

How to present SWOT/TOWS analysis in your business plan for South African banks and financiers.

SWOT, also referred to as TOWS, is an acronym for Strengths, Weaknesses, Opportunities and Threats. It originates from the strategic management-related disciplines particularly military strategy and has been widely adopted as a comprehensive environment analysis tool in business strategy. Why is it so important that almost every bank in South Africa requires it as part of a project or business plan?

For financiers SWOT analysis serves 3 main purposes:

- Firstly they would like to see whether you appreciate your business environment
- Secondly, they are subtly accessing your honesty by giving you a self-appraisal test
- Thirdly and perhaps most obviously they want to access how much of a risk your venture is

Swot analysis is a self-appraisal of a business against its internal and external environment. A business that is able to objectively and effectively appraise itself exhibits the ability to understand itself versus its environment. This is a big plus because most businesses have collapsed simply because they failed to adapt their strategy to their environment. Adapting to the environment first requires knowledge of it, such knowledge amongst other things being easily demonstrated through SWOT analysis.

Entrepreneurs make several common mistakes when evaluating their current or prospective business interests via SWOT/TOWS analysis. The appraiser of a business plan however may not necessarily view these as mistakes but either as deficiencies in business knowledge necessary for the chosen venture or as tacit or blatant misrepresentations. Below are some of such common mistakes.

Hidden or disguised weaknesses and threats

On the honesty issue, banks access thousands of applications per year. They already know general weaknesses and threats affecting small businesses within a particular sector. Where a business fails to indicate some common obvious adversities, especially weaknesses, financiers can easily take this as a sign of dishonesty. Besides, if an entrepreneur fails to note business weaknesses, credit analysts can pick these from other supporting documentation and financials. To hide weaknesses may therefore not help that much. Threats can also be picked up through general industrial and market analysis.

Overstated strengths and opportunities

Entrepreneurs generally love to note their strengths and opportunities. When I was working as a banker, when accessing SWOT, we turned the process upside-down by assuming that what an entrepreneur terms strengths may actually be hidden weaknesses and opportunities, hidden threats. As a matter of fact, in most appraisals this turned out to be quite true. The presentation of weaknesses as strengths or threats as opportunities might either be intentional or might be a result of an unintentionally non-comprehensive analysis. However, it is possible for a business to see an

opportunity where everyone else perceives a threat. The strength of the business plan should justify and further clarify such scenarios in order to substantiate the SWOT analysis.

Challenges in dealing with neutralities

A problem closely related to the above two paragraphs is that of neutralities. Neutralities are factors that neither serve as strengths nor weaknesses, nor as threats or opportunities yet they are critical for the SWOT evaluation efforts. Here, blame is on the technical weaknesses of SWOT analysis itself. Neutralities could be viewed as weaknesses by an analyst because he/she is working from an eliminative approach- an approach where the general basis is to eliminate bad applications. An entrepreneur could be presenting his/her case from an optimistic, self-preservation stand point. In both cases it is quite possible that neutralities can still be misread as dishonest presentation. The technicalities operational here are quite complex and may need to be discussed in another article.

How best to proceed with TOWS analysis

As an entrepreneur you are struggling to present a positive picture of your business to your prospective financiers. Elucidating much hardship in your business plan, you fear will diminish your chances of being funded. On the other hand, your bankers will certainly treat any omissions, understatements and inaccuracies inversely. Such baffling scenarios are common for entrepreneurs preparing their business and marketing plans. The next few lines will attempt to outline possible solutions to this dilemma.

Presentation of threats

Threats emanate from the general external environment of the business. (Most businesses often fail to distinguish between threats and weaknesses). To emphasise on the difference, threats are external to the business and are to a greater degree outside the business' control. The entrepreneur should focus on the following when drawing out current and potential threats:

- The global economy
- The local economy
- The geographical or natural environment
- The industry or the markets
- The particular sector or niche the firm operates in

The global economy for example can transmit negative shocks to local businesses. For example, the inflationary pressure facing the South African economy are largely a result of a global economic recession emanating from the collapse of Lehman Brothers, banks in the United States. A committed entrepreneur will get this information from simply reading daily business sections of their favourite newspapers.

Having drawn out the threats, it is necessary to list out current threats and possible or foreseeable threats. After presenting your threats :

- Craft business strategies that address how the business will deal with each threats
- Clearly state and spell out the strategies against the threats
- Highlight how your cash flows will sustain under any threats with known or estimated financial implications
- Your reaction to threats should also be felt in your presentation of marketing and operations section of the business plan.

Never make the mistake of outlining threats and then not addressing how as a business you plan to ameliorate or totally eradicate their effect as this could be a fatal error.

Presentation of weaknesses

Weaknesses, unlike threats, emanate from within the firm. Any capacity challenge that is currently affecting business performance in terms of financial , operational, marketing and strategic efficiency necessary to achieve set goals can be a weakness. Remember weaknesses are internal.

- Weaknesses, like threats must be addressed with appropriate strategies, procedures and processes within a specific time frame
- It is imperative to outline how weaknesses will be addressed in other sections of the business plan as already explained above.
- If a particular weakness poses a higher probability of business disruption or failure, dedicate much time and space in dealing with it.
- Above all, show how funding will positively affect the most detrimental weakness. If a cause and effect relationship between funding and the eradication of the most critical weaknesses cannot be shown, the chances are that your business plan has failed to address your business weaknesses and this cannot be good to financiers.

The best thing about weaknesses is that they are expected in business even in the largest, most profitable and progressive firms. Financiers know that no business is perfect. The mere fact that one is applying for a business loan shows a point of financial weakness. If anything, it is how weaknesses are addressed or rather not addressed in business plans that can be worrisome.

Presentation of Strengths

Strengths, like weaknesses emanate from a business's known positive capacities, capacities which business strategists sometimes refer to as key success factors (KSFs). These are drawn from all the facets of the business i.e. financial, operational, and marketing and strategy. Strengths theoretically move the business towards its goals and objectives including generic goals such as sales growth, profitability, survival etc.

Entrepreneurs do not have many challenges in stating out their strengths. There is however a common error of labelling opportunities from the external environment as strengths.

Strengths must also be relevant to the funding objectives. It must be clear how the stated strengths are related to the opportunities and threats. Here three questions are normally asked:

- How will strengths enable the business to take advantage of opportunities?
- How will strengths be used to offset the adversities of threats?
- How will strengths be applied in managing weakness?

If our given strengths are nowhere closer to giving workable solutions to the above questions, it could be because they are not strengths at all, or at least they are not immediately relevant. The question of misrepresentation of strengths discussed in the early paragraphs might also be at play.

Opportunities

Unlike strengths, weaknesses and threats, opportunities are the prime and ultimate cause of establishing a particular business or at least applying for funding. The other three TOWS facets are merely reinforcements of how the opportunity will be harnessed and the external and internal challenges the firm will and may face in its endeavour to do so.

Any strategic changes to business including seeking external funding only make economic sense if there are opportunities that will make it possible for business to reap positive returns. Opportunities are external developments that can have sustainable positive strategic and operational implications on the business. They originate from the same place as threats- the environment at large. Opportunities must therefore be described in definite terms for the financiers.

To conclude this article, it is important for entrepreneurs to remember that financiers expect certain interactive relationships to exist amongst TOWS facets as explained. To recap, a business plan must show how the firm will use its internal strengths to take advantage of external environment opportunities while wading off internal weaknesses and addressing external threats that can reduce the firm's capacity to fully benefit from the existing opportunities.

