

SWOT (Strengths, Weaknesses, Opportunities, Threats)

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SUBJECT(S): Management, Personal Finance

GRADE LEVEL(S): 9, 10, 11, 12

≡ OVERVIEW:

Over the course of this unit, students have begun to think about investing in terms of portfolio management (i.e. as a balance of risk/return among multiple investment opportunities). This lesson continues that discussion by looking at specific investing choices. Why might we invest in one company and not another? Throughout the lesson, students will learn how to evaluate companies, industries and products using a SWOT (strengths, weaknesses, opportunities and threats) analysis.

≡ NBEA STANDARD(S):

- Personal Finance, IV. Saving and Investing
- Management, IX. Industry Analysis
- Personal Finance, VIII. Protecting Against Risk

≡ RELATED ARTICLES:

- [“The Investor Lifecycle: Changing Priorities, Changing Portfolios”](#)
- [“The Greatest Risks Facing Our World Economy”](#)
- [“Portfolio Managers: The Challenge Is Picking More than One Winning Stock”](#)
- [“Portfolio Management: Making Decisions about Your Investments”](#)
- [“Financial Ratios: Evaluating a Company’s Health and Worth”](#)

- “Behind the Puppy Dog Lenses, Snapchat Is a Living, Breathing Business”

Objectives/Purposes: The purpose of this lesson is for students to think critically about investment choices. Toward that end, the lesson focuses primarily on the SWOT framework. After the lesson, students should be able to define the four tenets of SWOT, and apply the framework to different companies/industries in order to evaluate their investment potential.

Tying It All Together:

The lesson is divided into five parts: (1) Introduction, (2) Definitions, (3) Guided Reading, (4) Practice, and finally (5) Closing

1. Introduction (5 mins)

If you have been following all of the lessons in this unit, begin this lesson with a brief overview of major topics. Either as a class, or in small groups, have students define the key terms of the unit (investment, risk, portfolio) and the relationship between them. Have students explain, in their own words, the relationship between risk and return, as well as the relationship between risk and portfolio management. It will be helpful to have students thinking about portfolios as we move through this lesson.

As a brief opening exercise, ask the students (again, in groups or as a class) to think of themselves as portfolio managers. If you'd like, you can make the exercise more specific using the previous lesson on investment lifecycles (e.g. ask the students to think of themselves as portfolio managers for young professionals). Ask the students what type of portfolio they would create.

Once students start thinking in terms of portfolios (rather than individual investments), ask them to be even more concrete. Which *specific* companies might they consider investing in? Throughout this exercise, encourage students to provide rationale for their decisions. Why did they pick that company? Does their choice make sense in light of the circumstance (i.e. portfolio management for young professionals in the accumulation stage of their investment lifecycle?)

2. Definitions (10-20 mins)

During the above exercise, students will have many “strategies” to explain their investment decisions. Some will choose companies that they like. Others will choose companies that seem popular (“Everyone eats at McDonalds!” “Everyone wants a new iPhone”).

Explain to students that investors have their own strategies for choosing investments. For this lesson, we will be using a strategy called SWOT. SWOT stands for Strengths, Weaknesses, Opportunities and Threats. Write out the acronym and the four tenets on a chalkboard or dry-erase board. Because the four tenets are somewhat intuitive, encourage students to provide definitions for you. Eventually, you should come up with something similar to these definitions:

- *Strengths* refer to those things that a company does well; in particular, strengths refer to sources of competitive advantage — positive attributes that set one company apart from its competitors. This might include things like customer service, good products, a strong brand, etc.
- *Weaknesses* refer to those areas where a company is lacking in comparison to its competitors. These are often the opposite of strengths: bad customer service, bad brand recognition (or bad reputation), weak products.
- *Opportunities* refer to external, or environmental factors that can help the business. For example, independent of a company's strengths or weaknesses, there might be opportunities for growth in the industry. There might be a shift in consumer preferences, or a change in industry regulation, all of which could benefit a company in the long run.
- *Threats* are also external factors, but ones that may hurt a company's prospects. The current economic downturn, for instance, might be a threat to companies that sell primarily luxury goods.

After describing all four aspects of a SWOT analysis, take the class through an example. You can let the students choose their own example, or you can choose one for them. A good example might be a cable Internet provider (e.g. Comcast).

Here is a quick outline of a SWOT analysis for Comcast:

- *Strengths:* Size, monopoly-like ownership of infrastructure, brand recognition, service
- *Weaknesses:* Perception of poor customer service, brand image
- *Opportunities:* Increased use of broadband in the home (wireless devices, streaming video), new geographic markets (e.g. California, Oregon, etc.), new customer segment (e.g. young customers)
- *Threats:* municipal wireless (e.g. in parks, public areas), satellite providers (e.g. Dish Network), basic TV, apple TV, Internet TV, Starbucks wireless, cable providers (e.g. Verizon), phone providers (e.g. Vontage)

3. Guided Reading (5-10 mins)

Once students grasp the general concept of SWOT, have the class read through the article “[FB Files for a Public Offering](#).” As students read, ask them to build their own SWOT analysis of Facebook, based on their personal knowledge as well as the information in the article.

Once students finish reading, have the class discuss their SWOT analysis. As with the example above, have students go through each tenet and explain their rationale. Would they try to buy shares of Facebook? Why or why not? What does the SWOT analysis suggest?

4. Practice (10-15 mins)

Break the class into small groups. Using your first example, as well as the Facebook example, have each group conduct a SWOT analysis of a specific company. Students may choose their own companies or you may provide them. (Examples: Apple, Microsoft, Adidas, ESPN, Southwest Airlines).

Provide each group with chart paper and markers. After giving the groups 10-15 minutes to work, have each group give the class a short presentation on their company, explaining the strengths, weaknesses, opportunities, and threats.

5. Closing (5 mins)

Close the lesson by tying together portfolio management with SWOT analysis. When you put together a portfolio of investments, how do you know which investments to choose? Part of this has to do with diversity and managing risk. However, part of this also has to do with an understanding of individual companies and their place in the market. SWOT analysis helps us with the latter.

Practice Outside of the Classroom:

Outside of the classroom, have students perform a SWOT analysis of a company that they work for (or have worked for in the past). This can include formal and informal work (i.e. working in retail or working as a babysitter).