SWOT & TOWS MATRIX

SWOT Analysis: Bringing Internal and External Factors Together

SWOT Analysis (also known as SWOT Matrix) is a business framework that helps assessing a wide variety of factors that may have a profound impact on a business's performance. These factors may either be internal to a company or external. Furthermore, these factors may either be favourable/helpful or unfavourable/harmful to a company. By combining these two dimensions one can draw a 2×2-matrix consisting of four quadrants: **Strengths**, **Weaknesses**, **Opportunities** and **Threats**. This article will cover each of these four quadrants of the SWOT analysis and will help you choosing the right tools to assess the most important factors that may affect your business.

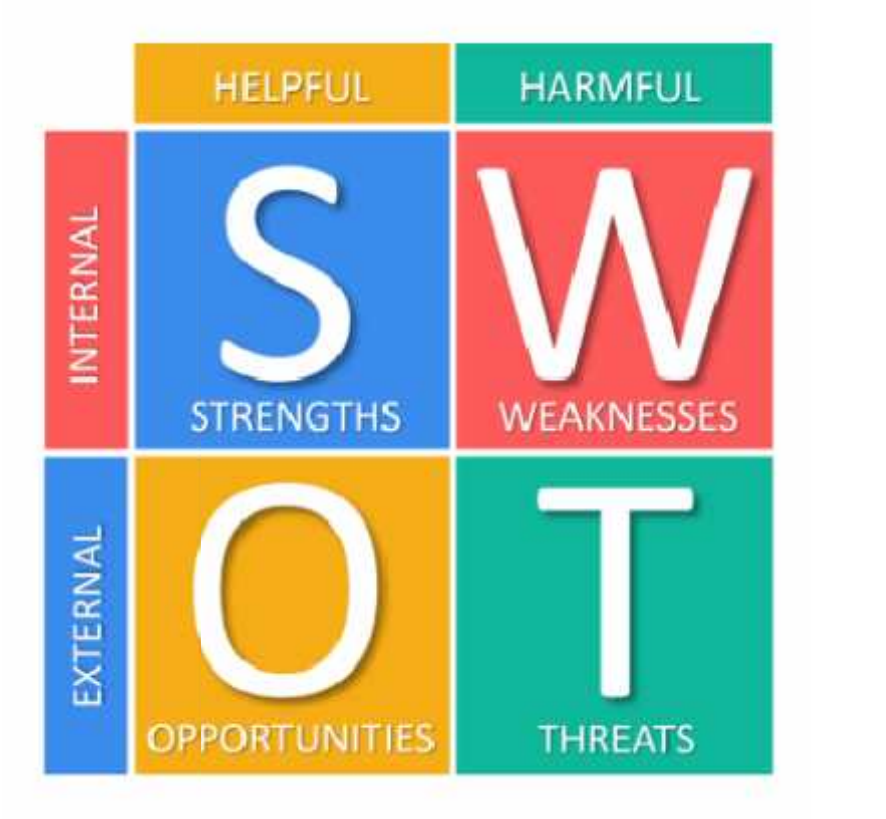

Figure 1: SWOT Analysis

Strengths (SWOT Analysis)

A company's strengths are its charactersitics that give it an advantage over others (competitors). Sometimes these strengths are also referred to as **unique selling points**

(USPs), **firm-specific advantages (FSAs)** or **competitive advantage**. The source of these strengths are resources and capabilities that are valuable, rare, hard-to-imitate and organization-wide supported. The VRIO framework is a useful tool to evaluate a company's resources. Examples of valuable company resources are patents, a strong brand reputation, a new innovative product, a talented workforce, historically developed know-how and large financial reserves. Another way of assessing where a company's strengths are coming from is by doing a Value Chain Analysis. By mapping out a company's complete value chain, from the purchasing of raw materials to the marketing and sales of the end-products, management is better able to see where true value is created.

Weaknesses (SWOT Analysis)

Similarly, these tools are very helpful in assessing a company's weaknesses. **These weaknesses are company characteristics that place a company at a disadvantage relative to others.** In other words: they are harmful to a company. Weaknesses could for example be a lack of patent protection, poor reputation among customers, a small working capital, bad leadership and an inefficient production process. Weaknesses are best discovered by having enough feedback loops in place, both internally and externally. Think about sending out customer surveys and organizing monthly employee gatherings. Together, the strengths and weaknesses form the internal side of the organization and the SWOT analysis.

Opportunities (SWOT Analysis)

Opportunities are the external factors of the SWOT analysis that may affect a company's performance positively. To assess the opportunities, a company should look for elements in the environment that could be exploited to its own advantage. The best way to asses the external factors is by using PESTEL analysis for the macro-environment and Porter's Five Forces for the industry dynamics. PESTEL looks at political, economic, social, technological, environmental and legal trends in the macro-environment. Examples are the increasing purchasing power of customers, governmental subsidies, more favourable international trade policies, and general lifestyle changes among the population. Porter's Five Forces on the other hand looks more specifically at industry factors like the current competition, upstream supplier power, downstream buyer power, potential new entrants and substitute products or services.

Threats (SWOT Analysis)

The threats on the other hand are the external factors that could cause trouble for the company in the future. Similary to the opportunities, one could use a PESTEL analyis and a Porter's Five Forces model to assess the elements in the environment that could harm the organization. Examples of harmful macro-environmental developments could be an increasing unemployment rate, disruptive technologies, protests from NGO's and increasing government corruption levels. In terms of industry specific threats, one

could think about new competitors entering the arena, the availability of substitute products and increasing bargaining power from suppliers. Together, the opportunties and threats make up the external part of the SWOT analysis.

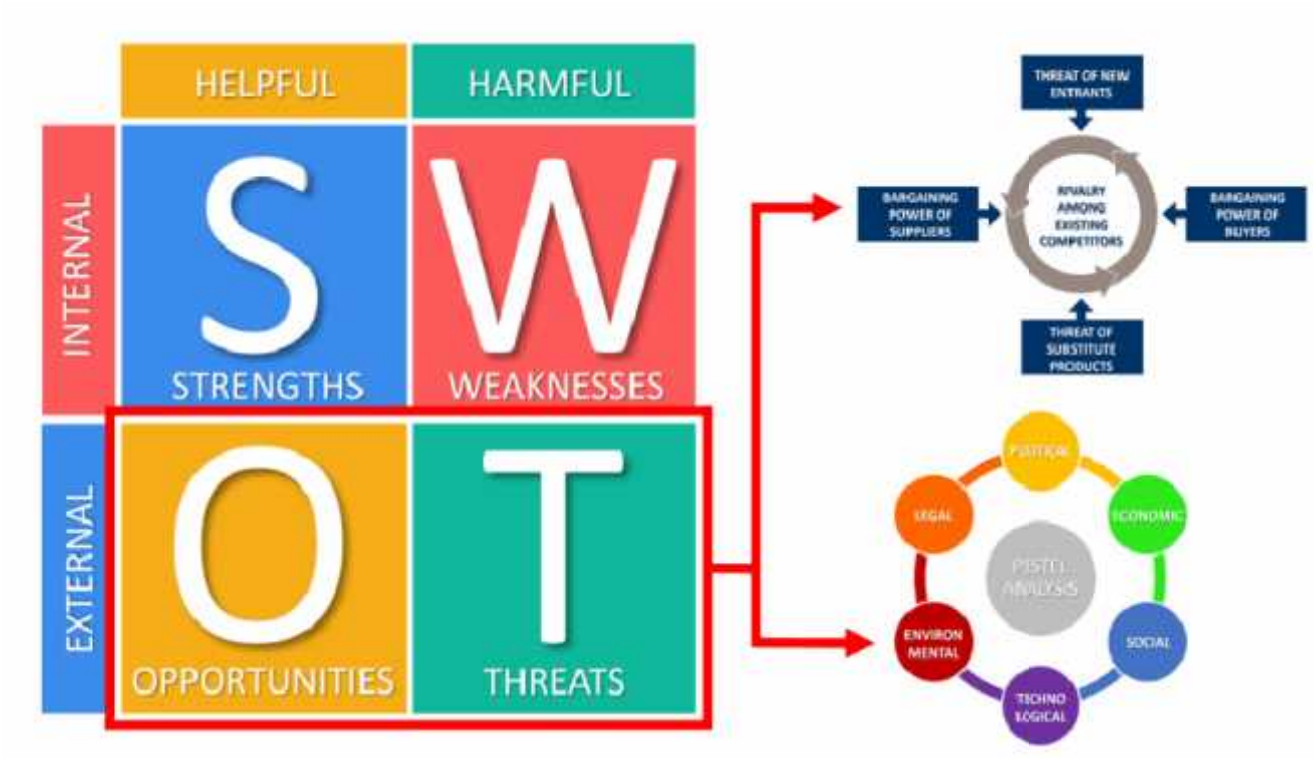

Figure 2: External Factors of SWOT Analysis (PESTEL and Porter's Five Forces)

TOWS Matrix

A SWOT analysis helps assessing a company's current internal and external situation, but does not provide concrete strategic actions to take. **One way to map out the strategic options a company has, is by using the so called TOWS matrix (or TOWS analysis).** By combining the external environment's opportunities and threats with the internal organization's strengths and weaknesses, management can come up with four basic strategies to follow based on the situation it is in:

Figure 3: TOWS Matrix

WT situation: Mini-Mini strategy

The company in this case has little development opportunities. It operates in a hostile environment and its potential for change is small. It does not have significant strengths, which could withstand threats. The aim of the Mini-Mini strategy is to minimize both weaknesses and threats. Mini-Mini strategy boils down to a pessimistic scenario such as the liquidation of a company or in an optimistic situation – to strive for survival by merging with another organization.

WO situation: Mini-Maxi strategy

In this situation the company has more vulnerabilities (weaknesses), but its environment provides plenty of opportunities to resolve that. The Mini-Maxi strategy attempts to minimize the weaknesses and to maximize the opportunities. The strategy should include the exploitation of these opportunities while reducing or correcting weaknesses within the organization. Outsourcing activities or acquiring another company with the right resources could be an option for example.

ST situation: Maxi-Mini strategy:

In this case we see a strong company operating in a hostile environment. The aim of a Maxi-Mini strategy is to maximize the strengths of a company while minimizing the threats through these strengths. A company with strong financial capabilities and cost-reducing skills, could lower its prices to drive out competition.

SO situation: Maxi-Maxi strategy:

Any company would like to be in a position where it can maximize both strengths and opportunities. Such an enterprise can lead from strengths, utilizing its resources to take advantage of the opportunties the market is offering. Companies in these situations could think about expanding internationally or diversifing their product portfolio to boost revenues. For these growth opportunties you might want to look at the well-known business growth framework: the Ansoff Matrix.

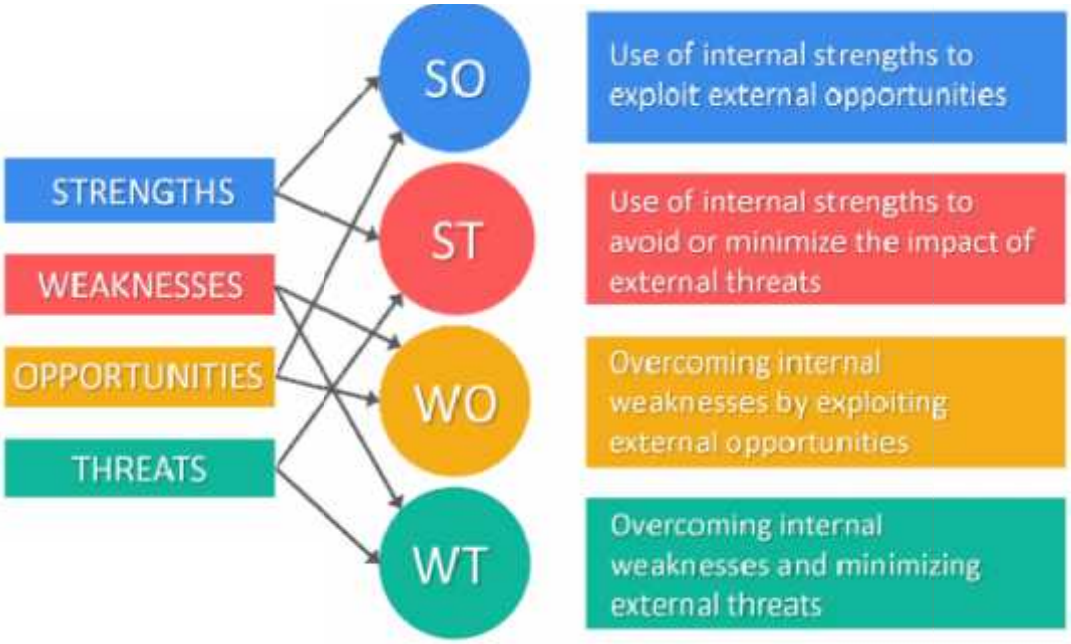

Figure 4: SWOT Analysis converted into TOWS (SO, ST, WO and WT Strategies)

SWOT Analysis In Sum

A great thing about the SWOT analysis is the fact that it combines different research streams and perspectives (e.g. **Resource Based View (RBV)** and **Industrial Organization (I/O)** perspectives). Frameworks such as

Porter's Five Forces were critisized that they focused too much on the external environment to determine a company's profit potential, whereas the VRIO framework relied too much on internal resources and capabilities as a source for competitive advantage. **In reality both internal and external factors will have to be taken into account of course to improve a company's chances for success.** A SWOT analysis combined with a TOWS analysis offers a good starting point to assess the current situation and to evaluate potential next steps.