

SWOT analysis and PEST analysis

(Notes to accompany templates)

The SWOT analysis is an extremely useful tool for understanding and reviewing the company's position prior to making decisions about future company direction or the implementation of a new business idea. A SWOT analysis can be completed by an individual within the organization (provided they can take an overview of the current situation) but is often best completed in a team or group. The discussion itself is informative, and the quality of the output is better if perceptions are gathered from a number of people.

The PEST analysis is a tool to evaluate external factors. It is often helpful to complete a PEST analysis prior to a SWOT analysis, although it may be more useful to complete a PEST analysis as part of, or after, a SWOT analysis. A SWOT analysis measures a business unit; a PEST analysis measures trends and changes in the market.

A SWOT analysis is a subjective assessment of information about the business that is organized using the SWOT format into a logical order that helps understanding, presentation, discussion and decision-making. The four dimensions are a useful extension of a basic two heading list of pro's and con's. The SWOT analysis template is normally presented as a grid, comprising four sections, one for each of the SWOT headings: Strengths, Weaknesses, Opportunities, and Threats. The SWOT template below includes sample questions, whose answers are inserted into the relevant section of the SWOT grid. The questions are examples, or discussion points, and obviously can be altered depending on the subject of the SWOT analysis. Note that many of the SWOT questions are also talking points for other headings - use them as you find most helpful, and make up your own to suit the issue being analyzed.

A SWOT analysis can also be used to examine different aspects of the business, in our case examining the businesses solutions, customers, capabilities and organizational capabilities. Each represents a different element of the business, and requires a separate assessment. In the template provided we suggest specific questions that need to be answered relevant to each aspect of the business. As you work with this framework you may add questions that are relevant to the specific context of your business. Importantly, the SWOT analysis can include many different ideas that make it difficult to process decisions. It is therefore useful to define the relevant level of significance you will consider when including a factor before completing the analysis. That said, it is important that you identify at least one factor to go in each box, even if you cannot determine the relative importance of a factor. At the evaluation stage you will be better able to determine this, and will have to do this when you use the summary sheet to incorporate the most important elements and prioritize the outcomes. The first time you perform a SWOT analysis it can be challenging, but like most things, the more you do it, the easier it gets.

A SWOT (2x2) matrix using internal/external categories

Here is a typical extension of the basic SWOT analysis grid into a useful 'action-based' 2x2 SWOT matrix. The SWOT analysis in this format acts as a quick decision-making tool, quite aside from the more detailed data that would typically be fed into business planning process for each of the SWOT factors. Here the 2x2 matrix model automatically suggests actions for issues arising from the SWOT analysis, according to four different categories:

	Strengths (internal)	Weaknesses (internal)
Opportunities (external)	<p>obvious natural priorities</p> <p>Likely to produce greatest ROI (Return On Investment)</p> <p>Likely to be quickest and easiest to implement.</p> <p>Probably justifying immediate action-planning or feasibility study.</p> <p>Executive question: "If we are not already looking at these areas and prioritizing them, then why not?"</p>	<p>potentially attractive options</p> <p>Likely to produce good returns if capability and implementation are viable.</p> <p>Potentially more exciting and stimulating and rewarding than S/O due to change, challenge, surprise tactics, and benefits from addressing and achieving improvements.</p> <p>Executive questions: "What's actually stopping us doing these things, provided they truly fit strategically and are realistic and substantial?"</p>
Threats (external)	<p>easy to defend and counter</p> <p>Only basic awareness, planning, and implementation required to meet these challenges.</p> <p>Investment in these issues is generally safe and necessary.</p> <p>Executive question: "Are we properly informed and organized to deal with these issues, and are we certain there are no hidden surprises?" - and - "Since we are strong here, can any of these threats be turned into opportunities?"</p>	<p>potentially high risk</p> <p>Assessment of risk crucial.</p> <p>Where risk is low then we must ignore these issues and not be distracted by them.</p> <p>Where risk is high we must assess capability gaps and plan to defend/avert in very specific controlled ways.</p> <p>Executive question: "Have we accurately assessed the risks of these issues, and where the risks are high do we have specific controlled reliable plans to avoid/avert/defend?"</p>

SWOT analysis template

Here is a larger illustration of a SWOT analysis that can be used to enhance questions in your template.

Subject of SWOT analysis: (define the subject of the analysis here)	
strengths <ul style="list-style-type: none">• Advantages of proposition?• Capabilities?• Competitive advantages?• USP's (unique selling points)?• Resources, Assets, People?• Experience, knowledge, data?• Financial reserves, likely returns?• Marketing - reach, distribution, awareness?• Innovative aspects?• Location and geographical?• Price, value, quality?• Accreditations, qualifications, certifications?• Processes, systems, IT, communications?• Cultural, attitudinal, behavioural?• Management cover, succession?	weaknesses <ul style="list-style-type: none">• Disadvantages of proposition?• Gaps in capabilities?• Lack of competitive strength?• Reputation, presence and reach?• Financials?• Own known vulnerabilities?• Timescales, deadlines and pressures?• Cashflow, start-up cash-drain?• Continuity, supply chain robustness?• Effects on core activities, distraction?• Reliability of data, plan predictability?• Morale, commitment, leadership?• Accreditations, etc?• Processes and systems, etc?• Management cover, succession?
opportunities <ul style="list-style-type: none">• Market developments?• Competitors' vulnerabilities?• Industry or lifestyle trends?• Technology development and innovation?• Global influences?• New markets, vertical, horizontal?• Niche target markets?• Geographical, export, import?• Market need for new USP's?• Market response to tactics, e.g., surprise?• Major contracts, tenders?• Business and product development?• Information and research?• Partnerships, agencies, distribution?• Market volume demand trends?• Seasonal, weather, fashion influences?	threats <ul style="list-style-type: none">• Political effects?• Legislative effects?• Environmental effects?• IT developments?• Competitor intentions - various?• Market demand?• New technologies, services, ideas?• Vital contracts and partners?• Obstacles faced?• Insurmountable weaknesses?• Employment market?• Financial and credit pressures?• Economy - home, abroad?• Seasonality, weather effects?

There is some overlap between PEST and SWOT. Similar factors appear in each. That said, PEST and SWOT are certainly two different perspectives:

PEST tends to assess a market, including competitors, from the standpoint of a particular proposition or a business. SWOT in business and marketing tends to be an assessment of a business or a proposition, whether it is your own business or (less commonly) a competitor's business or proposition.

Strategic planning is not a precise science - no tool is mandatory - it's a matter of pragmatic choice as to what helps best to identify and explain the issues. PEST analysis may be useful before SWOT analysis where it helps to identify SWOT factors. Alternatively PEST analysis may be incorporated within a SWOT analysis, to achieve the same effect. PEST becomes more useful and relevant the larger and more complex the business or proposition, but even for a very small local businesses a PEST analysis can still throw up one or two very significant issues that might otherwise be missed.

The four quadrants in PEST vary in significance depending on the type of business, for example, social factors are more obviously relevant to consumer businesses or a B2B (business-to-business) organization close to the consumer-end of the supply chain, whereas political factors are more obviously relevant to a global munitions supplier or aerosol propellant manufacturer. PEST analysis can be used for marketing and business development assessment and decision-making, and the PEST template encourages proactive thinking, rather than relying on habitual or instinctive reactions.

Here the PEST analysis template is presented as a grid, comprising four sections, one for each of the PEST headings: Political, Economic, Social and Technological. Other than the four main headings, the questions and issues in the template below are examples and not exhaustive - add your own and amend these prompts to suit your situation, the experience and skill level of whoever is completing the analysis, and what you aim to produce from the analysis. If helpful refer to a list of these other 'headings', for example: Ecological/ Environmental, Legislative/or Legal, Demographic, Ethical, Industry Analysis. Apply some strategic consideration and pressure to the points you list under these 'additional' headings. Ask yourself what the effects of each will be on the 'big four' (Political, Economic, Social, Technological). Often your answers will persuade you that the original four-part PEST model is best and that using a more complex series of headings makes it more difficult to complete the analysis fully and strategically.

The analysis can be converted into a more scientific measurement by scoring the items in each of the sections. There are no established good or bad reference points - these are for you to decide. Scoring is particularly beneficial if more than one market is being analyzed, for the purpose of comparing which market or opportunity holds most potential and/or obstacles. This is useful when considering business development and investment options, i.e., whether to develop market A or B; whether to concentrate on local distribution or export; whether to acquire company X or company Y, etc. If helpful when comparing more than one different market analysis, scoring can also be weighted according to the more or less significant factors.

PEST analysis template

<p>political</p> <ul style="list-style-type: none"> • ecological/environmental issues • current legislation home market • future legislation • international legislation • regulatory bodies and processes • government policies • government term and change • trading policies • funding, grants and initiatives • home market lobbying/pressure groups • international pressure groups • wars and conflicts 	<p>economic</p> <ul style="list-style-type: none"> • home economy situation • home economy trends • overseas economies and trends • general taxation issues • taxation specific to product/services • seasonality/weather issues • market and trade cycles • specific industry factors • market routes and distribution trends • customer/end-user drivers • interest and exchange rates • international trade/monetary issues
<p>social</p> <ul style="list-style-type: none"> • lifestyle trends • demographics • consumer attitudes and opinions • media views • law changes affecting social factors • brand, company, technology image • consumer buying patterns • fashion and role models • major events and influences • buying access and trends • ethnic/religious factors • advertising and publicity • ethical issues 	<p>technological</p> <ul style="list-style-type: none"> • competing technology development • research funding • associated/dependent technologies • replacement technology/solutions • maturity of technology • manufacturing maturity and capacity • information and communications • consumer buying mechanisms/technology • technology legislation • innovation potential • technology access, licencing, patents • intellectual property issues • global communications

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All businesses benefit from a SWOT analysis, and all businesses benefit from completing a SWOT analysis of their main competitors, which interestingly can then provide some feed back into the economic aspects of the PEST analysis. The use of the compilation table allows you to extract the most important elements of the SWOT analysis, and then rank the relative importance of each in making strategic decisions.