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INSIGHTS

Chapter 5

Conducting the SWOT analysis

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Chapter 5

Conducting the SWOT analysis

This chapter covers:

- The purpose of the SWOT analysis
- Identifying real strengths and weaknesses
- Spotting external opportunities and threats
- The SWOT analysis

1. Introduction

Review of many account plans suggests that there are few tools used as often as the SWOT analysis that are so poorly applied. Observation indicates that a SWOT analysis tends to consist of a long list that seems to have little to do with any of the analysis that preceded it or with the proposed account objectives and strategies that succeed it. For the most part it is completed because the particular plan format being used requires it to be done. This is unfortunate because the SWOT analysis is the bridge that links the detailed analysis described in the preceding two chapters with the account objectives, strategies and tactics discussed in subsequent ones.

2. The purpose of the SWOT analysis

The SWOT analysis serves two main purposes.

1. Provides a one page summary of the most important outputs from the analysis stages
2. Allows the strategic focus for the account to be identified

The one page summary is valuable because it helps to focus attention on what is most important in the complex situation between the supplier and the customer. The number of entries into the SWOT should be not be too large. There is no merit and no point in having long lists.

The second purpose for the SWOT, and its most important, is to provide strategic focus, as shown in figure 5.1. Once completed, it reveals the possibility of a supplier using, or leveraging a strength to capitalize on a customer opportunity. If this is possible then the supplier will be able to implement an attack strategy that leverages a core competence (strength) to deliver a better, more attractive relationship to the customer than competitors. Conversely, if there is a threat that will undermine the supplier's position because it impacts on a weakness, then a defence strategy will need to be implemented to block its impact.

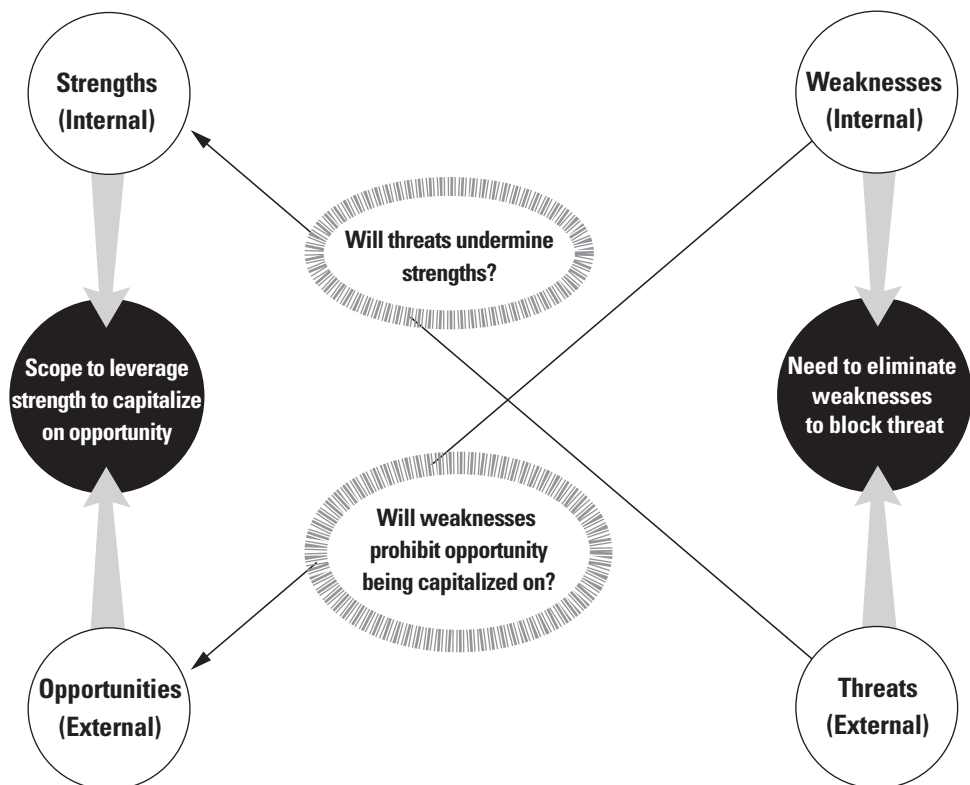


Figure 5.1 – The strategic application of the SWOT analysis

Sometimes it may not be possible to use a strength to take advantage of an opportunity because it is being undermined by a threat. If this is the case, the strength must be reinforced to block the threat. If this cannot be done, then the strength cannot be leveraged to capitalize on an opportunity. For example, a supplier may have a strength such as a patent on a product that is particularly important to a vital customer application. However, the customer may be developing a replacement process that does not require the particular application – a threat.

On other occasions it may be that a weakness makes it difficult to capitalize on an opportunity, despite the existence of a strength that can be leveraged. In this

case, the weakness needs to be neutralized if the opportunity is to be made the most of. For example, the supplier may have a very low share of the customer's business – a weakness. In addition, it has a very good market research department that is very knowledgeable about the customer's potential markets – a strength. The customer wishes to expand into new markets – an opportunity. However, the supplier will find it difficult to utilize its research strength because its position is weak.

3. Analyzing strengths and weaknesses

Real strengths and weaknesses

Strengths and weaknesses are related to the position of the supplier within the customer. They are internal to the supplier and its trading relationship with the customer.

For a strength to be a genuine one, three tests need to be applied, each of which must be positive.

1. Is it important to the customer?

Unless the strength possessed by the supplier is important to the particular customer then it cannot be a real strength. General strengths possessed by the supplier, such as technically highly trained sales engineers, may or may not be relevant to a particular customer depending on their own application and development requirement.

2. Are we better than the competitor(s)?

Even if the strength is relevant to the customer, it still may not be a genuine strength because the competitor(s) has a similar strength that is of equal or superior quality.

3. Is it difficult for the competitor to emulate?

Even if the competitor is not as good, the strength may not be a real one, if it is possible for the competitor(s) to catch up relatively easily. If they do so, then test 2 becomes negative.

Very similar sets of tests are applied to assess weaknesses.

1. Is it important to the customer?

This is the same as for strengths

2. Are we worse than the competitor(s)?

Our position is inferior to that of the competitor(s)

3. Is it difficult for us to emulate?

It will require significant resources and time to catch up with the competitor.

By applying these three tests many supposed strengths and weaknesses will fall by the wayside, and long lists can rapidly be reduced to a few core strengths. One way of doing this systematically is to give each positive answer to the three tests a score of 1 and negative answers 0. Only those strengths/weaknesses that score a total of 3 points are genuine.

3.2 Sources of strengths and weaknesses

The analysis in chapters 3 and 4 provides the inputs to the SWOT analysis. Figure 5.2 shows the sources of the inputs, referencing the relevant figures in chapters 3 and 4. Inevitably, there is some overlap between some of the information provided by some of these sources. For example, some of the factors reviewed in the Activity Analysis (Figure 3.9) such as 'joint planning' may also show in the bonding audit (Figure 4.18). However, as they are considered from different perspectives, they are complementary rather than merely repetitive.

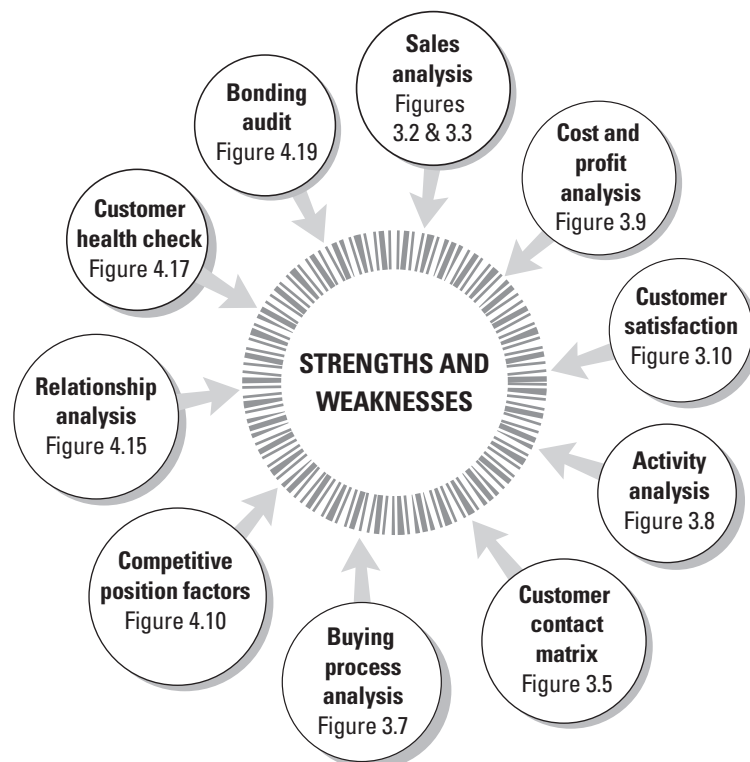


Figure 5.2 – Sources of strengths and weaknesses

A good starting point for the SWOT analysis is the ‘customer base map’ because one of the dimensions that it incorporates is ‘competitive position’; that is, the strength of the supplier in the customer, relative to its competitors. The main factors that impact on the supplier’s competitive position in the customer have been discussed in section 2.2 of chapter 4.

Relative share

Your company’s share of the customer’s category purchases divided by that of the largest, for example:

Your company's share	Largest competitor share	Relative market share
10%	40%	0.25
30%	30%	1
60%	20%	3

To show the process of assessing whether a factor is a real strength or weakness, ‘share of the customer’s purchases’, which is nearly always a key dimension, will be used as an example. If the supplier’s relative share is significantly greater than 1 (at least 1.3) then this is usually a strength. (A relative share above 1.3 means the supplier’s share is a minimum of a third larger than its biggest competitor). It therefore would get a positive answer to test 2 for strengths (are we better than competitors?) and also for test 3 (is it difficult for competitors to emulate us?).

However, a supplier with a relative share of between 1 and 1.3 is probably not far enough ahead of its main competitor to make it difficult for them to catch up. Hence the answer to question 3 would be negative in this case. Conversely, once a supplier’s relative share reduces below 0.75 is it likely that its share is a weakness, since the largest competitor is at least one third larger than it is. It would therefore get positive answers on tests 2 (are we worse than competitors?) and 3 (is it difficult for us to emulate?) for weaknesses.

However, relative share on its own is not sufficient. Question 1 (is it important to the customer?) also needs to be addressed. To do so it is necessary to look at actual share, since this will indicate importance to customer. If there are many suppliers, and none have a share of the customer’s purchases in the category above 20%, then none is likely to be important to the customer. The answer then to question 1 is negative. Hence share, irrespective of the supplier’s relative share is neither a strength nor a weakness. Once share exceed 20% then the supplier or competitor becomes more important to the customer. The answer to question 1 is therefore positive and share of customer category purchases could become a source of strength or weakness. Using each of the tests and scoring 1 for a positive answer and zero for a negative answer and adding the result will give a score of 3 to indicate a real strength or weakness.

Figure 5.3 provides a format for identifying real strengths and weaknesses. From the analysis described in Chapters 3 and 4, each factor is listed and an initial subjective assessment made on whether it is a strength or weakness. The three appropriate tests are applied and the results added. Only those scoring 3 are entered as real strengths or weaknesses in the final column.

Some may feel that this approach may exclude some moderately strong strengths which, in the absence of really powerful ones, need to be capitalized on. This can be accommodated by allocating a half point if the factor partially meets the test. For example, rather than score zero if the share of the customer's business is less than 20%, a half point may be allocated if it is between 10% and 20%.

Strengths scoring 2.5 or even 2 can then also be included, provided that it is realized that a strategy based on them involves a higher degree of risk.

Factors that could be strengths/weaknesses	Identify as a possible strength or weakness	Total score	Specify as a real strength or weakness
Competitive position			
Sales analysis			
Cost/profit analysis			
Customer satisfaction			
Activity analysis			
Customer contact matrix			
Buying process analysis			
Relationship analysis			
Customer health check			
Bonding audit			

Figure 5.3 – Strength and weakness analysis

4. Spotting external opportunities and threats

Real opportunities and threats

In some ways the use of the word opportunity can be misleading. It is often interpreted as a potential action the supplier could take. For example, if it is due to launch a new product, then it may define as an opportunity the possibility of selling the product to the key customer. Alternatively, an opportunity might be perceived as the chance to eliminate a weakness. These are not helpful ways of looking at opportunities.

Rather, opportunities should be viewed as events over which the supplier has no, or minimal influence or control. They are *external* to their organization. Opportunities are concerned with the customer or their environment. Actions, what the supplier might do, are not opportunities. Indeed actions have no part to play in the SWOT analysis. Deciding action (strategy) happens after the SWOT is completed. Whether an opportunity is exploited or not is a decision taken subsequently.

Opportunities, if they happen, could be beneficial to the supplying organization. It may benefit through increasing share of the customer's purchases, obtaining the patents for a new product, learning new/special skills, improving its image and so on.

Threats are generally far easier to identify. They are also external to the supplying company and could, if they materialize, do harm to the supplier. This harm may manifest itself in any number of ways, including losing customer share, having to redevelop an offer, needing to reduce price, having to apply more resources, receiving negative publicity and so on.

Both opportunities and threats therefore are *external* to the supplier organization and its trading with the customer. They are to do with the customer itself, the supplier's competitors, the customer's competitors, the customer's customers and the environment. Also, opportunities and threats are concerned with what might happen. There is no absolute certainty that the impact of an opportunity or threat will ever actually materialize. For example, proposed legislation may be a threat but there is no guarantee that it will be enacted.

Strengths and weaknesses, in contrast, are *internal* to the supplying company and its trading with the customer, and are concerned with what is, not what might be.

4.2 Sources of opportunities and threats

One of the most significant sources of opportunities or threats is change. Anything that is changing creates a new set of circumstances that need to be dealt with. New legislation, technology or operating methods all have an impact and may open up opportunities or pose threats. Markets change, they grow or decline; customer needs and requirements evolve; ways of doing business together advance; reputations flourish or founder. Since many things are changing most of the time, the challenge is to spot the important changes that are likely to have a significant effect on the customer.

Competitors are often a significant source of opportunity or threat. New entrants may reduce the available market for an incumbent supplier, whilst a withdrawal will have the opposite effect. Competitors can exert pressure through pricing, new product introductions, reaching agreements with customers and so on, all of which can be threats.

Also, the customers themselves are continually changing, reorganizing, implementing new strategies and priorities, embarking on new initiatives and abandoning existing ones, all creating possible opportunities and threats.

The main sources of opportunities and threats are shown in figure 5.4, with the relevant references to the figures from the analysis conducted in chapters 3 and 4 also shown. Each possible opportunity and threat must be examined and assessed against three tests:

- a) Is it external to the supplier?
- b) Will it benefit or harm the supplier if it continues/materializes?
- c) Will its actual/potential impact be of significance?

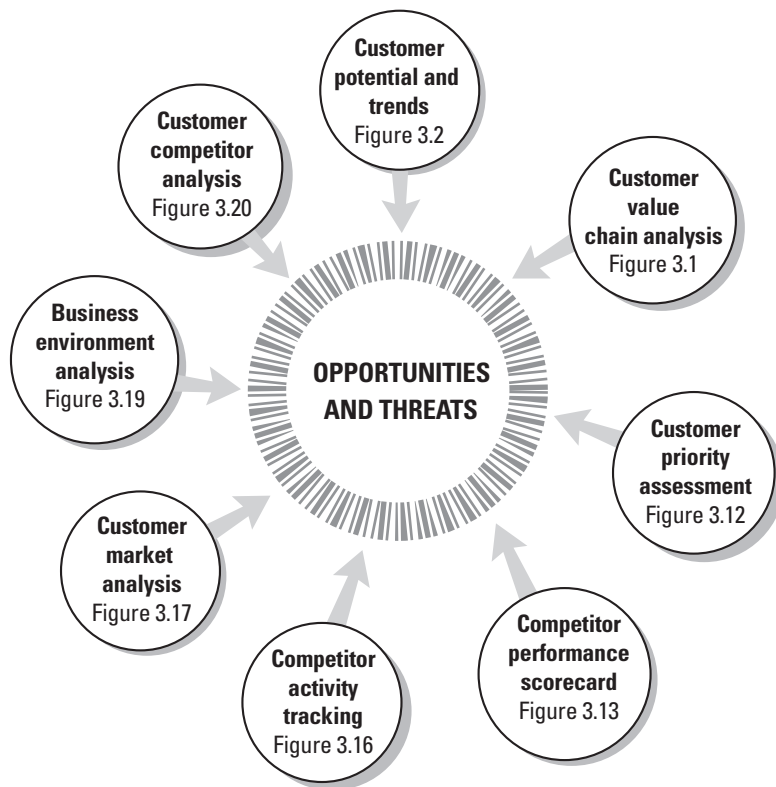


Figure 5.4 – Sources of opportunities and threats

A similar scoring system could be adopted as for assessing strengths and weaknesses with a positive answer to each question scoring 1 point and a negative scoring 0 points. Only those factors scoring a total of 3 points are real opportunities or threats. Figure 5.5 shows a format for distilling the opportunities and threats.

Factors that could be opportunities/threats	Identify as a possible opportunity or threat	Total score	Specify as a real opportunity or threat
Customer potential/trends			
Customer value chain analysis			
Customer priority assessment			
Competitor performance scorecard			
Competitor activity tracking			
Customer market analysis			
Business environment analysis			
Customer competitor analysis			

Figure 5.5 – Opportunities and threats analysis

5. The SWOT analysis

The outputs from tables 5.3 and 5.5 are the constituents of the SWOT. This is usually presented in the form of a matrix as shown in Figure 5.6

Strengths	Weaknesses
Opportunities	Threats

Figure 5.6 – The SWOT analysis

The number of entries in each cell will probably be less than ten. If they exceed fifteen, then they should be carefully re-examined as it is likely that there will be entries that are not true strengths, weaknesses, opportunities or threats.

Example

From performing a SWOT analysis from a customer's perspective, an account manager reasoned that they would be using a strength that they had in a particular technology to enter a new market. This became an opportunity in the SWOT analysis from the supplier's perspective, which fortunately they could take advantage of by leveraging a strength they had in terms of knowledge and experience of the new market.

It is also helpful and insightful to complete an additional SWOT analyses from the perspective of the customer, considering its strengths and weaknesses and the opportunities and threats it faces in its market. This will give insight into the strategy being adopted by the customer, or the strategy it is likely to adopt given an objective analysis of its situation. This provides the supplier with two additional leverage points:

1. The customer's weaknesses and opportunities can indicate opportunities in the supplier's SWOT
2. Understanding the customer's strategy helps the supplier to better align their total offering in a way that adds customer value.

The analyses structure already discussed can be used. To it should be added one additional dimension – suppliers. That is, consideration from the customer's perspective of their strengths and weaknesses with regard to their suppliers, and any opportunities or threats inherent in the situation. This is achieved by looking at the relationship between supplier and customer (already discussed) from the other end of the telescope.

Example

From the customer's perspective having one supplier in a particular category supplying them with over 70% of their total requirement was a weakness. As this supplier was also a major supplier to their larger competitors this was a threat, as the dominant supplier could favour their competitors at its expense. Potentially, a weaker supplier to this customer might offer an advantageous agreement, giving them additional benefits not enjoyed by their competitors.

6. Summary

In this chapter we have considered the following:

1. The purpose of the SWOT analysis
 - Provides a one page summary of the most important outputs from the analysis
 - Allows the strategic focus for the account to be identified
2. Identifying real strengths and weaknesses
 - Applying the three tests
 - Sources of strengths and weaknesses
3. Spotting external opportunities and threats
 - Applying the three tests
 - Sources of real opportunities and threats
4. The SWOT analysis
 - The SWOT matrix
 - Conducting the SWOT from the supplier's and the customer's perspectives

Read each statement below and tick the column that most reflects the extent of your agreement	Always	Usually	Occasionally	Rarely /never
1. The SWOT is a key constituent of the key account plan				
2. The SWOT is completed from the perspective of your company in the particular customer				
3. The SWOT analysis uses all the outputs from the analysis				
4. Robust tests are applied to assess real strengths and weaknesses				
5. Robust tests are applied to assess real opportunities and threats				
6. The SWOT is also completed from the customer perspective				
7. The number of entries in each cell of the SWOT is less than ten				
8. The SWOT is the key tool that links the account analysis to the formulation of the account strategy				
For each tick score	4	3	2	1
TOTAL				
GRAND TOTAL				

SCORING

27 – 32 POINTS

Your Company's processes for SWOT analysis is leading edge

21 – 25 POINTS

Your Company's SWOT analysis processes are well formed and should be maintained. Although further improvement is possible, the same effort applied to other parts of the Key Account Planning process will probably yield higher returns

15 – 20 POINTS

There are significant deficiencies in the SWOT analysis process. Focus on those elements that have the lowest score

14 OR LESS POINTS

The SWOT analysis process is not working well and requires fundamental review and restructuring

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