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SWOT & PEST Analysis

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Introduction and Rationale

Abraham Lincoln is reported to have said "We must ask where we are and whither we are tending". In other words, part of knowing where you are going is to know where you are now. Business planning is all about planning for the future - where you are going. But this can't be done without also knowing the current situation. The answer to this comes from a PEST and SWOT analysis.

This White paper was prepared to give a basic overview of steps and stages required in performing a SWOT analysis.

SWOT analyses are undertaken by businesses at the start of planning - to identify organisational strengths, weaknesses, opportunities and threats. They should not be seen as a process in isolation - and it is important that decisions are taken based on the findings. A SWOT starts with an external analysis of the business environment, often called a PEST analysis, and then looks at the organisation's internal strengths and weaknesses, relative to internal factors such as prior performance and also to external factors, which may have been highlighted in the PEST analysis. The final stage is to combine the analyses to look at opportunities and threats facing the organisation and to draw up plans to take advantage of the opportunities and to counter the threats.

PEST Analyses

A PEST analysis (also sometimes called a STEP or STEEP analysis) looks at the external business environment. PEST stands for Political, Economic, Socio-cultural and Technological. (Technological factors in this case, include ecological aspects - the second E in STEEP). The analysis examines the impact of each of these factors (and their interplay with each other) on the business. The results can then be used to take advantage of opportunities and to make contingency plans for threats.

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Political Factors

When examining political factors, you need to look at any political changes that could effect your business. What laws are being drafted? What global changes are occurring? Legislation on maternity rights, data protection, health & safety, environmental policy, should be considered, for example.

As an example, take a company employing a large number of women. Changes in maternity rights may have a major impact on such a business - and the aware business will keep an eye out for changes in such legislation.

Economic Factors

Often the political factors spill over into economic factors. For example, tax is usually decided by politicians, based on a mixture of political and economic factors. Interest rates, in many countries are decided by a central bank, but political factors may still be important. The fall of the Soviet Union caught most businesses and Western Governments by surprise - but not all. Some companies - notably Shell Petroleum - had picked up signals that all was not well in Russia. Many of these were related to economic problems within the Soviet Union.

Other economic factors include exchange rates, inflation levels, income growth, debt & saving levels (which impact available money) and consumer & business confidence. The current state of world stock markets is a typical example of the volatility of economic factors.

These areas are global, but it is also important to look at factors affecting individual industries. Are paper costs rising. For a book, magazine or newspaper publisher, the price of paper is a crucial economic measure. The UK software industry is currently complaining of a shortage of computer programmers - which is driving up wage costs. Again - the global picture can be important. Some companies are now using programmers in countries like India for software development. This helps them keep costs down - and leads to competitive advantage over companies with higher costs.

Technological Factors

Advances in technology can have a major impact on business success - with companies that fail to keep up often going out of business. Technological change impacts socio-cultural attitudes. For example the way people spend their leisure has changed dramatically over the last 30 or so years. As well as advances in your own industry, think about the likely impact of new technologies - the Internet, EDI, mobile phones, and the increasing advances in computing and computers. Look out for any technology that could make producing your product easier. And watch out for the technology that could make your product obsolete. (As an example, think about the potential impact that video-conferencing could have on the business travel market. Why spend hours and much money travelling some distance for a meeting, when all participants can join in - face-to-face - through a video-conference that lacks only the physical presence of the attendees.)

Social Factors

Finally, all this influences and is influenced by social factors - the elements that build society. Social factors influence people's choices and include the beliefs, values and attitudes of society. So understanding changes in this area can be crucial. Such changes can impact purchasing behaviour. Typical things to look at for each of these follow: - consumer attitudes to your product & industry - environmental issues (especially if your product involves hazardous or potentially damaging production processes) - the role of women in Society - attitudes to health - attitudes to wealth - attitudes to age (children, the elderly, etc.)

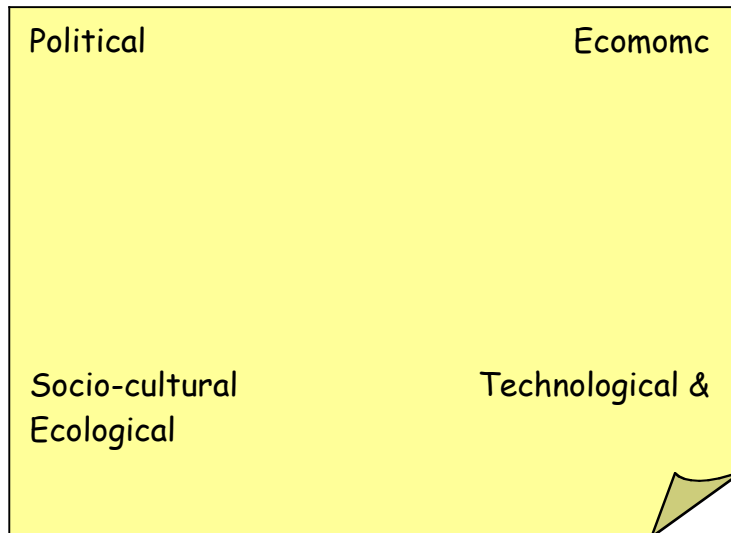
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Added complications when looking at social and cultural factors are differences in ethnic and social groups. Not all groups have the same attitudes - and this impacts how they view products and services. Demographic changes can also play a major part.

Compiling a PEST analysis

One way of compiling a PEST analysis for your business is to take a LARGE sheet of paper. In the top left corner, put the heading Political; in the top right corner, Economic - top left; bottom left = Socio-cultural; bottom right= technological.



For each heading, think of every factor that could possibly have an impact on your business. Think laterally - just because something seems unlikely does not mean that it will not have an influence in the future.

Having compiled a list of key factors, think of inter-relationships between factors. For example, the rise of the Internet (technological factors) is likely to influence consumer purchasing (social factors) - while an awareness of prices in other markets through electronic commerce may lead to a narrowing of cross-border price differences (economic). Connect up all inter-related factors. You will find that some areas have more connections than others. These are often the areas that will have the greatest potential impact on your company. These are the aspects that you most need to be aware of, in your marketing planning - and represent future opportunities and threats.

The final stage in a PEST analysis is to use the results. - Prepare contingency plans to prepare for any threats identified. - If there are factors that lead to business opportunities, then include these in your planning. For example, your target customer group may be growing faster than other sectors. This is an opportunity to increase production to take advantage of more potential customers.

However before you can use the results effectively, you should also develop an understanding of your own companies capabilities. This comes from a SWOT analysis.

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SWOT Analysis

A SWOT analysis builds on the results of the PEST analysis, which looks at the company's external environment. Its purpose is to identify company strengths and weaknesses so that strengths can be maintained or increased and weaknesses corrected. A further purpose is to identify opportunities and threats resulting from external factors - especially those that have an impact on the company's strengths and weaknesses. Company strengths and weaknesses need to be identified in all aspects of the business

- relative to the rest of the market (i.e. compared to competitors)
- relative to previous performance or expected performance
- relative to customer demand (for example all companies in an industry may fail to satisfy a particular customer need. This is a weakness - and the first company to match this customer need will have a strength relative to the other companies in the industry.

It is also important to realise that opportunities arise out of weaknesses. Correcting a weakness presents a marketing opportunity. Similarly, failing to maintain a strength is a threat to the company.

A preliminary approach for carrying out a SWOT analysis is to list perceived company strengths, weaknesses, opportunities and threats under each of these headings. Ensure that no weaknesses cancel out company strengths and potential threats to the company strengths or opportunities that could arise out of correcting weaknesses.

On the above list, highlight key areas of concern or areas that require action. These become the focus for future planning.

This approach is preliminary - as it does not evaluate the relative importance of each issue. A further approach is to list key aspects in a table - and score them out of 5, where 5 is a major strength and 1 a major weakness. Scoring can be based on the following factors - - relative to the overall industry - relative to major competitors or the next largest competitor - relative to expected performance - relative to previous performance.

An item that won on all 4 categories would be a major strength and vice versa for weaknesses. Areas where the company has better performance than competitors, but where performance is below expectations would receive a higher score than where performance has improved but still is weaker than competitors.

The following is list of some of the things that should be considered:

Marketing Aspects

- Market share and market segments addressed
- Competitive Structure
- Customer base (quality, size, loyalty, etc.)
- Demand forecasts
- Product range and quality.
- Services provided
- Distribution capabilities and costs
- Sales effectiveness
- Promotional effectiveness

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- Image and reputation
- Pricing options
- Speed to market
- Customer service
- R&D and Innovations / new products
- Marketing skills and experience
- International / export market capabilities

Operational / Manufacturing Aspects

- Production / Manufacturing facilities (age, quality, speed...)
- Economies of scale
- Skills (Employee, technical, etc.)
- Product failure rate
- Flexibility
- Costs
- Supply / raw material availability

Human Resource Aspects

- Employee skills, motivation, dedication and experience
- Employee satisfaction
- Employee costs
- Work environment
- Staff turnover rate
- Management and Organisational Aspects
- Management skills and experience
- Leadership and team skills
- Ability to respond to market change
- Flexibility and adaptability

Financial Aspects

- Cost of capital
- Profitability / Return on investment
- Financial Stability
- Sales / Employee
- Cash availability

This scheme allows the company to identify where it is strongest against competitors - the company's competitive advantage - and against previous and expected performance.

Finally after compiling the list, management should start to consider whether action is needed regarding each identified item. A way forward here is to rank each item on importance to the company.

Low performance (i.e. a score of 1 or 2) and high importance should be the major priority. Similarly, high performance (4 or 5 score) and high importance indicates areas where performance needs to be maintained.

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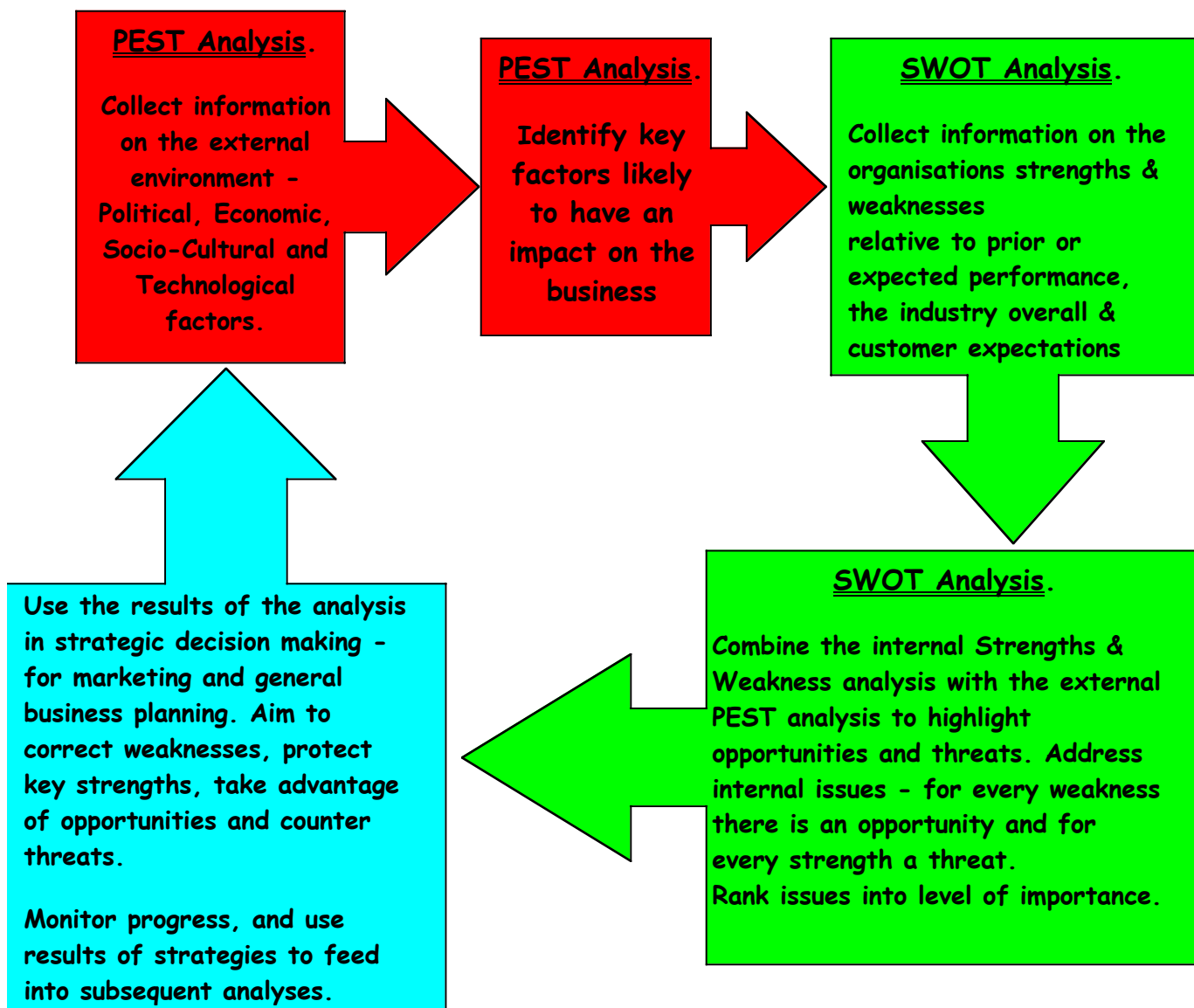
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Conversely, low importance and low performance can be given a lower priority, while low importance items that are viewed as strengths can be ignored. It is better to spend time and money improving or maintaining areas that matter to the company than worrying about perceived strengths that do not add anything worthwhile to the company. This can be summarised as:

1. Low priority - monitor for changes. Focus on only if finances and time allow.
2. Medium priority - focus on after the high priority items have been looked at, or if finances allow.
3. High priority - main focus. Ensure adequate finances to address issues.

The results of this analysis then feed into a marketing or organisation strategic plan.

Thus the process can be viewed as follows:



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Further Reading

Most standard management texts contain sections on SWOT analysis. Some recommended texts that may be useful include:

- **Marketing Management: Analysis, Planning, Implementation & Control.**
Philip Kotler. *Prentice Hall*
- **Marketing Plans: How to prepare them: How to use them. |**
Malcolm McDonald. *Butterworth Heineman*.
- **Exploring Corporate Strategy: Text & Cases.**
Gerry Johnson & Kevan Scholes. *Prentice Hall*.

About the author:

Arthur Weiss is the managing partner of AWARE, a competitive intelligence consultancy. He has a particular interest in linking information to strategy and helping organisations prepare for the future. Arthur has published papers, lectured and led seminars worldwide on competitive intelligence, marketing strategy, scenario planning and related topics. He is a member of the Society of Competitive Intelligence (SCIP) and a Chartered Marketer with the UK's Chartered Institute of Marketing. Arthur can be contacted through AWARE's web-site at <http://www.marketing-intelligence.co.uk>.
