

BUSINESS BEST PRACTICES

SWOT Analysis: The Annual Check-Up for a Business

As individuals, we recognize the importance of scheduling an appointment for an annual physician's check-up to protect our health. Similarly, successful business owners and managers understand the importance of scheduling an annual SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis to ensure optimum business health.

BY SARAH L. SIMONEAUX AND
CHRIS L. STROUD

Sarah L. Simoneaux, CPC, and Chris L. Stroud, MSPA, MAAA, EA, provide consulting services to third party administrators and financial institutions through Simoneaux & Stroud Consulting Services. The firm specializes in strategic business planning, general consulting, industry research, customized brainstorming sessions, and professional development workshops and Webcasts for the retirement services industry. They are both past presidents of ASPPA.

A SWOT analysis is an important aspect of strategic business planning and should always be performed in conjunction with the initial creation of a company's business plan. On an ongoing basis, performing an annual SWOT review to update the business plan ensures that the business plan will remain a living, breathing document that the firm and the employees can follow.

The information learned through the analysis creates the business plan's goals, objectives, and strategies. A company-wide SWOT analysis should be performed at least once a year. A more limited SWOT analysis can be conducted as needed to target a single business unit or a specific item, like the potential launch of a new product or consideration of an acquisition. One of the key advantages of the SWOT process is that it promotes proactive thinking and planning rather than reactive decision-making.

The SWOT Framework

In today's retirement services industry, change is the only constant. The SWOT analysis is an effective tool for managing change, determining strategic direction, and setting realistic goals and objectives. The analysis requires a comprehensive environmental

scan—a look “in the mirror” (internal) and “out the door” (external)—paying particular attention to key factors that determine a successful retirement services business. The SWOT analysis allows a company to assess where it is today and where it wants to go, which are integral components of a living, breathing business plan. Once the current position is defined, milestones can be set to help get the company to where it needs to be.

Before diving into the details, review the vision, mission, and values statements of the company described in the business plan. These timeless statements serve as a moral compass to help guide company decisions and direction and to keep the SWOT process from veering off-track. For example, the goals and objectives of a firm valuing price and efficiency (the “Wal-Mart” model) will be different from one who values consultative customer service (the “Nordstrom's” model).

Key Factors to Consider

The key factors to be considered can vary depending on the type of company and its primary focus. For most businesses in the retirement services industry, the following areas are worthy of review and evaluation:

- Corporate culture
- Management team
- Depth of staff
- Experience/knowledge level of staff
- Operational efficiency
- Utilization of technology
- Ability to innovate
- Quality of work
- Customer service
- Cost/benefit of products and services
- Marketing and distribution channels

- Sales
- Financial stability
- Reputation
- Client base

You can start identifying strengths and weaknesses at a high level by looking at each of the factors listed above, adding or deleting categories as desired. Assign a rating for your firm in each area (i.e., excellent, good, needs improvement). Then drill down into details for each item and look at specific strengths and weaknesses related to each topic.

Strengths and Weaknesses

The “internal” review to determine strengths and weaknesses consists of an honest assessment of the company’s structure, capabilities, resources, and skills. Just like many of us don’t like to see ourselves in photographs, we don’t always like what we see when we do an in-depth look into our own company. However, when it comes to a company’s self-analysis, it is necessary to identify the good, the bad, and the ugly. Ideally, the internal review will be conducted with a 360 degree concept—considering viewpoints from employees, outside consultants or advisors, customers, and also factoring in how the company measures up against its competitors.

The strengths should identify positive characteristics that give the business a competitive edge. Weaknesses are areas that can put the firm at a disadvantage if they are not corrected. The goal is to maintain and leverage strengths in ways to benefit the company and to determine which weaknesses need to be remedied in order to improve the company’s position.

In some firms, a characteristic may represent a strength in one case and a weakness in another. For example, having a large number of older, more experienced (Baby Boomer) employees can be a strength when it comes to work quality and knowledge level; however, if it also signifies a lack of younger employees (Gen Y), the company might have a weakness relative to innovation and utilization of new technologies.

Opportunities and Threats

An external review should be conducted to identify opportunities and threats, which are typically created by “external” forces. They can be attributed to such things as political climate, economic shifts, laws and regulations, technology, industry trends, target markets, distribution channels, competition, etc. A critical

part of the external environmental scan is to identify and recognize not just the current opportunities and threats but also potential future considerations.

Opportunities typically represent areas in which the company could grow or increase profitability or efficiency. Threats are typically comprised of external forces that could cause significant stress or economic downturn to a business.

Since a company can only handle a finite number of initiatives at any one time, it is extremely important to prioritize opportunities and threats in order to determine the most critical strategies for success.

The SWOT Process

By following these simple steps, a company can conduct a very efficient SWOT analysis meeting.

Step 1: Select a Facilitator

The facilitator can be someone who works at the company (typically a high level manager) or an outside consultant. Although additional costs are involved when utilizing an outside consultant, the advantages often outweigh the cost. A consultant is more willing to address tough issues and can offer a more objective opinion about many issues. Also, employees are often more willing to speak their mind when talking to an external facilitator instead of talking directly to a superior.

Step 2: Create a SWOT Team

Don’t worry—no need for weapons with this SWOT team! Simply assemble a group of employees, representing different business units and job functions. Teams are typically at least five people and can be as large as the entire company.

Step 3: Select the Venue for the SWOT Analysis

The SWOT analysis can be conducted in an open meeting environment if the team selected is a relatively small group. If most or all of the employees are participating, then an off-site company retreat is ideal. A brainstorming session environment is also very effective, where a larger team can be broken down into smaller teams for “brainstorming” and then reassembled for analysis and prioritization.

Step 4: Assemble the Tools

At a minimum, a number of flip charts (with adhesive on backs of each page), markers, and easels are needed. Each smaller group (if breaking into multiple groups) should have at least one flip chart and easel.

Step 5: Perform the Environmental Scan

Utilize the SWOT Framework to identify Strengths, Weaknesses, Opportunities, and Threats and document the lists of each on the flipcharts. Some firms also choose to analyze several of their primary competitors using the SWOT technique to determine how the firm stacks up against the competition.

Step 6: Summarize

As the meeting progresses, flip charts can be stuck to the walls and moved around the room as needed

to facilitate summarization of ideas from multiple groups. Look for common themes and summarize the items into a more refined list.

Step 7: Analyze and Prioritize

The analysis can often be as simple as “matchmaking” Strengths and Weaknesses with Opportunities and Threats. Separate the strengths into two groups—those that can help the firm capitalize on opportunities and those that can help you counter potential threats. Similarly, you can divide the weaknesses into two groups—those that require improvements to

Figure 1. Excerpt: Initial SWOT Summary Matrix

Strengths (S)	Weaknesses (W)	Opportunities (O)	Threats (T)
Experienced workers with excellent skill levels	Older workforce not as technologically advanced	Local CPA looking to sell TPA operation (doesn't have enough employees to support)	Outside firm may buy local competitor and ramp up marketing efforts in our region
Excellent reputation with customers	No proactive marketing efforts	Large national service provider is moving local administration/recordkeeping to home office	Low-cost providers may undercut our prices
Straight-thru-processing capability	No open architecture platform	Fee disclosure may cause plan sponsors to review existing TPA relationships	Plan sponsors may seek open architecture platforms

Figure 2. SWOT Strategies Matrix

	Strengths (S)	Weaknesses (W)
Opportunities (O)	S/O strategies	W/O strategies
Threats (T)	S/T strategies	W/T strategies

Figure 3. “Matchmaking” Strategies Matrix Example

	Strengths (S)	Weaknesses (W)
Opportunities (O)	Consider acquisition of local TPA operation. (<i>Local TPA operation being sold by CPA.</i>) Take advantage of extra capacity (<i>experienced workers/excellent skill levels and straight-thru-processing</i>) to handle increased workload.	(<i>No proactive marketing efforts/large national service provider moving local admin/RK to home office.</i>) Develop proactive marketing outreach to plan sponsors in local area currently serviced by large national service provider.
Threats (T)	Develop communication strategies to tout strengths/benefits (<i>excellent reputation</i>) to customers so they appreciate value and are not as susceptible to low cost vendors (<i>low cost providers may undercut</i>).	(<i>Lack of open architecture solution/plan sponsors seeking open architecture solution.</i>) Partner with open architecture daily valuation TPA to offer open architecture platform.

allow you to take advantage of opportunities and those that should be addressed quickly in order to avoid immediate or potential threats.

Lastly, narrow down the lists. Identify the priorities and create strategies that will incorporate what has been learned from the SWOT analysis. The SWOT strategies matrix can be used to document the strategies that were identified during the “matchmaking” process of the SWOT analysis.

As strategies are solidified, goals and objectives to carry out each strategy will need to be developed.

The Outcome

Just having a list of things you are good at is not enough. The SWOT process forces you to focus and capitalize on the firm’s strengths that are most valued by customers. You will also be better able to articulate your firm’s core competencies after going through the

SWOT exercise, which can help you in marketing and communication efforts.

A successful SWOT analysis will help you recognize areas where your capabilities and resources are strong and your potential to capitalize on opportunities is the greatest. Of course, you will need to factor in your company’s financial strength and corporate culture before undertaking any new strategy.

Most importantly, involve your employees! If you fail to communicate the goals and objectives that arise from the SWOT analysis, the employees will be working in the dark. Set aside a half day for a structured brainstorming session specifically focused on the results of the SWOT exercise. Ask for staff input on development of new goals to fulfill the strategies and ask how they can help get you there. The employees are the engine that drives the train of your business, and they are an essential part of implementing SWOT strategies. ■