

USING A SWOT ANALYSIS TO HELP WITH YEARLY PLANNING

There are trends and styles in management just as there are in creativity. What's in today might be out tomorrow. Then, too, in management as in creativity some things stand the test of time better than others. They become classics.

Still another similarity is that management classics are, like creative classics, simple in concept, easy to understand, and have universal appeal. One of these management classics is the SWOT Analysis.

WHAT IT IS

SWOT is an acronym for Strengths, Weaknesses, Opportunities, and Threats. A SWOT Analysis is simply a fast and easy way for a business to remain aware of the major elements that can affect its long-term success.

Unlike the arcane management tools appropriate to larger firms, a SWOT Analysis is most appropriate for service-oriented smaller ones. It is nothing more than a form, such as the one opposite, on which major conditions affecting a business' future are recorded. The idea is that recognition is the essential first step in change. The ultimate purpose is to help exploit all a business' strengths and opportunities; neutralize all its weaknesses and threats.


We recommend that every creative business do one at least yearly. It can be particularly effective at the end of one year as background to preparing a business plan for the next. (For business planning help download the

article of the same name at www.creativebusiness.com/online.html.) As indicated on the form below, a SWOT Analysis covers two types of elements.

Internal elements. These are things over which you have direct control; things that you can alter or change as desired. All it takes is the will and finding ways. For example, your creative product, pricing, clients, staff, location, etc. List the most significant ones, along with ways in which they can be exploited or neutralized.

External elements. These are things over which you *don't* have direct control; things such as events, conditions, and trends. You can't change any of them, but you can take advantage of them or protect yourself against their effects. For example, the type of local clients, the state of the local economy, fashion, or technological or marketplace developments. List the most significant ones, along with ways in which they can be exploited or neutralized.

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SWOT Analysis

Date: _____

<i>Internal Elements:</i>		<i>External Elements:</i>	
Our Strengths	Ways To Exploit	Our Weaknesses	Ways To Neutralize
Our Opportunities	Ways To Exploit	Our Threats	Ways To Neutralize

HOW TO FIGURE RETURN ON INVESTMENT (ROI)

Return on investment (ROI) is one of those business principles that everyone understands—until, that is, they are forced to put it into practice. Three illustrations of the problem follow.

In the first situation a client calls about increasing her promotional budget next year—that's the good news. But she wants to prove to her boss that it will provide a better return on investment than some other corporate alternatives. So she has asked for your help in making her case—that's the not-so-good news. How do you respond to her request for some "typical ROI returns" for promotional programs?

In the second situation you want to analyze the cost of making high-res color prints in house instead of buying them outside. You presently pass these fees along to clients with a markup, but with the cost of printers being what they are today would it be more profitable to produce them internally? How do you do the ROI math?

In the third situation you need to evaluate whether to hire another employee. The work is there, but would it be better to cover it with a combination of staff overtime and freelance help, or to get a full-time employee? There are other factors to contemplate as well, but you need to know what the numbers indicate.

FIRST, SOME BASICS

Return on investment is perhaps the most common measure of financial success. Simply, it is profit \$ divided by invested \$,

usually expressed as a percentage. As an example, a \$2 investment that brings a \$1 return has a \$.50 or 50% ROI.

This is where the simplicity ends, though. There are, for instance, several ways that companies can define both investment and profit. Investing in financial instruments, where the money is still available for future use, is different than investing in equipment, where it is not. Some factors that contribute to ROI are also difficult or impossible to quantify. And then there is the length-of-time factor—a 50% ROI for one year would be only 25% over two.

For these reasons, always take ROI figures with a grain of salt unless you know the details of calculation, or unless similar figures are used to compare relative advantages. As we will see, each of our illustrations is affected by one or more of these realities.

What's acceptable? ROI is nothing more than a way to quantify the merits of a financial situation. Although there is no right or wrong number, everything else being equal, most financial advisors recommend that the return for most business investments be 20% above the expenditure (120%). This is slightly lower than the recommended gross profit (before tax) margin for small businesses of 30%. The reason for the 20% minimum is that given the risk factor in any business investment, if this return is not possible it's probably better to take the investment money and put it in no-risk securities, such as Treasury Bills.

SITUATION ONE: A CLIENT'S ROI REQUEST

Businesses have wanted to know what type of return they will get

from money invested in promotional activities—design, advertising, PR, etc.—for as long as they have been using them. If you haven't already been confronted with such a request, chances are you will. Especially now, because of two recent developments.

One is the growth of direct marketing. Whether done by post (direct mail) or over the internet (interactive), the effect of spending is immediately apparent. Any sales increases or decreases relative to spending provide an ROI very quickly. So clients everywhere are now asking the question: "Why can't all marketing activities be this accountable?"

The other development affecting an increase in clients' desire for ROI assurance is the increasing need for accountability at all business levels. In today's fast-changing and competitive world "objectifying" business data (first quantifying it, then comparing it) is the only way to eliminate many of the subjective judgements that often get companies into financial hot water.

With this in mind, now let's get back to the client's request. As valid as it may seem, in actuality it is asking for the impossible. There are no reliable ROI figures for promotional programs or activities. Here's why:

Uncontrollable variables.

Most promotional projects are components of larger activities over which creative suppliers have no direct control. The bottom-line result of promotional spending is influenced by dozens of other marketing variables. Any one of them—product distribution to sales follow-up—could enhance or detract from promotional efforts, making an ROI calculation meaningless at best, misleading at worst.

In short, *return on investment data shouldn't be used to evalu-*

ate programs or activities that will be affected by variables beyond control. ROI data in the promotional area should be limited to those applications where control can be exercised, such as advertising readership, literature response, or web-page hits.

(Note: The return on your own promotional investments, where factors are controllable, is covered in "Where, When & How To Promote Your Business," which can be downloaded from www.creativebusiness.com/on-line.html.)

Art isn't science. Because it isn't, its impact can't be easily quantified. Comparing the impact of intangible ideas and creative approaches isn't the same as comparing numbers. An investment in an identity program could, for example, end up providing a corporation with one of its most enduring and valuable assets. Yet, in ROI terms it would likely be considered a poor investment because the value created is intangible. In another instance, promotional programs that dramatically improved customer satisfaction and loyalty might be ignored or undervalued in an ROI analysis because they are non-quantifiable.

In short, *many creative activities do not lend themselves to quantifiable analysis, including return on investment.* The effectiveness of these activities relies, as it always has, on the talent, professionalism, and experience of those providing the services. And evaluation relies, as it always has, on the sophistication of their clients.

Therefore... The best way to handle the client's request is to steer her away from any attempt at ROI projections. They are intellectually dishonest and may backfire.

Suggest instead that she outline to her boss everything new that could be accomplished with the additional funding. Then talk about all the benefits—increased sales, better corporate image, higher employee morale, etc. You

may also want to offer to assist in providing dummy layouts and presentation aids, and in helping her make her presentation.

SITUATION TWO: EVALUATING NEW EQUIPMENT

Unlike the above, using an ROI analysis to help make wise purchasing decisions is conventional and useful. It should be standard operating procedure for any significant investment, especially one involving capital equipment.

Even in these situations, however, some things are difficult to quantify, need to be guessed at, or covered with a fudge factor. As seen below, this was the case with situation two, the analysis that preceded the purchase of a large-size, high-res color printer for a ten-person firm.

Initial Investment

Epson 3000 printer	\$ 1,330
iMac to run printer	700
Installation (labor/mtls)	<u>400</u>
Total	\$ 2,430
Yearly cost (3 yr life span)	\$ 810

Annual Investment

Paper (1M @\$4 average)	\$ 4,000
Ink cartridges (5 ea of 4 colors @\$60 ea)	1,200
Labor (1M prints @15 min ea x \$15 hr slry*)	675
Loss of markup (1M prints @\$2 ea)	<u>2,000</u>
Annual investment total	\$ 7,875

Total investment costs \$ 8,685

Return

Color prints (1M @ \$12)	<u>\$12,000</u>
Total	\$12,000

Annual Return On Investment

Investment	\$8,685
Return	\$12,000
ROI	133%

*Does not value whether employee might otherwise be engaged in more profitable activity.

The bottom line. The ROI for this purchase looks very good. It returns the yearly cost plus 33%. Assuming demand remains constant, the only downside would come from higher than forecasted consumption of expendables, which can be

addressed with strict logging of every print made. On the upside, no factor was added in for convenience or efficiency, which could conceivably return more in profit than print sales.

SITUATION THREE: COMPARING LABOR COSTS

This example compares the direct labor costs of hiring a new employee versus continuing to use freelancers and paying overtime to other employees. Although not an accurate reflection of true ROI (non-direct labor costs such as overhead are not included) it is still a useful comparison. Note that it assumes only 50% of the new employee's time will be billable over the first year, whereas all staff overtime and in-house freelance time are billable.

Freelance/overtime history

Freelance bills (525 hours @\$50 hour)	\$ 26,250
Overtime (325 hours @ \$30 hour average)	9,750
Total cost	<u>\$ 36,000</u>

Billed (825 hrs @ \$125) \$103,125
ROI (direct labor only) 286%

New employee projection

Salary	\$ 38,000
Benefits	12,000
Total cost	<u>\$ 50,000</u>

Billable (963* hrs @\$125) \$120,375
ROI (direct labor only) 240%

*50% of 1925 yearly work hours.

The bottom line. From a financial standpoint it's a close call. Note, however, that other potential expenses (workstation costs, etc.) are not included. But, then, neither have the convenience and morale factors of having additional staff.

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For additional information on the effectiveness of creative projects see "How Effective Will It Be?" in the November/December 1997 issue. It and this article are also available for downloading at www.creativebusiness.com/on-line.html.