European Economic Letters
ISSN 2323-5233
Vol 13, Issue 3 (2023)
http://eelet.org.uk

SWOT & TOWS are Effective Tools for Strategic Formulation

Dr. Vidya Hattangadi ,
Professor, Maratha Mandir's Babasaheb Gawde Institute of Management Studies

Abstract: Amazon, Apple, Dell, Google, Microsoft are some of the topmost organizations in world which believe in carrying on SWOT Analysis. SWOT analysis puts the emphasis on the internal and external environment. Internal elements are strengths and weaknesses, and external elements are opportunities and threats. A TOWS analysis is a planning tool that examines a company's threats, opportunities, weaknesses, and strengths. Companies use this type of analysis to strategize for future challenges and initiatives.

Keywords: SWOT, Albert Humphrey, Strengths, Weaknesses, Opportunities, Threats, Strategies, Strategic Too, TOWS, Strength – Opportunity, Weakness – Opportunity, Strength- Threat, Weakness – Threat, External Factors, Internal Factor, Business Sectors.

SWOT: The Coca Cola Company, Airbus and the biggest clothing company in the world Zara have something in common – these companies use SWOT analysis for their benefit. Strengths, weaknesses, opportunities, and threats (SWOT) study helps an organization to be aware of all the factors involved in making strategic decisions. Strengths and weaknesses belong to the internal environment of organizations which are controllable. Value system, organizational structure, employees, culture, management style, physical and technological infrastructure, R&D, labour union, customers, suppliers, raw material, supply chain etc are internal factors. Opportunities and threats belong to external environment. Competition, prices of raw materials, legal environment, taxation policies made by government, market trends, new technologies etc are external factors of environment.

SWOT guides an organization to strengthen its internal environment by addressing shortcomings and maintaining its competencies. The SWOT tool guides the organization to make strategies. The strategy is historically credited to Albert Humphrey in the 1960s, but it has remained debatable.

Writing your own SWOT once a year is very helpful. You may think that you already know everything that you need to succeed, but a SWOT analysis helps you look at yourself with a new angle giving you new directions. SWOT Analysis is a proven management framework.

Who should do a SWOT analysis? For an effective SWOT analysis, company founders and top management team need to be deeply involved. This is not a task that can be delegated to others. Innovative companies even look outside their own internal managers and staff in different ranks when they perform a SWOT analysis and get input from customers, suppliers, competitors, industry analysts for getting candid views. There is one truth attached to SWOT analysis that is things are constantly changing and therefore organizations constantly need to reassess their strengths, weakness, opportunities, and threats.

SWOT analysis should be performed on a regular basis. It's recommended that a company perform a comprehensive analysis, using extensive data and looking at key industry players, every three to five years. The company can then spend a few hours doing a review of its initial assessment every year or every other year.

Strengths: are things that an organization performs well which helps it to stay distinguished in the market. Strong organizational culture, employee attitudes, supple supply chain, intellectual properties, R&D, availability of funds, excellent after sales service, good market share etc are some good examples of strengths. When an organization enjoys multiple strengths, it motivates the employees, suppliers and customers access to certain materials, or a strong set of manufacturing processes. Strengths determine the organization's strong points. These consist of both tangible and intangible attributes (internal to an organization). The strengths from both internal and external perspectives. Strengths help organizations in positioning their brands comparative advantages.

To quote some examples: Amul's vast distribution network ensures its products are easily accessible to consumers across India, even in remote areas. This network helps the company maintain a strong presence in the market and provides a competitive advantage over other dairy players.

PepsiCo's strengths are strong brand recognition, effective leadership, well-performing supply chain, strong marketing and ample sponsorship, customer loyalty and strong financial position. PepsiCo enjoys nearly 22% market share globally.

Organizations enjoys Employee skill sets, Customer loyalty, Efficient processes, Intellectual properties are some strengths which help organizations to enjoy leadership position.

Weaknesses: Weaknesses are undesirable factors that reduce the strengths of an organization. These are factors that organizations need to improve on to be competitive. It is important to look at weaknesses both from an internal and external perspective. Organizations must take customer's opinions and clues from the market. Organizations must also study the competitors and their strategies. Organizations must design measures to rectify and control their weaknesses which in turn help them grow.

Amul's high operational costs are a weakness that affects its profitability and competitiveness in the market. This can be due to factors such as high input costs, transportation costs, distribution costs, and technology investments.

PepsiCo largely produces carbonated drinks. Due to increasing health concerns, the customers are more interested in the non-carbonated beverages that use fewer sweets in their products. The competitive brands are bringing in several health food alternatives. The bitter flavour of diet coke and carbonated drinks is why many customers switch to other healthy options. The company depends on niche marketing and has fewer products in its portfolio which is also one of its weaknesses.

Skill gaps among employees, weak supply chain, lack of working capital, high employee turnover rate and debts are some of the weaknesses which pull down organizations' performance.

Opportunities: An opportunity is a major situation in the business environment that represents the reason for the firm to exist and develop. Useful opportunities can come from unknown corners; an organization must keep its ears grounded. In changing business scenario organizations must seek opportunities in competitive or regulatory circumstances, changes in technology, government policy related to its sector, weaknesses of the competitors etc. When a company finds a good opportunity, it must assess it with its strengths and weaknesses and try to find a relation between them. A business opportunity is the chance to take advantage of an occurrence in the market for business gain. It is what makes some businesses succeed while many also fail.

Amul can expand its business into non-dairy segments, the world is going vegan, Amul can get into vegan products and other FMCG product categories. The Indian dairy market size is projected to grow from 124.93 billion in 2023 to 227.53 billion by 2030, at a CAGR of 8.94% during the forecast period. Amul is already a market leader in the dairy products segment.

PepsiCo has 23 brands, such as Pepsi, Diet Pepsi, Pepsi Max, Fritos, and others; each generates more than $ 1 billion in annual retail sales. While other companies struggled to meet their forecasts due to market uncertainties, PepsiCo has managed to meet and beat its forecasts thanks to its diversified portfolio. PepsiCo can bank on its surging demand for its snack products.

Encouraging government policies, growing business sector, potential new market segments, reasonable or reduced tariffs on exports and imports, low competition are some encouraging opportunities for businesses.

Threats: are external factors which an organization does not have much control. Threats are linked to weaknesses which have the potential to cause problems. A threat can come in the form of natural disasters such as COVID, a cyclone, drought etc. In the business world competition is a threat. Entrance of new competitors is a threat. Slowing down of market is a threat, increase in pricing of raw material or shortage of raw material is a threat.

For AMUL, more and more companies, and brands both local and foreign are invading its markets and overtaking its sales. Amul faces strong competition and its growing day by day. Basically, regional brands are giving it tough competition because Amul has a high operational cost due to its massive size and complex structure.

PepsiCo's dependence on carbonated drinks is one of its biggest threats from the point of view of health factors, lifestyle factors, and economic factors. These are challenging PepsiCo's market share. The changes in consumption preferences threaten PepsiCo's position in the food and beverage industry.

Recurring problems in supply chain, increasing competition in the sector, stringent government regulations, decline customer spending, shortage in trained workers, increasing cost of raw material and obsolete of firm are some threats organizations must be ware of

Pros and cons of SWOT Analysis:

Among the advantages of using a SWOT approach are the following:

- The analysis creates a visual representation of the factors that are most likely to impact whether the business, project, initiative, or individual can successfully achieve an objective.
- By involving experienced cross-discipline team members, a SWOT analysis can encourage many different perspectives and approaches.
- Such diversity can allow a SWOT analysis to flesh out each element and expose creative ideas and overlooked problems that might otherwise go unnoticed.

Although a SWOT snapshot is important for understanding the many dynamics that affect success, the analysis does have limits, such as the following:

- The analysis may not include all relevant factors because some strengths, weaknesses, opportunities, and threats can easily be overlooked or misunderstood.
- The input for each element can often be empirical or subjective and give a skewed perspective.
- Because it only captures factors at a particular point in time and doesn't allow for how those factors could change over time, the insight SWOT offers can have a limited shelf life.

TOWS:

TOWS analysis is a variant of a SWOT analysis and is an acronym for Threats, Opportunities, Weaknesses and Strengths. Like a SWOT, a TOWS analysis involves the identification of an organization's strengths, weaknesses, opportunities, and threats; however, often a key criticism of a SWOT analysis is that it doesn't show the relationships between the different factors and categories. For example, a particular threat might make a weakness much more significant. Whereas a TOWS analysis will look to match internal factors to external factors. It helps in identifying relevant strategic options that an organization can pursue. It helps organizations find how to exploit the advantage of opportunities, reduce threats, overcome weaknesses, and exploit any strengths. A TOWS is a commonly used strategic planning tool.

TOWS examines the company's external opportunities and threats and compares them to the company's strengths and weaknesses. This analysis forms the basis for developing a TOWS strategy and developing an actionable strategy.

Strategies Developed by TOWS Matrix:

S-O Strategies (Strengths-Opportunities): It is the longing of every organization to get benefit from its resources but the only way to accomplish that desire is to use the potential strength in the availing of the external opportunity. The opportunity for external resources is obtained from the internal strength of the business organization which is in the shape of assets. For example, when an organization has a sound financial position then it becomes a strength of the business to cash in on opportunities available in the market. The richness can be used to avail the external opportunity of expanding the business. This matching strategy of the strength of a strong financial position with the external opportunity of expanding the business is referred to as SO strategy.

Strengths and Opportunities (SO): allows firms to analyze how they can use their strengths to take advantage of the opportunities. ITC has a large and competent management team, good brand image, outstanding products, superb supply chain which allowed the company to go in for diversification which includes five-star hotels, FMCG products, paper boards, agribusiness etc.

W-O Strategies (Weakness-Opportunities): The matching combination of weaknesses of the business organization with the external opportunities is included in the WO strategies. When an organization tries to overcome the internal weakness with the help of the external opportunity WO strategy becomes useful. For example, if an organization is facing severe financial crisis, it is a weakness, which can be overcome by looking at opportunities in the external opportunity. The firm can decide to merge with a stronger multinational company.

W-O allows using opportunities to overcome the weaknesses an organization is experiencing. Tobacco Products Association has an impact on the cigarette brands: ITC has made a great deal of effort to enhance its corporate image, but the fact that ITC has many tobacco products in its portfolio has an impact on its corporate image. The increase in the Tobacco Tax influences its revenue. Due to the rise in the tax on tobacco products, cigarettes rates and, subsequently, profits are affected. There has been an increase in health awareness, which has resulted in a decrease in the demand for tobacco products in India. Anti-smoking programs throughout the country also influence cigarette sales. However, the distribution channel created due to cigarettes is being used for other FMCG products by ITC.

S-T Strategies (Strengths-Threats): The external threats can be tackled with the help of effective strengths of the organization. For example, if an organization's sales team is good, it can sustain the competition easily. If an organization is cash rich, it can innovate and add new products to its portfolio. Organizations can invest in R&D, hire good employees etc.

Strengths and Threats (ST): allows firms to take advantage of their strengths to avoid real and potential threats. ITC has made continuous efforts to separate the FMCG sector from over-dependence on tobacco products and has been successful in doing so to some extent. Nonetheless, tobacco products remain the biggest source of revenue, contributing more than 60 per cent to ITC's overall revenue.

W-T Strategies (Weakness-Threats): Organizations struggle to overcome their weaknesses and reduce the threats. WT strategy helps in removing the weaknesses internally and threats externally. W-T is the worst situation for an organization's existence. For example, if an organization has a poor distribution pattern it loses its market share to substitutions (competitors). An internal weakness, if not tackled in time, can result in an external threat.

The TOWS Matrix analysis is very subjective in nature. The validity of the analysis is enhanced when each factor is guided with specific criteria. Weaknesses and Threats (WT) helps to minimize weaknesses and avoid threats. ITC hotels have not been able to build an enormous market share. However, increased people's buying power has allowed ITC to further investments in its hotel chains to increase market share. Every year ITC invests around 6 per cent of its operating profit and 9 per cent of its profit after tax in hotels. Unlike its peer competitors Indian Hotels and Leela Ventures, ITC has an advantage. It does not have to borrow funds, because it relies on the cigarette business to generate the cash required for investments in its hotel business. The fact that this is a loss to shareholders who would have otherwise received bigger dividends instead of poor returns from investment in a struggling hospitality industry has somehow not been acknowledged.

Conclusion: A SWOT matrix is a planning tool, while a TOWS matrix is an action tool. In a SWOT analysis, you can identify all strengths, weaknesses, opportunities, and threats. To create a TOWS analysis, you need to treat each point as a single point of view. The TOWS matrix shows the relationship between external and internal factors, and strategies are selected based on these. It’s important to realize that strengths and weaknesses are concepts that don’t make much sense if you don’t put them into context or context.

The rationale for TOWS analysis is to help a company better understand the strategic options available and the ones which can be pursued. Organizations can work out which options maximize their strengths to take advantage of opportunities, while minimizing their weaknesses to avoid threats. However, before creating a TOWS matrix, organizations must do a SWOT.

References:

1. https://www.wordstream.com/blog/ws/2017/12/20/swot-analysis
2. https://drvidyahattangadi.com/converting-swot-analysis-into-tows-strategies/
3. https://www.businessnewsdaily.com/4245-swot-analysis.html
4. https://blog.hubspot.com/marketing/swot-analysis
5. https://upmetrics.co/blog/5-top-brands-swot-analysis-examples
6. https://www.investopedia.com/terms/s/swot.asp
7. https://www.mindtools.com/auqstul/the-tows-matrix
8. https://www.professionalacademy.com/blogs/an-introduction-to-the-tows-matrix-putting-swot-into-action/
9. https://blog.oxfordcollegeofmarketing.com/2016/06/07/tows-analysis-guide/
10. Analyzing Strategic Management, page 53, Dr. Hattangadi, Himalaya Publishing House
11. Strategic Management, by John Pearce, Richard Robinson And Amita Mital, McGraw Hill
12. https://www.businessnewsdaily.com/4245-swot-analysis.html