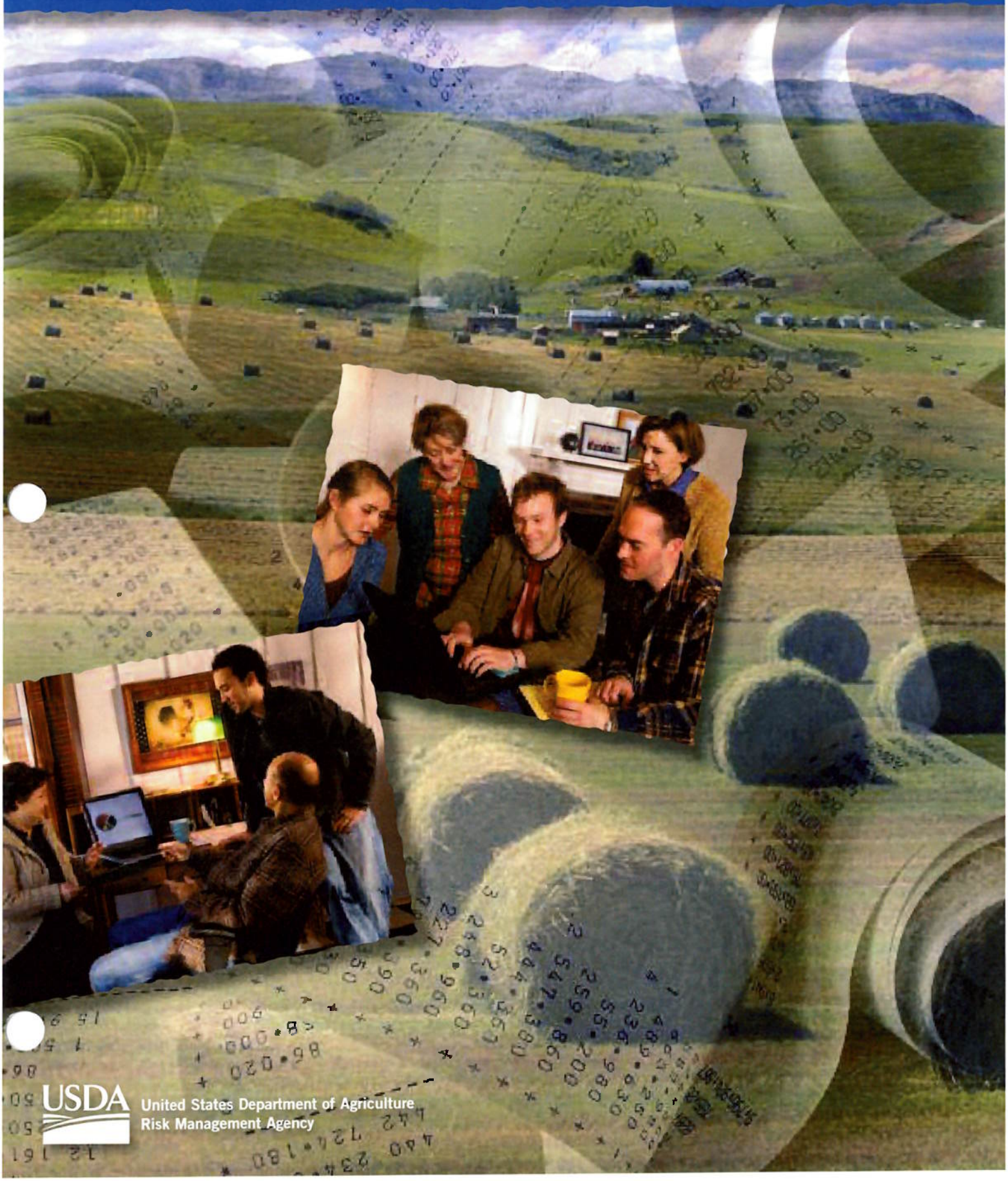
SWOT Analysis

A tool for making better business decisions



USDA United States Department of Agriculture
Risk Management Agency

What's a SWOT analysis?

A SWOT analysis is a tool that helps you evaluate the Strengths, Weaknesses, Opportunities, and Threats (SWOT) involved in any business enterprise — including farms and ranches.

A SWOT analysis can help you gain insights into the past and think of possible solutions to existing or potential problems — either for an existing business or new venture. For a SWOT analysis to work well, every member of your team (your family and/or employees, lawyer, accountant, and insurance agent) should be involved in the process.

After you read this overview, you will find a description of a sample farm and have a chance to go through a SWOT analysis for it. This exercise should help prepare you for doing your own SWOT analysis.

Strengths

Strengths are considered mostly internal. For example, what do you and your family, employees, and management team bring to the business? If you are planning to start a business, you or an employee or family member may have previous experience in that industry. If not, this may be viewed as a weakness. If you already know where to go to find the help you need, this would be considered a strength for this analysis.

Weaknesses

Weaknesses are also generally considered internal and are the factors you will need to address to run a successful business. For a start-up business, an example might be a lack of experience in the selected industry. Another example may be that your family members do not completely support you in this venture. You may lack qualified employees, or perhaps your business will not support full-time employees. If you identify these as weaknesses, don't worry because existing businesses may have similar weaknesses.

Opportunities

Opportunities are considered mostly external. What opportunities are available for your business? You may be able to take advantage of low interest loan packages for start-ups or grants for feasibility studies. You may have an idea that has not been tried in your area and know there is a demand for the product you plan to produce. Be aware that people with potential businesses tend to be much more optimistic than those with existing operations.

Threats

Threats are also considered mostly external. Threats from outside of your business will directly affect you, but you may have very little control over them. If you are starting a new business, there may be local regulations that negatively impact your business. Unforeseen competition (local or foreign), dissolution of markets, and adverse weather may also have a negative effect on your new business. Many of these threats will also negatively affect an existing business. Rising interest rates may have a greater impact on existing businesses than on start-ups.

When conducting your SWOT analysis, keep in mind that one item can offset another. For example, your strengths may counterbalance your weaknesses and your opportunities can offset your threats. If this does not happen, this exercise will help you to understand the issues you need to address.

Some things to consider.

Human Resources

Hiring employees who have the skills you deem necessary is one way to combat a weakness. For example, if you need someone to drive a large truck, hiring someone with a commercial driver's license will eliminate that weakness. Or, you could learn how to drive the truck yourself — but can you spare the time away from the business?

Adding to your management team is another way to eliminate a potential weakness. If your business is growing and you are handling the bookkeeping tasks yourself, hiring a bookkeeper will free up your time to focus on other parts of the business. If you do, be sure to hire someone you trust or do an extensive background check — especially if they will have check-signing capabilities. Having that person bonded will also create a level of security.

Insurance

For many agricultural businesses, insurance is a way to eliminate possible weaknesses, threats, or risks. If your analysis shows that you are undercapitalized to handle a major emergency (as are most agricultural businesses), insurance coverage will help eliminate this issue. Threats from liability, fire, automobile accidents, and crop failures can all be reduced with proper insurance.

Liability insurance

Liability insurance covers anyone who is injured on your farm. This coverage is included on your farm owner's policy, but the coverage is only for the dollar amount listed on the policy. For example, if your liability limit is $500,000 and someone sues you for $1 million, you will only be covered for the $500,000. The remainder of the judgment award is your responsibility. You should review your risk level with your insurance agent.

Fire insurance

Fire insurance is also included on your farm owner's policy. You may choose to insure some buildings, but not all. The level at which you will be reimbursed is written in your policy. There are several methods of coverage, including actual cash value, replacement value, and functional replacement value.

Automobile insurance

Your automobile insurance is separate from your farm owner's insurance. Any licensed over-the-road vehicle you own should be insured. If you have multiple vehicles on the road, you may be eligible for fleet insurance, which may save you some expense. Check with your State's Department of Transportation and your insurance agent to determine the coverage that is right for you.

Crop insurance

You may insure your crops with several types of policies, such as Multiple Peril Crop Insurance (MPCI) and Crop Revenue Coverage (CRC), among others. You may insure your revenue with Adjusted Gross Revenue coverage (AGR) or Adjusted Gross Revenue-Lite coverage (AGR-Lite). To learn more about crop insurance and determine the best coverage for your operation, contact your local crop insurance provider. To locate a crop insurance agent, visit The Risk Management Agency's online locator at: www3.rma.usda.gov/apps/agents/.

Exercise: Sample SWOT Analysis

Here is an example of a small farm that needs to diversify in order to remain sustainable. This farm family needs to conduct a SWOT analysis. Read the example and conduct your own SWOT analysis for the Ryan family. When you are done, you can check your answers against the answers prepared by experienced users of the SWOT analysis tool. Those answers are on the page after your fill-in-the-blanks page. If your answers are close to the experts' answers, you are ready to do your own SWOT analysis.

Meet the Ryan Family

The Ryan family has operated a dairy farm for over 50 years. Paul Ryan, age 48, took over the dairy from his father 20 years ago. The dairy is average-sized for the area: the Ryans milk 60 cows, grow most of their own forage and grain, and raise their own heifers. The family withdraws about $30,000 from the farm business each year for living expenses. The dairy is located in a rural area, but urban and suburban areas are close by. The nearest city has a population of 100,000.

Margaret Ryan, 42, is Paul's wife. They have three children: Jane, Hal, and Susan. Margaret used to work on the farm, but for the last 8 years she has been working full-time as a clerk-typist in the school district office. Take-home pay from this job is $18,000, plus health, dental, and other benefits that extend to the whole family. At this point, Margaret oversees the finances with Paul, occasionally milks, and manages the household.

Jane Ryan, 21, has just received her bachelor's degree in culinary arts from the local community college. During the summers, Jane works full-time on the farm with the milking. She is considering farming as an occupation, but would like to continue her work in value-added food production.

Hal Ryan, 16, is in high school and works with his father part-time during the school year, and full-time during the summer. He is not interested in the dairy or in any type of farming and would rather attend a university and study science, engineering, or economics.

Susan Ryan, 12, is a middle school student who really enjoys the farm. She takes care of the calves after school, belongs to 4-H, and has just begun to show an interest in helping with the crops, although she is too young to drive the tractor.

Jean Miller, 64, is Margaret's mother. Since the death of her husband 5 years ago, Jean has lived with the Ryans. She shares an interest in cooking with her granddaughter, Jane.

Alternative ventures

The Ryans are considering an alternative farm enterprise because they need additional income to send their younger children to college and to save for retirement. Paul and Margaret feel strongly that they would like Jane or Susan to take over the farm.

This means that, until they retire, the farm may have to support two families (Jane currently has no plans for marriage). The Ryans are thinking about expanding the dairy to generate additional income, but Jane would rather be involved in a value-added (food product) enterprise. Paul and Margaret realize that changes in the farm may have to occur to satisfy the desires of the next generation and are willing to explore alternative farm enterprises.

The family met to determine how each person felt about developing a new enterprise on the farm, and found that Jane and her grandmother are most excited about this idea. After they did an inventory of resources, they concluded that their main, underutilized, physical resources are a small piece of land — about 5 acres currently used to grow extra hay for sale — and a concrete block shed used to store bicycles and patio furniture. Their main, under-utilized, marketing resource is the city 38 miles away. The Ryans also have good road frontage along a fairly well-traveled highway. Management and labor resources available year-round would come from Jane and Jean. High school students would be available primarily in the summer, as would Susan.

The family decided that Jane would generate enterprise ideas, and the others would offer opinions on suitability. Jane and Jean discussed possible food products that could be made using farm resources. She also spoke to some former professors and classmates, a farming neighbor she respected, and the Extension economic development educator. She reviewed back issues of culinary and country magazines and spent an entire day walking through the city, visiting stores, restaurants, the downtown area, and malls.

Out of 6 ideas that Jane came up with (fruit pies, salsa, strawberry jelly, cheese, ice cream, and yogurt), the idea that most family members liked was cheese, which Jane and Jean thought could be sold at a farm-market stand or to the many hotels and restaurants in the city.

Your Task

Help the Ryans become more confident about this idea by doing a SWOT analysis for this project. Use the first SWOT worksheet to record your thoughts and those of others. You may copy the second worksheet as often as you want to do a SWOT analysis for any enterprise you are considering. Worksheets are also available at Farm-Risk-Plans.USDA.gov.