

Generating a Plan of Action: SWOT (TOWS) Analysis

Objective: The SWOT model provides a comprehensive view of the firm in relation to its environment. Taking this further, you will learn to build a plan of action using the TOWS Matrix.

The term SWOT is widely used and well known in the field of strategic management. It is an acronym for Strengths, Weaknesses, Opportunities, and Threats, and represents a helpful tool for generating a summary of a strategic situation. Strengths and weaknesses capture the internal environment of the firm and may include skills, expertise, organizational resources, competitive capabilities, positional advantages or disadvantages, weak finances, market share, brand recognition, or distribution capabilities, to name a few. Opportunities and threats stem from a company's external competitive environment. It represents trends in the environment that may be favorable or unfavorable to the firm. A merger of two rivals may, for example, be a threat. Or, increasing concern in society about convenience may be a favorable trend for a company whose products and services are designed for busy consumers. New regulations or the emergence of lower-cost technologies, on the other hand, may pose threats.

The purpose of this classification was to ensure a good fit between the firm's material, technical, financial, and managerial resources to ensure full exploitation of opportunities while minimizing risks facing the firm. By putting the four categories in a matrix format, Prof. H. Weihrich provided a useful tool to generate alternatives in a systematic manner. In this format, the analysis is referred to as the TOWS matrix (Figure 7.1, below). **ALSO SEE TWO MORE EXAMPLES OF TOWS MATRIX BELOW – ONE THAT CAN BE YOUR OWN POTENTIAL SWOT & ANOTHER TOWS MATRIX OF A RETAIL COMPUTER STORE LIKE BEST BUY.** This enables one to match the elements of strengths and weaknesses with the opportunities and threats to generate action steps. When S and O are matched in the SO box, they represent possible ways in which the organization can use its strengths to take advantage of opportunities and favorable trends in the environment.

Similarly, the ST box represents ways in which strengths could be used to protect the organization from threats. The WO suggests areas internally that need to be tackled to take advantage of the opportunities, and WT shows how the weaknesses make the organization most vulnerable against threats and thereby point to defensive tactics. Take care in entering items in the S, W, O, and T boxes, for they determine the quality of action steps you will generate. Try to be as specific as you can. For instance, rather than saying "Good marketing skills," it is better to specify what aspect of marketing a company can do well. Or, instead of listing "International expansion" as an opportunity, try to spell out what market characteristic, internationally, represents the opportunity. When you match the items to generate action steps, state it as actions the organization can undertake, rather than as an analysis of the situation.

Matching the strengths and opportunities directs the growth and expansion of firms. However, equally important is the intersection of weaknesses and threats. They represent areas where

the organization is particularly vulnerable, especially in a very competitive environment. Steps the organization could take to mitigate potential threats and strengthen its position are important components of an action plan. Complementary action steps, from the various boxes, can be combined to form a cohesive “alternative.” When at least two such alternative groups of action steps are formed, they present alternative plans of action for the future. Then, depending on goals, resource availability, short vs. long-term time frame, etc., the organization can make a choice.

FIGURE 7.1 TOWS MATRIX

INTERNAL	Strengths (S)	Weaknesses (W)
	1. 2. 3. 4. 5.	1. 2. 3. 4. 5.
EXTERNAL		
Opportunities (O) <i>Favorable Trends</i> 1. 2. 3. 4. 5.	SO 1. 2. 3.	WO 1. 2. 3.
Threats (T) <i>Unfavorable Trends</i> 1. 2. 3. 4. 5.	ST 1. 2. 3.	WT 1. 2. 3.

Example No. 1: YOUR OWN SWOT MATRIX & SO, WO, ST, WT Strategies

1. On a separate sheet of paper, construct a SWOT Matrix. Include what you consider to be your major external opportunities, major external threats, major strengths and major weaknesses. For example, an internal weakness might be a low grade point average. An external opportunity might be a graduate program that interests you.
2. Match key external and internal factors by recording in the appropriate cell of the matrix alternative strategies or actions that would allow you to capitalize upon your strengths, overcome your weaknesses, take advantage of your external opportunities, and minimize the impact of external threats. Be sure to use the appropriate matching notation in the strategy cells of the matrix. Because every individual is unique, there is no one right answer to this exercise.

Leave Blank	Strengths – S 1. Good grades 2. Financial resources available for education 3. Strong communication skills 4. Motivated 5. Good team player	Weaknesses – W 1. No work experience 2. No foreign language skills 3. Degree from regional university with little brand recognition
Opportunities – O 1. Potential to advance education with MBA 2. Many industries and locations with job growth (especially health care and biotechnology)	SO Strategies 1. Apply to graduate school (S1, S2, O1) 2. Enter industries with strong potential for growth (S1, S3, S4, S5, O2)	WO Strategies 1. Seek out an internship (W1, O2) 2. Minimize importance of foreign language by improving other aspects of education (W2, O1)
Threats – T 1. Many students graduate each year with same degree 2. Potential for recession or slow economic growth (fewer jobs available, salaries lower) 3. Jobs outsourced overseas	ST Strategies 1. Emphasize good grades to potential employers (S1, T1) 2. Consider pursuing MBA if job market is weak (S2, T2, T3)	WT Strategies 1. Pursue foreign language training and other skills that can differentiate from others (W2, T1) 2. Seek out internship in growing industry (W1, T2, T3)

FIGURE 6-3

A SWOT Matrix for a Retail Computer Store

Strengths		Weaknesses
1. Inventory turnover up 5.8 to 6.7		1. Software revenues in store down 12%
2. Average customer purchase up \$97 to \$128		2. Location of store hurt by new Hwy 34
3. Employee morale is excellent		3. Carpet and paint in store in disrepair
4. In-store promotions = 20% increase in sales		4. Bathroom in store needs refurbishing
5. Newspaper advertising expenditures down 10%		5. Total store revenues down 8%
6. Revenues from repair/service in-store up 16%		6. Store has no Web site
7. In-store technical support persons have MIS degrees		7. Supplier on-time-delivery up to 2.4 days
8. Store's debt-to-total assets ratio down 34%		8. Customer checkout process too slow
		9. Revenues per employee up 19%
Opportunities	SO Strategies	WO Strategies
1. Population of city growing 10%	1. Add 4 new in-store promotions monthly (S4, O3)	1. Purchase land to build new store (W2, O2)
2. Rival computer store opening 1 mile away	2. Add 2 new repair/service persons (S6, O5)	2. Install new carpet/paint/bath (W3, W4, O1)
3. Vehicle traffic passing store up 12%	3. Send flyer to all seniors over age 55 (S5, O5)	3. Up Web site services by 50% (W6, O7, O8)
4. Vendors average six new products/yr		4. Launch mailout to all Realtors in city (W5, O7)
5. Senior citizen use of computers up 8%		
6. Small business growth in area up 10%		
7. Desire for Web sites up 18% by Realtors		
8. Desire for Web sites up 12% by small firms		
Threats	ST Strategies	WT Strategies
1. Best Buy opening new store in 1yr nearby	1. Hire two more repair persons and market these new services (S6, S7, T1)	1. Hire 2 new cashiers (W8, T1, T4)
2. Local university offers computer repair	2. Purchase land to build new store (S8, T3)	2. Install new carpet/paint/bath (W3, W4, T1)
3. New bypass Hwy 34 in 1 yr will divert traffic	3. Raise out-of-store service calls from \$60 to \$80 (S6, T5)	
4. New mall being built nearby		
5. Gas prices up 14%		
6. Vendors raising prices 8%		