THE SWOT ANALYSIS

INTRODUCTION

CHAPTER – I
INTRODUCTION

1.1 Introduction

The contemporary business world is full of uncertainties. The future has become even less predictable than before. Underlying this uncertainty are certain fascinating dimensions that can lead to either success or failure. A careful analysis and understanding of the future uncertainty and its related aspects can be of great importance to the company.

The company needs to be well aware of its strengths and weaknesses in order to reap the benefits of the future opportunities and save it self from the future threats. Planning is the most important tool in helping company for the same.

There may be several ways in which an organization can undertake planning process though the steps of the process may remain the same. Various types of planning are: Corporate and functional planning, Strategic and tactical planning, Long-term and Short-term planning, Proactive and reactive planning and Formal and informal planning.

SWOT analysis is performed as a part of Strategic planning process, which is a part of Corporate planning. SWOT analysis is definitely a long-term, proactive and formal planning.

Corporate planning is the planning for the entire organization as a whole. The top-level management undertakes it and the decision taken thereby affects the entire organization. This determines the long-term objectives of the organization as a whole and then generates plans to achieve these objectives keeping in mind the possible changes in the environment in future. Because of its long-term orientation, corporate planning is also used a synonym of long-term planning. In fact, corporate planning is divided into strategic and operational or tactical planning. Strategic planning is the process of deciding on the long-term objectives of the organization keeping in mind the future changes, defining the resources required to attain these objectives and defining resource policy concerning the acquisition of resources, its use, and disposition. In this manner strategic planning encompasses all the functional areas of business. It is affected on the other hand by the changes in the environmental factors and so it involves an analysis of the environmental factors. It is normally undertaken for a long-term.

Strategic planning undertaken at the business unit level is known as the 'Business unit strategic planning'. Multi-product, multi geographical area organizations create divisions in the form of various strategic business units. Because each product/market segment served in unique, the company may create an SBU for each of them. Thus different SBUs are involved in distinct strategic business area serving distinct segment of the environment. Following is the business unit strategic planning process.

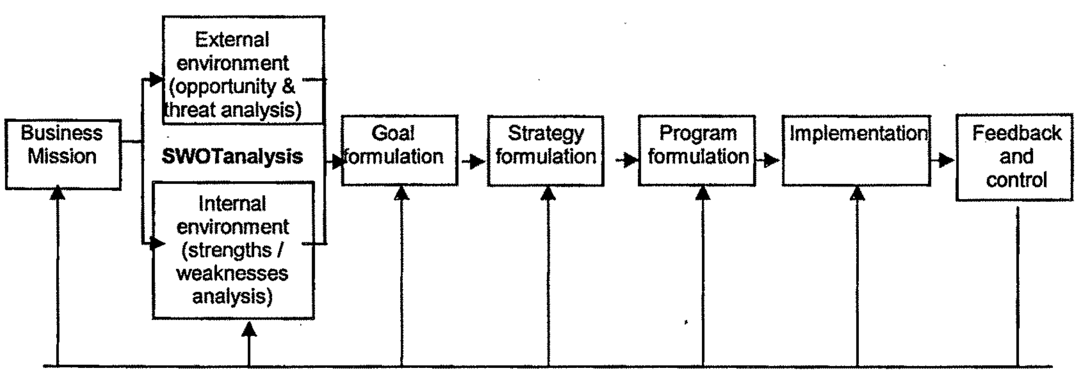
1.2. Business Unit Strategic Planning

The business unit strategic-planning process consists of the steps shown in following Figure. We examine each step in the sections that follow.

A) The Business Mission

Each business unit needs to define its specific mission within the broader company mission. Thus, a television studio-lighting-equipment company might define its mission as, "The company aims to target major television studios and become their vendor of choice for lighting technologies that represent the most advanced and reliable studio lighting arrangements." Notice that this mission does not attempt to win business from smaller television studies, with business by being lowest in price, or venture into nonlighting products.

The Business Unit Strategic-Planning Process



(Source: Kotler Philip, Keller L. Kevin, Marketing Management, Twelfth Edition, 2006, P-49)

B) SWOT Analysis

The overall evaluation of a company's strengths, weaknesses, opportunities, and threats is called SWOT analysis. It involves monitoring the external and internal marketing environment.

C) EXTERNAL ENVIRONMENT (OPPORTUNITY AND THREAT) ANALYSIS

A business unit has to monitor key *microenvironment forces* (demographic-economic, natural, technological, political-legal, and social-cultural) and significant *microenvironment actors* (customers, competitors, suppliers, distributors, dealers) that affect its ability to earn profits. The business unit should set up a marketing intelligence system to track trends and important developments. For each trend or development, management needs to identify the associated opportunities and threats.

A major purpose of environmental scanning is to discern new opportunities. In many ways, good marketing is the art of finding, developing, and profiting from opportunities. A **marketing opportunity** is an area of buyer need and interest in which there is a high probability that a company can profitably satisfy that need. There are three main sources of market opportunities. The first is to supply something that is in short supply. This requires little marketing talent, as the need is fairly obvious. The second is to supply an existing product or service in a new or superior way. There are several ways to uncover possible product or service improvements: by asking consumers for their suggestions (*problem detection method*); by asking consumers to imagine an ideal version of the product or service (*ideal method*); and by asking consumers to chart their steps in acquiring, using, and disposing of a product (*consumption chain method*). The third source often leads to a totally new product or service.

Opportunities can take many forms, and marketers have to be good at spotting them. Consider the following:

- A company may benefit from converging industry trends and introduce hybrid products or services that are new to the market. Example: At least five major cell phone manufacturers released phones with digital photo capabilities.
- A company may take a buying process more convenient or efficient. Example: Consumers can now use the Internet to find more books than ever and search for the lowest price with a few clicks.
- A company can meet the need for more information and advice. Example: Guru.com facilitates finding professional experts in a wide range of fields.
- A company can customize a product or service that was formerly offered only in a standard form. Example: P&G's Reflect.com

Web site is capable of producing a customized skin care or hair care product to meet a customer's need.

- A company can introduce a new capability. Example: Consumers can now create and edit digital "iMovies" with the new iMac and upload them to an Apple Web server to share with friends around the world.
- A company may be able to deliver a product or a service faster. Example: FedEx discovered a way to deliver mail and packages much more quickly than the U.S. Post Office.
- A company may be able to offer a product at a much lower price. Example: Pharmaceutical firms have created generic versions of brand-name drugs.

To evaluate opportunities, companies can use **Market Opportunity Analysis (MOA)** to determine the attractiveness and probability of success:

1. Can the benefits involved in the opportunity be articulated convincingly to a defined target market(s)?
2. Can the target market(s) be located and reached with cost-effective media and trade channels?

3. Does the company possess or have access to the critical capabilities and resources needed to deliver the customer benefits?
4. Can the company deliver the benefits better than any actual or potential competitors?
5. Will the financial rate of return meet or exceed the company's required threshold for investment?

In the opportunity matrix in the figure below, the best marketing opportunities facing the TV-lighting-equipment company are listed in the upper-left cell (#1). The opportunities in the lower-right cell (#4) are too minor to consider. The opportunities in the upper-right cell (#2) and lower-left cell (#3) should be monitored in the event that any improve in attractiveness and success probability.

Some developments in the external environment represent threats. An **environmental threat** is a challenge posed by an unfavorable trend or development that would lead, in the absence of defensive marketing action, to seriousness and probability of occurrence. Figure below illustrates the threat matrix facing the TV-lighting-equipment company. The threats in the upper-left cell are major, because they can seriously hurt the company and they have a high probability of occurrence. To deal with them, the company needs contingency plans that spell out changes it can make before or during the threat. The threats in the lower-right cell are very minor and can be ignored. The threats in the upper-right and lower-left cells need to be monitored carefully in the event that they grow more serious.

Once management has identified the major threats and opportunities facing a specific business unit; it can characterize that business's overall attractiveness.

Opportunity and Threat Matrices

(a) Opportunity Matrix:

		Success Probability	
		High	Low
Attractiveness	High	1	2
	Low	3	4

1. Company develops more powerful lighting system
2. Company develops device to measure energy efficiency of any lighting system
3. Company develops device to measure illumination Level
4. Company develops software program to teach Lighting fundamentals to TV studio personnel

(b) Threat Matrix

		Probability of Occurrence	
		High	Low
Seriousness	High	1	2
	Low	3	4

1. Competitor develops superior lighting system
2. Major prolonged economic depression
3. Higher Costs
4. Legislation to reduce number of TV studio licenses

(Source: Kotler Philip, Keller L. Kevin, Marketing Management, Twelfth Edition, 2006 P-52)

D) **INTERNAL ENVIRONMENT** (STRENGTHS / WEAKNESSES) **ANALYSIS:**

It is one thing to find attractive opportunities and another to be able to take advantage of them. Each business needs to evaluate its internal strengths and weaknesses. It can do so by using a form like the one shown in "Marketing Memo: Checklist for Performing Strengths/Weaknesses Analysis."[1]

Clearly, the business does not have to correct all its weaknesses, nor should it gloat about all its strengths. The big question is whether the business should limit itself to those opportunities where it possesses the required strengths or whether it should consider opportunities that mean it might have to acquire or develop certain strengths. For example, managers at Texas Instruments (TI) were split between those who wanted the company to continue introducing customer products (where it lacks some required marketing strengths).

Sometimes a business does poorly not because its people lack the required strengths, but because they do not work together as a team. In one major electronics company, the engineers look down on the salespeople as "engineers who couldn't make it," and the salespeople look down on the service people as "salespeople who couldn't make it." It is therefore critical to assess interdepartmental working relationships as part of the internal environmental audit. Honeywell does exactly this.

E) Goal Formulation

Once company has performed a SWOT analysis, it can proceed to develop specific goals for the planning period. This stage of the process is called **goal formulation**. Managers use the term *goals* to describe objectives that are specific with respect to magnitude and time.

Most business units pursue a mix of objectives including profitability, sales growth, market share improvement, risk containment, innovation, and reputation. The business unit sets these objectives and then manages by objectives (MBO). For an MBO system to work, the unit's objectives must meet four criteria:

1. ***They must be arranged hierarchically, from the most to the least important*** – For example, the business unit's key objective for the period may be to increase the rate of return on investment. Increasing the profit level and reducing the amount of invested capital can accomplish this. Increasing revenue and reducing expenses can increase profit itself. Increasing market share and prices can increase revenue. By proceeding this way, the business can move from broad to specific objectives for specific departments and individuals.

CHECKLIST FOR PERFORMING
STRENGTHS / WEAKNESSES ANALYSIS

	Performance					Importance		
	Major Strength	Minor Strength	Neutral	Minor Weakness	Major Weakness	Hi	Med	Low
Marketing								
1. Company reputation								
2. Market share								
3. Customer satisfaction								
4. Customer retention								
5. Product quality								
6. Service quality								
7. Pricing effectiveness								
8. Distribution effectiveness								
9. Promotion effectiveness								
10. Sales force effectiveness								
11. Innovation effectiveness								
12. Geographical coverage								
Finance								
13. Cost or availability of Capital								
14. Cash flow								
15. Financial stability								
Manufacturing								
16. Facilities								
17. Economies of scale								
18. Capacity								
19. Able, dedicated workforce								
20. Ability to produce on time								
21. Technical manufacturing skill								
Organization								
22. Visionary, capable Leadership								
23. Dedicated employees								
24. Entrepreneurial Orientation								
25. Flexible or responsive								

(Source: Kotler Philip, Keller L. Kevin, Marketing Management, Twelfth Edition, 2006 P-51)

2. ***Objectives should be stated quantitatively whenever possible*** – The objective "increase the return on investment (ROI)" is better stated as the goal "increase ROI to 15 percent within two years/"

3. ***Goals should be realistic*** – They should arise from an analysis of the business unit's opportunities and strengths, not from wishful thinking.

4. ***Objectives must be consistent*** – It is not possible to maximize sales and profits simultaneously.

Other important trade-offs include short-term profit versus long-term growth, deep penetration of existing markets versus developing new markets, profit goals versus nonprofit goals, and high growth versus low risk. Each choice in this set of trade-offs calls for a different marketing strategy.

Many believe that adopting the goal of strong market share growth may mean having to forego strong short-term profits. For years, Compaq decided to pursue profitability at the expenses of growth. Yet Charan and Tichy believe that most businesses can be a growth business and can grow profitably.43 They cite success stories such as GE Medical, Allied Signal, Citibank, and GE Capital, all enjoying profitable growth. Some so-called tradeoffs may not be trade-offs at all.

F) Strategic Formulation

Goals indicate what a business unit wants to achieve; **strategy** is a game plan for getting there. Every business must design a strategy for achieving its goals, consisting of a *marketing strategy,* and a compatible *technology strategy* and *sourcing strategy.*

- **PORTER'S GENERIC STRATEGIES:** Michael Porter has proposed three generic strategies that provide a good starting point for strategic thinking: overall cost leadership, differentiation, and focus.

- ***Overall cost leadership.*** The business works hard to achieve the lowest production and distribution costs so that it can price lower than its competitors and with a large market share. Firms pursuing this strategy must be good at engineering, purchasing, manufacturing, and physical distribution. They need less skill in marketing. The problem with this strategy is that other firms will usually compete with still lower costs and hurt the firm that rested its whole future on cost.

- ***Differentiation.*** The business concentrates on achieving superior performance in an important customer benefit area valued by a large part of the market. The firm cultivates those strengths that will contribute to the intended differentiation. Thus the firm seeking quality leadership, for example, must make products with the best components, put them together expertly, inspect them carefully, and effectively communicate their quality.

- ***Focus.*** The business focuses on one or more narrow market segments. The firm gets to know these segments intimately and pursue either cost leadership or differentiation within the target segment.

  The online air travel industry provides a good example of these three strategies: Travelocity is pursuing a differentiation strategy by offering the most comprehensive range of services to the traveler. Lowest fare is pursuing a lowest-cost strategy; and Last Minute is pursuing a niche strategy in focusing on travelers who have the flexibility to travel on very short notice.

According to Porter, firms pursuing the same strategy directed to the same target market constitute a **strategic group**. The firm that carries out that strategy best will make the most profits. Firms that do not pursue a clear strategy and try to be good on all strategic dimensions do the worst. International Harvester went out of the farm equipment business because it did not stand out in its industry as lowest in cost, highest in perceived value, or best in serving some market segment. Porter drew a distinction between operational effectiveness and strategy.

Many companies believe they can win by performing the same activities more effectively than their competitors; but competitors can quickly copy a operationally effective company using benchmarking and other tools, thus diminishing the advantage of operational effectiveness. Porter defines strategy as "the creation of a unique and valuable position involving a different set of activities." A company can claim that it has a strategy when it "performs different activities from rivals or performs similar activities in different ways." Companies such as IKEA, Southwest Airlines, Dell Computer, Saturn, and Home Depot run their businesses much differently from their competitors; and these competitors would find it hard to copy and synchronize all the different activities that a strategically differentiated company carries out.

G) Program Formulation and Implementation

Once the business unit has developed its principal strategies, it must workout detailed support programs. A great marketing strategy can be sabotaged by poor implementation. If the unit has decided to attain technological leadership, it must plan programs to strengthen its R & D department, gather technological intelligence, develop leading-edge products, train the technical sales force, and develop ads to communicate its technological leadership.

Once the marketing programs are formulated, the marketing people must estimate their costs. Questions arise: Is participating in a particular trade show worth it? Will a specific sales contest pay for itself? Will hiring another salesperson contribute to the bottom line? Activity-based cost (ABC) accounting should be applied to each marketing program to determine whether it is likely to produce sufficient results to justify the cost.

In implementing strategy, companies also must not lose sight of their multiple stakeholders and their needs. Traditionally, most businesses focused on stockholders. Today's businesses are increasingly recognizing that unless they nurture other stakeholders – customers, employees, suppliers, distributors – the business may never earn sufficient profits for the stockholders. A company can aim to deliver satisfaction levels above the minimum for different stakeholders. For example, it might aim to delight its customers, perform well for its employees, and deliver a threshold level of satisfaction to its suppliers. In setting these levels, a company must be careful not to violate the various stakeholder groups' sense of fairness about the relative treatment they are receiving.

There is a dynamic relationship connecting the stakeholder groups. A smart company creates a high level of employees satisfaction, which leads to higher effort, which leads to higher-quality products and services, which creates higher customer satisfaction, which leads to more repeat business, which leads to higher growth and profits, which leads to high stockholder satisfaction, which leads to more investment, and so on. This is the virtuous circle that spells profits and growth. "Marketing Insight: Marketing's contribution to Shareholder Value" highlights the increasing importance of the proper bottom-line view to marketing expenditures.

According to McKinsey & Company, strategy is only one of seven elements in successful business practice. The first three elements – strategy, structure, and systems – are considered the "hardware" of success. The next four – style, skills, staff and shared values – are the "software."

H) Feedback and Control

As it implements its strategy, a firm needs to track the results and monitor new developments. Some environments are fairly stable from year to year. Other environments evolve slowly in a fairly predictable way. Still other environments change rapidly in major and unpredictable ways. Nonetheless, a company can count on one thing: The marketplace will change; and when it does, the company will need to review and revise its implementation, programs, strategies, or even objectives.

A company's strategic fit with the environment will inevitably erode because the market environment changes faster than the company's 7Ss. Thus, a company might remain efficient while it loses effectiveness. Peter Drucker pointed out that it is more important to "do the right thing" (effectiveness) than "to do things right" (efficiency). The most successful companies excel at both.

Once an organization fails to respond to a changed environment, it becomes increasingly hard to recapture its lost position. Consider what happened to Lotus Development Corporation. Its Lotus 1-2-3 software once the word's leading software program, and now its market share in desktop software has slipped so low that analysts do not even bother to track it.

1.3 ENVIRONMENT ANALYSIS

1.3.1 INTRODUCTION

The environment in which an organization exits always affects the organization. The environment of the organization can be divided as internal and external. The internal and external environments affect the overall performance of an organization. Environmental analysis or scanning identifies and analyses the environmental variables that affect the organizations. Thus, environmental analysis finds the sources, opportunities or threats to the organization and examines the nature and interrelationship of these opportunities and threats with the organization. Environmental analysis helps the management in deciding the strategy for implementation and predicts the future opportunities or threats to the organization.

The Strengths Weaknesses Opportunity and Threats (SWOT) analysis, Political, Economic, Social and Technological (PEST) analysis, Environmental Threat and Opportunity Profile (ETOP) and Quick Environmental Scanning Technique (QUEST) analysis techniques help in scanning the environment.

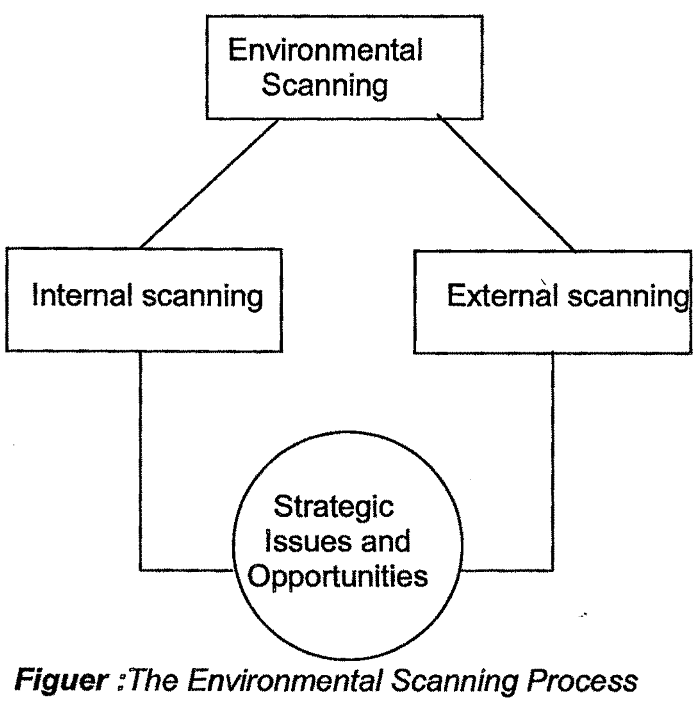
1.3.2 THE CONCEPT OF ENVIRONMENTAL ANALYSIS

The main feature of strategic management is to adapt to the changing environment with a strong sense of mission. It implies the need for a good understanding of internal and external factors of an organization. The following factors must be considered for practical implementation of strategic management:

- Recognizing external opportunities and threats.
- Analyzing organizational skills and resources.
- Deciding the strategy to be pursued on the basis of the preceding analysis.
- Implementing a preferred strategy.
- Controlling the strategic performance.

Environmental analysis or scanning is the planning process, which helps in monitoring the economic conditions, government rules and technology used in the present scenario and market settings to determine the threats that are affecting the organization. Environmental analysis is important for the evaluation of the strategy undertaken by the management. An organization is highly affected by the social, political, economical and industrial conditions. As the business environment changes, it is necessary to change the management policies and practices, product lines, marketing strategies, technology and personnel policies. So, it becomes necessary for the company to take innovative measures to sustain the competitive edge.

Therefore, it is important to understand the nature of the environment and various environmental variables. Environmental analysis helps in analyzing the opportunities and thus, enables continuous improvement in the organizational activities. Following figure shows the environmental scanning process.



Figuer *:The Environmental Scanning Process*
(Source: Source: Kotler Philip, Keller L. Kevin, Marketing Management, Twelfth Edition, 2006)

Scanning the environment means scanning the internal and external environment of the organization or business. External environment includes all the factors, conditions and the influences operating outside the organization. This may provide threats as well as opportunities to the business. The internal environment includes all the factors that are within the control of and inside an organization.

The external environment again can be classified in two parts, **general and relevant environment**. The general environment refers to the wider perception of the external environment that entails a number of different factors such as national and international economy, changes in the society, population, technological issues, business attitudes and sources of energy. Generally, organizations are very much concerned about their general environment; however, the immediate concerns of these organizations are mainly on some specific part of the general environment of the organization. This part is normally of great strategic relevance to the organization and is referred as the relevant information.

1.3.3 Need for Environmental Analysis

According to Wolfe, Grinye and Norburn, 'Increased knowledge of environmental analysis improves the effectiveness and financial conditions of the organization.'[2]

Environmental scanning is required for the growth of an organization through continuous innovation and technological development, Environmental scanning enables an organization to avail the opportunities for organizational growth and increasing profits, as well as to respond to the challenges and threats. The following questions must be considered while analyzing the environment:

- What are the threats to the organization's present strategy?
- How can organizational objectives be achieved?

Environmental appraisal or analysis involves information processing and forecasting the social, economical and political conditions in the environment. During analysis, all the variables, which are affecting the business, are given importance. For example, the information provided on the basis of market research provides the scope and demand of a particular product. Similarly, the future of an existing product and the need to launch a new product for the desired profits can also be identified by the analysis.

Miller and Friesen observed the relationship between environmental scanning and success of the organization. They observed the types of organizations in which extra time was devoted for the environmental analysis, which are as follows:

- Organizations facing strong competition, government rules and regulations and varying business environment.
- Organizations facing an unstable environment.

- Organizations that are growing by the means of mergers and thus increasing the complexity of their environment.

According to Miller and Friesen, there are four other categories of organizations in which, environmental appraisal is not undertaken:

- Organizations managed by irresponsible executives.
- Organizations having risk-prone management with a bureaucratic orientation.
- Organizations without a strong leadership.
- Organizations with inadequate resources to meet the environmental changes.

1.4 METHODS AND TECHNIQUES OF ENVIRONMENTAL SCANNING

The monitoring process of relevant environment by an organization to identify the opportunities and threats, which affect the business, is known as environmental scanning or analysis.

When the environmental scanning process completes, planners gather all the information related to the opportunities and threats of the organization. Following are the techniques used for environmental scanning:

- Environmental Threat and Opportunity (ETOP) Analysis
- Quick Environmental Scanning Technique (QUEST) Analysis

- Strengths, Weaknesses Opportunity and Threats (SWOT) Analysis
- Political, Economic, Social and Technological (PEST) Analysis

1.4.1 Environmental Threat Opportunity Analysis (ETOP)

ETOP is a device that considers the environmental information and determines the relative impact of threats and opportunities, for the systematic evaluation of environmental scanning. This analysis divides the environment into different sectors and then, analyse their effect on the organization. The analysis takes place on the basis of threats and opportunities in the environment. For example, the environment analysis of Hindustan Aeronautics Limited (HAL) shows the opportunities and threats of the organization considering different environmental variables. Table shows the ETOP analysis for HAL.

Table: The ETOP Analysis for HAL

Environmental Variable	Opportunity	Threat
Economic	Infrastructural development is enhanced. This development includes power supply, transport and internal consumption.	Resource constraints.
Technological	Organization's production increases and technology upgrades that helps the organization to grow.	
Supplier		Scarcity of resources due to implementation of the new technology.
Government	Liberalization of technology import policy.	Applying new rules and policies for the organization.
Competitor		To hold the market, organization needs to take the risks based on new ideas to raise the market demand. It is difficult for an organization to find a specialist or highly qualified personnel for the enhanced technology.

(Source: Source: Kotler Philip, Keller L. Kevin, Marketing Management, Twelfth Edition, 2006)

1.4.2 Quick Environmental Scanning Technique Analysis (QUEST)

B. Nanus proposed QUEST. It is a four-step process that uses scenario writing for environmental scanning. Following are the four steps involved in this technique:

1. Strategy planners first observe the events and trends of the organization.
2. Then, from that observation they broadly consider important issues, which may affect the organization, using environment appraisal.
3. Summarizing these issues, their effects and different scenarios to show the implementation of these strategies, creates a report.
4. In the last step, the planners who decide the feasibility of the suggested strategy that is beneficial for the organization review reports and scenarios.

1.4.3 Strengths Weaknesses Opportunity and Threats Analysis (SWOT)

SWOT analysis examines the strengths, weaknesses, opportunities and threats. Strengths and weaknesses are internal factors. For example, strength could be our specialist marketing expertise. A weakness could be the lack of new product. Opportunities and threats are external factors. For example, an opportunity could be developing a market such as Internet. A threat could be a new competitor in the market.

SWOT is the heart of Strategic Analysis. SWOT analysis is the process of carefully inspecting the business and its environment through the various dimensions of strengths, weaknesses, opportunities, and threats. SWOT is also known as TOWS analysis. SWOT is a tool used for auditing the organization that helps in finding the key issues and problems in the business. SWOT analyses the problems through internal and external analysis. In internal analysis, strengths and weaknesses of the organization are considered, whereas in external analysis, opportunities and threats for the organization are considered. The factors that are considered during internal analysis are:

- Organizational structure
- Business location
- Organization's operational efficiency and capacity
- Market share

- Brand awareness
- Financial resources
- Patents and trade laws
- Expertise of marketing personnel
- Business reputation in the market

Similarly, various factors that an organization needs to consider in external analysis are:

- Customers and clients
- Competitors
- Market trends
- Suppliers
- Business partners
- Social change
- Latest technology
- Economic situation
- Political and legal restrictions

Figure shows the SWOT analysis process.

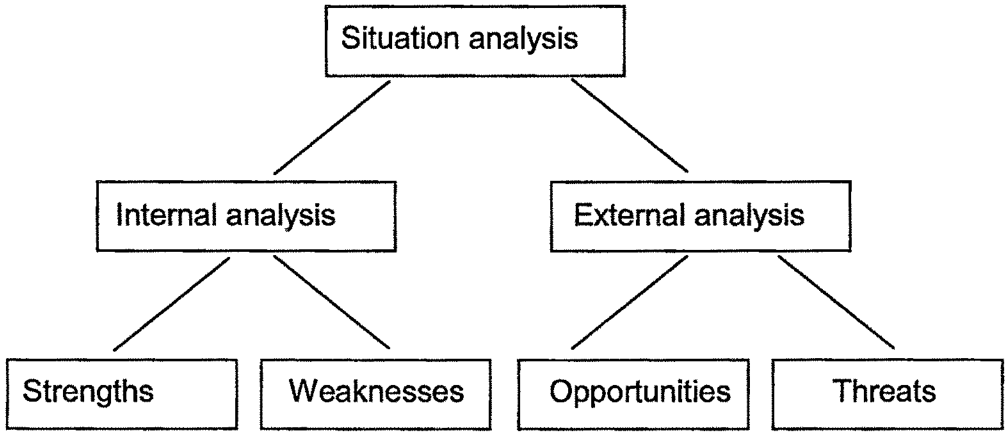


Figure: SWOT Analyses

Strengths are the company's core competencies, and include proprietary technology, skills, resources, market position, patents, and others. Weaknesses are the conditions within the company that can lead to poor performance and can include obsolete equipment, heavy debt burden, poor product or market image, weak management, and others.

Opportunities are outside conditions or circumstances that the company could turn to its advantage that suddenly realizes a growth in board market interest. Following opportunities must be considered in SWOT analysis:

- Advertising a product on the internet
- Mergers, joint ventures or strategic alliances

- Business proposal from a new client with good reputation in the market
- Moving into new market segments with improved profits
- Getting a chance to enter the international market

Threats are the current or future conditions in the outside environment that may harm the company and might include or an increase in competition. Following threats must be considered in SWOT analysis:

- A new competitor at the same location
- Price wars with competitors
- Innovative products and services of the competitors
- Competitors with superior access to channels of distribution
- Tax to be paid for a product or a service
- Purchasing preferences
- Population shifts
- New technologies
- Increase in competition

Following is an example of a SWOT analysis to show the Strengths, Weaknesses, Opportunities, and the Threats of Cadbury.

<u>Strengths</u>

- Good relationship with customers

- The leading confectionery manufacturer
- No cash-flow problems.
- Good reputation
- Growing market Deals in an open market
- Number of product lines

Opportunities

- Changing Customer trends
- Development of new products

Weaknesses

- Certain laws in place
- High chances of pilferage

Threats

- Competition from rivals
- Poor demand in economy

1.4.4 Political, Economic, Social and Technological Analysis (PEST)

SWOT analysis is also called PEST analysis that stands for Political, Economical, Social and Technological factors.

A) Fiscal factors and political/legal factors:

It is essential that the company closely monitor any changes in the TAX structure as this could mean that the company would lose millions if the TAX has increased. As companies constantly import materials such as coco from other countries, it must also monitor the changes in the availability of raw materials. This is essential as if their current supplier was going bankrupt or was going to increase prices, the company must know this before hand so they could allocate a different suitable supplier in needed. Laws such as 'Consumer protection Act' put yet again external constraints on the operation of the company, as it is important that they abide by them. By law the company must label each product they produce with the correct labeling as people may have a certain allergy (e.g. Peanuts) or the product may contain animal fat, whereas the consumer may be a vegetarian. The law also insures that each product manufactured by the company must have a 'best before' date on it, and the weight of the product in grams. It is essential to follow and abide by each one of these laws, as the company is liable for any harm or damage caused by their products. It is important it does not break any laws as the whole reputation of the company may be at stake. If any laws are broken this may have an effect on the sales; profit, market share, and turn over generated.

B) Economical Factors:

Economical Factors such as inflation, unemployment, energy process and price volatility are very important and must be constantly studied. These factors anticipate the profit and turnover for Cadburys as these factors control the pricing structure for Cadburys and the energy prices they pay. The inflation rates must be monitored as they must keep up to date with any increase in prices, and if they don't, they may lose out on a share of their potential profit. Monitoring the unemployment levels is also important, as the company would decrease its prices if the unemployment rate is high and the price will be increased if the unemployment rate is low. This is because if a large amount of customers are unemployed, the company lowers their prices so more unemployed customers will be attracted due to low and affordable prices. Energy prices for transport, lighting, machinery, storing, and heating are also important and must be constantly studied. This is because if the company works on a large scale, and spend millions of rupees per year on energy, they must constantly study each supplier and see who offers the best energy rate, as even a small change in energy prices can add up to 1000's. By doing this it will ensure as less spending as possible on energy to maximize profits. The 'Pricing volatility' depends on all of the issues raised (inflation, unemployment, energy rates), as well as competition. This is because the company monitors the prices of competitor's products, and tries to match or beat their prices in order to competitive, and maximizes sales. The pricing of a product is very important when introducing a new product.

There are many different types of pricing available:

→ Penetration pricing – set the price low to gain a foothold in the market.

→ Skimming – set the price high to take advantage of demand for a new product.

→ Positioning pricing – reflects a view of the product where an expensive product = good quality, a cheap product = poor quality.

→ Demand based pricing – what the customer is prepared to pay.

→ Competitive pricing – prices set roughly in line with competitors.

→ Cost-based pricing – cost of materials, labour, overheads and mark-up.

→ Discount pricing – e.g. trade discount, student discount.

→ Differential pricing – e.g. time of year, time of day, geographical area.

The state of the economy is also one of the major factors. If the country were to go into recession the consumer spending would also drop due to the unemployment. The recession would bring down the sales of a lot of goods mainly the expensive things, which are not a necessity. (E.g. the food manufacture industry would have a major decline in sales, as would the tourism industry and the clothes industry.)

C) Social / Cultural factors:

The social factors are very important to the company, as it will need to study, and truly understand the lifestyles of their customers in order to be truly successful. Companies must understand the lifestyle of their customers in order to advertise affectively, and target the right audience.

Environmental issues are also to be taken into consideration by the company and it should have an environmental policy in place to ensure that it is operating in an environmentally friendly way. It is essential that the company operate in an environmentally friendly manner, as this will help it maintain a good clean reputation.

It is also essential the company study the cultural aspects as they manufacture and export their products to other countries, and must ensure they do not offend any cultures accidentally, as this could corrupt the reputation of the company and could have a knock on affect on the sales.

D) Technological Factors:

Technological factors such as 'new technological processes' and 'energy saving techniques' are very important and should be constantly studied. It is essential to do this in order to ensure the production in a cost efficient manner, which will maximize profits. The company must also search for new materials and substitutes for my existing materials, as the new substitutes may be cheaper and cost efficient. If the company operates in a cost efficient way, it can afford to lower prices, but make the same amount of profit on each sale. This would increase sales generated and would benefit more due to cheaper production cost. The increase in computers and the Internet could influence sales. The number of transactions taking place over the Internet is high and people can now buy their shopping over the Internet. The use of automation in factories could influence Cadbury's as they could produce more cereal with a smaller work force.

The company must also research into better equipment as this can prove to go beneficial, as a small investment can improve the quality of product, which can result in more sales. Introducing better equipment might be expensive to buy but it may increase the production, lower the energy costs, and prove to be a good investment in the long run.

After studying all the PEST factors, which are external to organization, and acknowledged as extremely important, the company must consider all of these factors before developing marketing strategy. As these are the external factors, which it has no control over, it must carefully research this area, as all of the pest factors will influence its decisions about strategy.

This is because the company must ensure that it does not break any laws in the Political factors because this can jeopardize its reputation. It must price the product according to the unemployment rates, and inflations rates under the Economical factors. It must ensure that marketing strategy doesn't offend any cultures as this can yet again jeopardize the reputation. And it must also study the technological factors as new technology may be a good investment and be cost efficient for the product.

For overall strategy development, the company will have to correspond with all these PEST factors.

PEST analysis helps in analyzing the environmental factors that highly affect the organizational strategies.

There are few questions that need to be considered during PEST analysis to ascertain the key forces at work in the wider environment. These questions are as follows:

- What environmental factors are affecting the organization?
- Which of these factors are the most important at the present time?

PEST analysis helps in analyzing the organizational strategies in the following ways:

- It helps in identifying the environmental factors that affect the strategies of the organizations. But it is not necessary that the environmental analysis provide valuable information to the organizations. Hence, it becomes important for the organizations to go for more quantitative approach to get the real data for organizational goals.
- PEST analysis may be used to identify the long-term factors that lead to globalization. For example, given the increasing globalization of some markets, it is important to identify the forces that lead to globalization. The worldwide convergence of production systems and consumer tastes in the market leads to the possibility of major economies benefiting from global manufacturing and marketing. The growth of the multinational customer and competitor has also led to the shift towards global markets, as has the overall pressure on the business for cost reduction and therefore, the search for scale economies. A further force for global development is the worldwide search for raw materials, energy and often, skills to provide service to the global business networks.

- PEST analysis helps in identifying the key factors of business and their differential impact on the organization. It also helps in determining the extent to which these factors affect the competitors of the organization. The three key external factors that affect the organizations include short life span of technology, convergence of customer requirements and access to the resources available globally.

Consider an example of the three competitors, A, B and C who have the differential ability to cope with the factors such as short life span of technology, convergence of customer requirements and access to the resources available globally. The PEST analysis shows that firm A can easily handle the technological changes by examining its track record, its investment in Research and Development and its high market. Similarly, for firm C, centralized product planning helps in coping up with more convergent customer requirements. However, A and C are not well placed when compared to B, in accessing the technical changes. But when B is compared to A and C, in terms of purchasing organizational resources, it is not centralized and does not help to cope with the convergent customer requirement.

1.5 THE TOWS MATRIX: A MODERN TOOL FOR ANALYSIS OF THE SITUATION [3]

Today most business enterprises engage in strategic planning, although the degrees of sophistication and formality vary considerably. Conceptually, strategic planning is deceptively simple: Analyze the current and expected future situation, determine the direction of the firm, and develop means for achieving the mission. In reality, this is an extremely complex process, which demands a systematic approach for identifying and analyzing factors external to the organization and matching them with the firm's capabilities.

Planning is done in an environment of uncertainty. No one can be sure what the external as well as the internal environment will be even next week, much less several years from now. Therefore, people make assumptions or forecasts about the anticipated environment. Some of the forecasts become assumptions for other plans. For example, the gross national product forecast becomes the assumption for sales planning, which in turn becomes the basic for production planning, and so on.

The last key aspect of the strategic planning process is testing for *consistency* and preparing for *contingency plans*. Both topics will be discussed later in this chapter.

Today, strategy designers have been aided by a number of matrixes showing the relationships of critical variables. For example, the Boston Consulting Group developed the Business Portfolio Matrix, which will be discussed later. More recently, the TOWS Matrix has been introduced for analyzing the situation.

The TOWS Matrix has a wider scope, and it has different emphases from those of the Business Portfolio Matrix. The former does not replace the latter. The TOWS Matrix is a conceptual framework for a systematic analysis that facilitates matching the external threats and opportunities with the internal weaknesses and strengths of the organization.

It has been common to suggest that companies identify their strengths and weakness, as well as the opportunities and threats in the external environment. But what is often overlooked is that combining these factors may require distinct strategic choices. To systematize these choices, the TOWS Matrix has been proposed; "T" stands for threats, "O" for opportunities, "W" for weaknesses, "S" for strengths. The TOWS model starts with the threats because in many situations a company undertakes strategic planning as a result of a perceived crisis, problem, or threat.

1.5.1 Four Alternative Strategies

The following figure presents the four alternative strategies of the TOWS Matrix. The strategies are based on the analysis of the external environment (threats and opportunities) and the internal environment (weaknesses and strengths).

(* Although the emphasis is on strategies in this discussion, similar analyses can be made for developing the more detailed tactics and action plans.)

1. The WT strategy (in the lower right-hand corner) aims to minimize both weaknesses and threats. It may require that the company, for example, form a joint venture, retrench, or even liquidate.
2. The WO strategy attempts to minimize the weaknesses and maximize the opportunities. Thus, a firm with certain weaknesses in some areas may either develop those areas within the enterprise or acquire the needed competencies (such as technology or persons with needed skills) from the outside, making it possible to take advantage of opportunities in the external environment.
3. The ST strategy is based on the organization's strengths to deal with threats in the environment. The aim is to maximize the former while minimizing the letter. Thus the company may use its

managerial, or marketing strengths to cope with the threats of a new product introduced by its competitor.

Internal Factors	Internal strengths (S) e.g. strengths in management, operations, finance, marketing, R&D, engineering	Internal weaknesses (W) e.g., weaknesses in areas shown in the box of "strengths"
External Factors		
External opportunities (O) (Consider risks also) e.g., current and future economic conditions, political and social changes, new products, services, and technology	SO Strategy : Maxi-Maxi Potentially the most successful strategy, utilizing the organization's strengths to take advantage of opportunities	WO Strategy: Mini-Maxi e.g., developmental strategy to overcome weaknesses in order to take advantage of opportunities
External threats (T): e.g., lack of energy, competition, and areas similar to those shown in the "opportunities" box above	ST Strategy: Maxi-Mini e.g., use of strengths to come with threats or to avoid threats	WT Strategy: Mini-Mini e.g., retrenchment, liquidation or joint venture

THE TOWS MATRIX FOR STRATEGY FORMULATION

(Source: Harold Koont and Heinz Weihrich, Essentials of Management, Fifth Edition, 2002 P-94)

4. The most desirable situation occurs when a company can use its strengths to take advantage of opportunities (the SO strategy). Indeed, it is the aim of enterprises to move from other positions in the matrix to this one. If they have weaknesses, they will strive to overcome them, making them strengths. If they face threats, they will cope with them so that they can focus on opportunities.

1.5.2 Time Dimension and the TOWS Matrix

So far, the factors displayed in the TOWS Matrix pertain to analysis at a particular point in time. However, external and internal environments are dynamic: Some factors change over time, while others change very little. Because of the dynamics in the environment, the strategy designer must prepare several TOWS Matrixes at different points in time. Thus, one may start with a TOWS analysis of the past, continue with an analysis of the present, and, perhaps most important, focus of different time periods in the future.

1.6 A SWOT Analysis of Nestle

Nestle India Limited is the Indian arm of Nestle SA, which holds a 51% stake in the company. It is one of the leading branded processed food companies in the country with a large market share in products like instant coffee, weaning foods, instant foods, milk products, etc. It also has a significant share in the chocolates and other semi-processed foods market.

Nestlé's leading brands include Cerelac, Nestum, Nescafe, Maggie, Kitkat, Munch and Milkmaid. To strengthen its presence, it has been the company's endeavor to launch new products at a brisk pace and has been quite successful in its launches.

Nestle business break-up

Segments	Brands	CY01 sales	CY02 sales	CY03 sales
Milk Products & nutrition	Everyday Dairy Whitener, milk powder, Milkmaid, Milk, Dahi, Butter, Cerelac, Nestogen	8,159	8,847	9,880
% of sales		42.5%	43.2%	43.4%
% growth		10.6%	8.4%	11.7%
Beverages	Nescafe, Milo, Nestea	5,627	4,894	5,449
% of sales		29.3%	23.9%	23.9%
% growth		14.7%	-13.0%	11.3%
Prepared dishes/ cooking aids (Culinary)	Maggi (noodles, pickles, soups, sauces)	2,765	3,503	4,094
% of sales		14.4%	17.1%	18.0%
% growth		19.6%	26.7%	16.9%
Chocolates & confectionery	Munch, KitKat, Bar One, Classic, Choco Stick, MilkyBar Choo, Nestle Fruit & Nut	2,646	3,227	3,366
% of sales		13.8%	15.8%	14.8%
% growth		21.4%	21.9%	4.3%
Total Sales		**19,197**	**20,470**	**22,790**
% Growth			**14.4%**	**6.6%**
*(Figures in Rs m)				

(Source: Outlook Arena, February 17, 2005.)

Strengths:

Parent support - Nestle India has a strong support from its parent company, which is the world's largest processed food and beverage company, with a presence in almost every country. The company has access to the parent's hugely successful global folio of products and brands.

Brand strength - In India, Nestle has some very strong brands like Nescafe, Maggi and Cerelac. These brands are almost generic to their product categories.

Product innovation - The company has been continuously introducing new products for its Indian patrons on a frequent basis, thus expanding its product offerings.

Weakness:

Exports – The company's exports stood at Rs 2,571 m at the end of 2003 (11% of revenues) and continue to grow at a decent pace. But a major portion of this comprises of Coffee (around 67% of the exports were that of Nescafe instant to Russia). This constitutes a big chunk of the total exports to a single location. Historically, Russia has been a very volatile market for Nestle, and its overall performance takes a hit often due to this factor.

Supply chain - The company has a complex supply chain management and the main issue for Nestle India is traceability. The food industry requires high standards of hygiene, quality of edible inputs and personnel. The fragmented nature of the Indian market place complicates things more.

Opportunities

Expansion - The company has the potential to expand to smaller towns and other geographies. Existing markets are not fully tapped and the company can increase presence by penetrating further. With India's demographic profile changing in favour of the consuming class, the per capita consumption of most FMCG products is likely to grow. Nestle will have the inherent advantage of this trend.

Product offerings - The company has the option to expand its product folio by introducing more brands which its parents are famed for like breakfast cereals, Smarties Chocolates, Carnation, etc.

Global hub - Since manufacturing of some products is cheaper in India than in other South East Asian countries, Nestle India could become an export hub for the parent in certain product categories.

Threats:

Competition - The company faces immense competition from the organized as well as the unorganized sectors. Off late, to liberalize its trade and investment policies to enable the country to better function in the globalized economy, the Indian Government has reduced the import duty of food segments thus intensifying the battle.

Changing consumer trends - Trend of increased consumer spends on consumer durables resulting in lower spending on FMCG products. In the past 2-3 years, the performance of the FMCG sector has been lackluster, despite the economy growing at a decent pace. Although, off late the situation has been improving, the dependence on monsoon is very high.

Sectoral woes - Rising prices of raw materials and fuels, and in turn, increasing packaging and manufacturing costs. But the companies' may not be able to pass on the full burden of these onto the customers.

Conclusion

The food processing business in India is at a nascent stage. Currently, only about 10% of the output is processed and consumed in packaged form thus highlighting huge potential for expansion and growth. Traditionally, Indians believe in consuming fresh stuff rather then packaged or frozen, but the trend is changing and the new fast food generation is slowly changing.

1.7 A SWOT Analysis of Cadbury Products

Strength of Cadbury Products

The strength of Cadbury products is that they are very popular products in retail outlets and very well known around the world.

Cadbury products have shown year-on-year growth for many years. They are one of the world's top four confectionary businesses. Their chocolate and drinks brand can be found almost everywhere. They are well known for supplying good products, good reputation, high level of finance and expertise.

Cadbury's has a large number of well-established brands, commanding a high degree of loyalty. Customers are also willing to try out new brands (or brand extension), which often become well sellers.

The brand name is the biggest strength of Cadbury. Branding allows marketers to create added values that distinguish one brand from another. Successful brands are those, which create a set of brand values that are superior to other rival brands. In addition, Cadbury provides Chocolate with good quality enjoys good reputation.

Cadbury's competitive advantage comes from its SBU's being highly related and producing similar products, therefore building on existing technologies. Also, Cadbury targets similar product markets as well and many of its customer bases overlap. Building on the Group's core competences through acquisitions of established companies extends its competitive advantage further.

Very strong customer loyalty to the brand is also a major strength for Cadbury.

Weaknesses of Cadbury Products

Cadbury's has a high seasonal market. This is because the sales of chocolate items decrease quite significantly in the summer month, especially if the weather is hot while consumption rises during occasions such as Easter and Christmas in western countries and during the festive seasons in most of Asian countries including India.

Cadbury's suffers from unhealthy image, us it will tooth decay and rising level of obesity. Although the company has responded to this by introducing products such as low fat chocolate bars and sugar free chewing gums. Concerns still remain especially over how the chocolate is advertised,

Cadbury's have outlet all over and it's hard for them to maintain required level of stock. Cadbury's has also shortage of production staff.

Opportunity of Cadbury products

Cadbury's company can offer a wide variety of Cadbury's product for different kinds of people with different size, flavours and packaging.

New technology being developed will mean a realignment of the market sector.

Government legislation about to be introduced will enable Cadbury's to make additional product claims.

Cadbury's has always room for new ideas and products.

Threats of Cadbury products

Cadbury's has a lot of threat such as Nestle. Therefore the company has to compete with the competitors by using different pricing and packaging.

Customer dissatisfaction: in case the customers are not happy with the product then they will not purchase my new product.

Usage figures suggest that customers in this sector are using these products less frequently because of health concerns.

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