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PAPER: BUSINESS ENVIRONMENT

TOPIC: SWOT ANALYSIS

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What Is a SWOT Analysis?

A SWOT Analysis is one of the most commonly used tools to assess the internal and external environments of a company and is part of a company's strategic planning process. In addition, a SWOT analysis can be done for a product, place, industry, or person. A SWOT analysis helps with both strategic planning and decision-making, as it introduces opportunities to the company as a forward-looking bridge to generating strategic alternatives.

SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats.

SWOT Analysis – Internal and External Factors

A SWOT analysis is divided into two main categories: internal factors and external factors.

Internal:

Internal factors are the strengths and weaknesses of the company. Strengths are the characteristics that give the business its competitive advantage, while weaknesses are characteristics that a company needs to overcome in order to improve its performance.

Examples of internal factors include:

- Company culture
- Company image
- Operational efficiency
- Operational capacity
- Brand awareness
- Market share
- Financial resources
- Key staff
- Organizational structure

External:

External factors are the opportunities and threats to the company. Opportunities are elements that the company sees in the external environment that it could pursue in the future to generate value. Threats are elements in the external environment that could prevent the company from achieving its goal or its mission or creating value.

Changes in the external environment may be due to:

- Societal changes
- Customers
- Competitors
- Economic environment
- Government regulations
- Suppliers
- Partners
- Market trends

How to conduct a SWOT analysis?

To get the most complete, objective results, a SWOT analysis is best conducted by a group of people with different perspectives and stakes in the company. Management, sales, customer service, and even customers can all contribute valid insight. Moreover, the SWOT analysis process is an opportunity to bring the team together and encourage their participation in and adherence to the company's resulting strategy.

A SWOT analysis is typically conducted using a four-square SWOT analysis template, but we could also just make lists for each category. Use the method that makes it easiest for we to organize and understand the results. Once we are finished with the brainstorming, we need to create a final, prioritized version of our SWOT analysis, listing the factors in each category in order of highest priority at the top to lowest priority at the bottom.

Questions to ask during a SWOT analysis:

Strengths (internal, positive factors)

Strengths describe the positive attributes, tangible and intangible, internal to our organization. They are within our control.

- What do we do well?
- What internal resources do we have? Think about the following:

(Positive attributes of people, such as knowledge, background, education, credentials, network, reputation, or skills.)

- Tangible assets of the company, such as capital, credit, existing customers or distribution channels, patents, or technology.
- What advantages do we have over our competition?
- Do we have strong research and development capabilities? Manufacturing facilities?
- What other positive aspects, internal to our business, add value or offer we a competitive advantage?

Weaknesses (internal, negative factors)

Weaknesses are aspects of our business that detract from the value we offer or place at a competitive disadvantage. We need to enhance these areas in order to compete with our best competitor.

- What factors that are within our control detract from our ability to obtain or maintain a competitive edge?
- What areas need improvement to accomplish our objectives or compete with our strongest competitor?
- What does our business lack (for example, expertise or access to skills or technology)?
- Does our business have limited resources?
- Is our business in a poor location?

Opportunities (external, positive factors):

Opportunities are external attractive factors that represent reasons our business is likely to prosper.

- What opportunities exist in our market or the environment that we can benefit from?
- Is the perception of our business positive?
- Has there been recent market growth or have there been other changes in the market the create an opportunity?
- Is the opportunity ongoing, or is there just a window for it? In other words, how critical is our timing?

Threats (external, negative factors):

Threats include external factors beyond our control that could place our strategy, or the business itself, at risk. We have no control over these, but we may benefit by having contingency plans to address them if they should occur.

- Who are our existing or potential competitors?
- What factors beyond our control could place our business at risk?
- Are there challenges created by an unfavorable trend or development that may lead to deteriorating revenues or profits?
- What situations might threaten our marketing efforts?
- Has there been a significant change in supplier prices or the availability of raw materials?
- What about shifts in consumer behavior, the economy, or government regulations that could reduce our sales?
- Has a new product or technology been introduced that makes our products, equipment, or services obsolete?

LET'S TAKE AN EXAMPLE TO UNDERSTAND IT BETTER…….

McDonald's (NYSE: MCD) has been outperforming the market this year and recently set a new all-time high. A SWOT analysis -- a look at strengths, weaknesses, opportunities, and threats -- can help assess whether the fast-food giant can keep the growth on a high-calorie diet.

Strengths:

- McDonald's has successfully rolled out new items like coffees, smoothies, etc. expanding the range of menu choices.
- With a strong product offering, the company has grown income throughout the recession, notching strong increases in same-store sales.
- Operations are spread around the world, meaning the company is not exposed to just one currency or economy.
- Even trading near its highs, McDonald's serves up sizzling dividend yields that top the 10-year Treasury. The yield comes with a side order of annual dividend hikes dating back to 1976. The annual dividend payment has gone from 55 cents per share in 2005 to $2.20 this year.

Weaknesses:

It will be harder and harder to find prime locations to build a set of golden arches. The U.S. is saturated with its restaurants, so growth will have to occur internationally, posing potential cultural challenges. While the annual dividend hikes are likely to continue, the dividend growth rate has been slowing and will probably continue to slow or level off.

Opportunities:

- There are opportunities for new restaurants outside the United States, and McDonald's has been taking advantage of them. China is a great opportunity for the company, as is much of Asia.
- Menu innovations are limited only by imagination.
- Low interest rates provide cheap capital for growth. In addition to dollar-denominated debt, McDonald's recently became the first foreign company to issue yuan-denominated bonds in Hong Kong.

Threats:

- Governments are considering regulations targeting fast food.
- McDonald's faces competition from strong peers such as recent 11 O'Clock Stock pick Yum! Brands and Burger King.
- New product rollouts often have to go head-to-head with established players like Starbucks coffee or Jamba smoothies.
- Commodity price increases could increase costs while a weak economy limits the ability to pass the price hikes through to consumers.

Summary:

McDonald's is still attractive and deserves to be considered as a core holding for income-oriented investors, as my Foolish colleague Jim Royal argues. P/E ratios are in line with fast-food competitors, and the company is performing at or near the top of its industry. McDonald's has earned its new highs and is likely to set a few more in the coming months. Plus, the company has a massive $9 billion stock buyback ongoing.