distinguishes the business from its competitors. These Strengths would be featured in advertising and sales presentations.
- Generate a positive income stream for the business (i.e. is a profit driver) and adds to the equity valuation of the business.

Key points to remember when identifying Strengths:

- The reason your business has achieved its current level of success is due to its specific Strengths and how well it is using them.
- Reviewing the Strengths of the business is the process of identifying the factors that directly contribute to its success.
- If the business has a perceived Strength, for example, the best guarantee in the industry, but clients do not know about it, it is not listed just as a Strength, it is also listed as a Weakness, such as “Not communicating our guarantee to clients”.
- Strengths can become Weaknesses e.g. outdated technology.
- Strengths are not equal in value. The key Strengths which make the greatest contribution must be identified and developed as priorities.
- Don’t assume clients know the Strengths of the business. This is the role for all client communication, client interaction, sales and marketing.
- Strengths must be communicated in the language your clients use. Many businesses selling technical products focus on the jargon rather than the solution for the client.

Examples of Strengths:

- Existing clients generating high financial returns.
- A large database of clients that allows the business to communicate and market to them on a timely and cost effective basis.
- Products with consistent profitable cash flow.
- High performing employees who exceed performance targets.
- Patents, registered brand names and exclusive supplier agreements.

3. Overcoming Weaknesses

The “**Weaknesses**” of the business are the deficiencies and liabilities that compromise its ability to be competitive, achieve an acceptable level of return, meet the needs of clients, or accomplish its objectives. Weaknesses are a primary reason why a business will underperform and experience problems such as poor client retention. Just focusing on minimising or eliminating Weaknesses will not maximise the potential of the business and is often de-motivating. Owners want to grow their business, not spend all their time trying to fix it.

Traits of a business Weakness:

- Ranks the business in the bottom three quartiles (75%) for the industry. The lower it is ranked the more of a Weakness it is.
- Is a reason why the business is not successful.
- Generates a non acceptable return (below top 25% of competitors), a potential loss, or restricts achievement of the financial objectives.
- Is a benefit or solution that clients expect, but the business is unable to provide. It can be used by competitors as a point of differentiation against the business i.e. it is a competitive disadvantage.
- Represents costs and inefficiencies that restrict the business e.g. equipment that is inefficient or frequently out of service.
- Represents gaps in required skills, abilities or expertise.

Key points to remember when identifying Weaknesses:

- The reason a business struggles is because of its Weaknesses.
- They include the reasons existing clients complain or leave.
- They include the reasons why prospects do not become clients.
- The more a business overcomes its Weaknesses, the more it can focus on its Strengths.
- In 90% of SWOT Analyses, a business owner will identify more Weaknesses than Strengths. In over a third of SWOTs the ratio will be two Weaknesses for each Strength. (These figures are based on a review of 25 SWOT Analyses by the author.)
- A common problem when conducting a SWOT Analysis is the confusion that occurs between a Weakness and a Threat. A Weakness is specific to the business and a Threat is external. With many Threats the business has no control over them, for example, a foreign competitor enters your market.
- Over time a Weakness can be turned into a Strength e.g. investing in staff training, documenting processes, or buying new technology.
- Clients know the Weaknesses affecting them - ask them what they are.
- It is important to identify the underlying causes for each Weakness i.e. the real reason for the Weakness.

Examples of Weaknesses:

- Non competitive products; be specific in defining the deficiencies.
- High production costs compared to competitors.
- Poor branding i.e. don't have a strong product or business identity.
- Limited financial resources to fund growth.
- Owner complacency e.g. not enforcing performance standards.

4. Grasping Opportunities

“**Opportunities**” are those external possibilities or favourable outcomes that can be developed for the advantage of the business.

Opportunities are the basis for generating growth and improving the performance of the business. They represent new clients, new markets, additional products, better systems and processes, new ideas and improved resources.

Traits of a business Opportunity:

- In the FORMIDABLE Business Program there are three types of Opportunities:
 1. **Growth** (for expanding the business): those Opportunities that increase the revenue or size of the business by focusing externally on new clients and markets.
 2. **New/ Improved Products** (adding to the range of client solutions): those Opportunities for growing the business by focusing on new products, or improvements to existing products and services. Whilst they are developed internally, the focus is always on the external application and the client Opportunities.
 3. **Productivity** (for improving the performance of the business): this category of Opportunities covers innovation and improving the productivity and effectiveness of the resources of the business.
- Are external to the business and provide scope to build its sales, profits and effectiveness.
- Represent new ways of doing things i.e. are a key form of innovation.
- Are new resources that can be developed into Strengths.

Key points to remember when identifying Opportunities:

- A primary reason why a business grows is because it takes action to develop its Opportunities.
- The more aware you are of the external environment, particularly client markets, the more Opportunities that will be identified.
- A common problem when conducting a SWOT Analysis is the confusion between an Opportunity and a Strength. An Opportunity is external to the business whilst a Strength is internal.
- Identifying Opportunities must be a regular activity that is not restricted to the completion of a SWOT Analysis.
- Opportunities are not equal. Develop those which provide the highest return or make the greatest contribution to achieving objectives.
- Review the Strengths. How can these be applied outside the business to create Opportunities?
- Look at the Weaknesses. Are there external Opportunities to overcome them? For example, engaging a finance specialist to implement a new system for managing cash flow.
- Often result from the application of new technologies.

Examples of Opportunities:

- New client niches or existing markets with high growth.
- New technologies that increase productivity or lower costs.
- The government lowers regulation or eliminates a monopoly.
- New methods of distribution e.g. internet sales or referral sources.
- A free trade agreement that opens a new foreign market.

5. Minimising Threats

The “**Threats**” to the business are the external factors or events that place the existence of the business at risk or could reduce the value of its assets or income. Threats are often ignored by owners because they just don’t want to think about them – applying the old principle of “out of sight, is out of mind”.

Threats must be reviewed as they are the dangers that lurk outside the business, but can often be minimised with pre-emptive action. Examples of Threats include competitor activity, new government laws, economic downturns and unforeseen events, e.g. a natural disaster.

Traits of a business Threat:

- Is external to the business. At the macro level, is a risk to the existence of the business. At the micro level, their impact can reduce or eliminate income, profits, assets, the client base or market access.
- Is a risk to the viability of a product, the loss of a source of income, a significant increase in costs or the loss of a major client.
- Are often out of the owner’s control and cannot be directly managed. (All you can do is identify them and take steps to minimise their impact e.g. reducing debt at a time when interest rates are rising.)
- They also threaten your competitors, clients and suppliers.

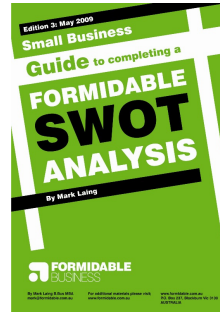
Key points to remember when identifying Threats:

- A primary reason why businesses fail is because they ignore potential Threats.
- A common problem when conducting a SWOT Analysis is the confusion between what is a Weakness compared to a Threat. A Threat is external to the business while a Weakness is internal. Threats can be specific to a business or apply to the whole industry.
- The more aware you are of your markets and competitors, the more Threats you will identify.
- Whilst you cannot control all Threats, such as natural disasters, it is important to be aware of them and to take any actions which can minimise their impact. This includes actions such as insurance, a crisis management plan and backing-up computer data. Often a recession which initially is a Threat will provide Opportunities e.g. some competitors may fail and there is the potential to gain their clients.
- The stronger the financial position of the business, the less vulnerable it will be to external Threats. Operating a business on a “financial knife edge” is a weakness that creates its own Threats.
- It is important to recognise that not all risks to the survival of a business are just external; they can be internal and in a SWOT are classified as Weaknesses e.g. poor management of cash flow that leads to insolvency.

Examples of Threats:

- A competitor launching a price war.
- A recession with sales and profit margins falling.
- Clients using an alternative product available over the internet.
- A key supplier going bankrupt.
- A major client entering into an exclusive supply agreement with a competitor.

**“Small Business Guide to Completing a
FORMIDABLE SWOT Analysis”**
By Mark Laing B.Bus MBA
A PDF download for only AUD\$19.75 (including GST)



**The essential SWOT Analysis and business planning guide
for businesses to review their operations, establish a clear
set of objectives, and implement projects for future success.**

This comprehensive guide (55 pages) is written specifically for business owners. It details a process for reviewing a small business and its operations to ensure the strategic objectives and operational goals are achieved.

This guide has the following features:

- Proven on over 100 small to medium sized businesses in dozens of different industries.
- Contains easy step-by-step actions on how to conduct a SWOT Analysis on the whole business or its key operations e.g. sales.
- Tells how to implement changes to capitalise on Strengths, eliminate Weaknesses, develop Opportunities and minimise Threats.
- Has a template for establishing your long term (3 year) objectives.
- Contains separate worksheets for each of the four SWOT Criteria that can be used as handouts for participants..
- Includes a template for recording and resolving the immediate problems in the business in the first 90 days.
- **Lists the actual responses** of 25 SWOT Analyses of businesses in 3 detailed checklists to help identify the key issues in your business.
- Lists the key mistakes made by business owners that minimises the effectiveness of a SWOT Analysis.
- Instructions on conducting a brainstorming session.
- How to set SMART goals.
- Gives you the tools to take the first step in reviewing your business and establishing a clear direction for its future success.

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