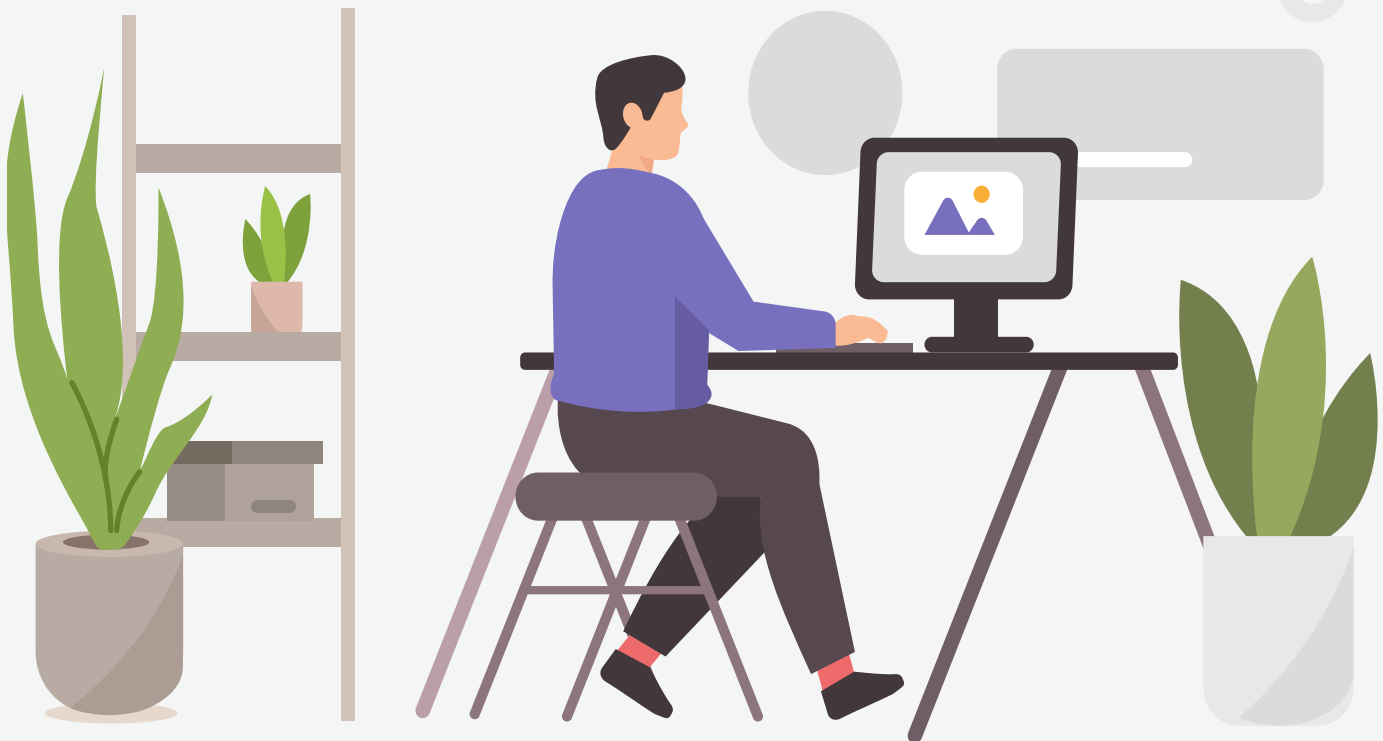


# Skillbook

# Essential Strategy

Strategy  
Skills



**Mindtools**

# Essential Strategy

## Skillbook

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# 1. Introduction

**Y**ou don't have to have a seat in the boardroom to recognize that being able to do something important that no one else can is a huge advantage in business. But is that enough? Can simply having that advantage keep you ahead of the competition?

Strategic planning is about understanding your competitive advantage, and then using it to “win.” Whether it's you or a team member looking for promotion, or your organization striving to become market leader, success doesn't just happen by itself – you have to have a strategy to make it happen.

So, where do you start? There are many different approaches to strategy, and there's a great deal of debate about the best way of developing one. A lot will depend on the type of business you're in, and whether you need a strategy for your organization as a whole or for a particular department or team.

In this **Skillbook**, we'll focus on three stages of developing a business strategy, using six popular tools:

1. **Understanding your environment** – using PEST Analysis and Porter's Five Forces.
2. **Understanding your organization** – using USP Analysis, Core Competence Analysis, and SWOT Analysis.
3. **Understanding your potential strategic options** – using Porter's Generic Strategies.

## 2. Understanding Your Environment

**B**efore you decide on a particular strategy, either as an organization or as an individual, you need to gain a good understanding of the environment that you're competing in.

There are a number of tools you can use to do this. In this chapter, we'll look at two market analysis tools – PEST Analysis and Porter's Five Forces – that can help you to identify the opportunities, challenges and threats that your competitive environment poses to you and your business.

### 2.1 PEST Analysis

PEST stands for:

- **P**olitical.
- **E**conomic.
- **S**ocio-cultural.
- **T**echnological.

PEST analysis is widely used for identifying opportunities and threats in the environment. For example, your research into a country's political climate might reveal that its government is introducing favorable new tax policies, or you could uncover threats to your business posed by a specific new technology.

To use the tool, you simply need to work through the four key areas of PEST and brainstorm all the opportunities and threats that might affect you in each area. Then, take action by building what you've learned into your business plan.

To help with this, think through the following questions:

#### Political

- What type of government is in place, and how stable is it? Are changes of government likely to happen, and what would the consequences be?
- How strong is the rule of law? Are there high levels of bureaucracy or corruption?
- Is there a trend toward business regulation or deregulation? And how could this affect your business?
- Are any changes likely in social and employment legislation? How might this affect you?

- Are any changes expected in tax policy, or in trade and tariff controls?
- What environmental and consumer protection legislation is in place?
- Are any other changes likely in the political environment?

## Economic

- How stable is the economy? It is growing, stagnating or declining?
- Are inflation and interest rates stable or expected to change?
- What is the rate of unemployment? How high are labor costs?
- Are customers' disposable incomes rising or falling?
- Is it difficult or easy for consumers and businesses to access credit? How might this impact your business?
- How is globalization impacting the economy?
- Are there any other economic factors that could affect you?

## Socio-Cultural

- What is the population growth rate and age profile?
- What are society's levels of health, education and social mobility? How are they changing?
- What trends have you see in terms of working patterns, the jobs market, and attitudes toward work? Are these different for different age groups?
- Are there any social, religious or cultural attitudes or taboos that could affect your business?
- Are changes in demographic profiles likely to affect your business?
- Are any other social or cultural changes likely to have an impact?

## Technological

- Are there any new technologies available that you could be using?
- Are there any new technologies on the horizon that could impact your business?
- Are there any areas of research supported by the government or other institutions that you could take advantage of?
- Have there been any infrastructure changes that have impacted ways of working and doing business? (For example, remote working or virtual technology.)
- Are there any technological hubs you could work with, or learn from?
- What changes in technology could affect your business, and how?



### Action:

Consider a business or organization that you know well – such as your own – and using the four factors above, brainstorm the Political, Economic, Socio-cultural, and Technological factors that might affect it now and in the future.

Political	Economic
Social-cultural	Technological

## 2.2 Porter's Five Forces

This tool is very useful for understanding the competitive environment you plan to operate in. If you know where power lies, you can take appropriate advantage of a position of strength, or improve a weak one. As the name suggests, this tool identifies five forces that determine the balance of competitive power in a marketplace. These are:

- Supplier Power.
- Buyer Power.
- Competitive Rivalry.
- Threat of Substitution.
- Threat of New Entry.

### Supplier Power

#### **How easily can your suppliers drive up their prices?**

If you have numerous options for suppliers, then you have the power here. If there is only one supplier able to meet your needs, then the power will lie with it.

### Buyer Power

#### **How easily can your customers drive down prices?**

If your customers can easily switch to a rival provider, or if you rely on a few big customers, then power lies with them as you will have to fight to keep them. But if you supply a unique service or product that's vital to your buyers or clients, then competitive power is yours.

### Competitive Rivalry

#### **How strong is competition in the market?**

If there are many competitors in your market, with equal ability to offer the same goods or services, then you will have little competitive power because it's easy for your customers can shop around for the best deal. You will enjoy considerable power, though, if no rivals can offer or match your products.

### Threat of Substitution

#### **Are there alternative products or services that customers can use to replace yours?**

If your customers can find a way around using your products or services, then the power is theirs. For example, if you sell software that automates a process, people could continue to do the process manually or outsource it. If there is no other way of doing what you do, however, then competitive power lies with you.

This differs from competitive rivalry, in that you're looking at substitution of your product or service, rather than like-for-like exchange.



## Threat of New Entry

### How easy is it for others to enter your marketplace?

If you can offer a product or service that is difficult to copy, then rivals will be put off entering your marketplace and competitive power will lie with you. But your position will be weakened if your goods are easy to replicate – for example, through lack of patent protection – as others will see opportunities to enter your market.

## Using Porter's Five Forces

You can use this framework to gain an understanding of the environment that your business or organization is operating in.

First, brainstorm relevant factors for each of the forces. Then, assess the balance of competitive power by considering where, along the line shown below, the power lies for each of the forces:

Power Completely With You

Power Not With You



### Action:



Consider a business or organization that you know well – such as your own – and analyze its business environment using the Porter's Five Forces framework. Then do the following:

- Suggest the extent to which power lies with your business or away from it using the scale on the line above (“++” “+” “0” “-” “--”) for each of the five forces.
- Give a reason for your answer.

An example, for a the supplier power of a suburban whole foods store, has already been added to the table for you:

Force	Power	Reasoning
Supplier Power	++	The store is its main supplier's only customer

## 3. Understanding Your Organization

Understanding your business environment is essential if you want to develop a robust strategy, but so is knowing your organization. To do this, you need to understand how you measure up to the competition.

In this chapter, we'll explore three tools that can help you to do this – USP Analysis, Core Competence Analysis, and SWOT Analysis.

### 3.1. USP Analysis

Your USP is your unique selling proposition. A USP is what you can provide that no one else can. If you have a USP that your customers care about, they have no choice – they simply have to come to you, giving you a huge competitive edge. USP Analysis will help you to identify your USP, and develop strategies to defend it from your rivals.

#### Action:

Suggest a USP for the following successful companies and products. An example has already been done for you.

Company	Unique Selling Proposition(s)
Apple iPhone®	Exceptional user experience built on simplicity and design.
Coca-Cola®	
Netflix®	
McDonald's®	

To carry out your own USP analysis, follow these four steps:

## 1. Understand the Characteristics That Customers Value

First, brainstorm what customers most value about your product or service and how they make the decision about which product or service to buy over other brands'.



### Action:

Consider what your customers value about your product or service. Write down two things that influence their decision to buy it over competitors'.

	Characteristic Valued by Your Customers
1.	
2.	

## 2. Rank Yourself and Your Competitors

Once you've identified the characteristics that customers value, give yourself and your top competitors scores out of 10 for each of the criteria that you identified. Try to be objective, and score from a customer's point of view, using data if possible. (See the activity on page 10 for more on how to do this.)

## 3. Identify Where You Rank Well

Now plot your rankings on a line graph (see page 10) to see how you stack up against your competitors. From these first three steps, you should be able to develop a simple, easily communicated statement that describes your USP.

## 4. Preserve Your USP

Once you've identified your USP and started to promote it, you need to defend it, because your competitors will seek to neutralize your advantage. You can defend your USP using patent protection, for example, or copyrighting a product, or by ensuring employees' contracts include non-disclosure clauses.

Whatever your strategy, it's worth investing in preserving a good USP.

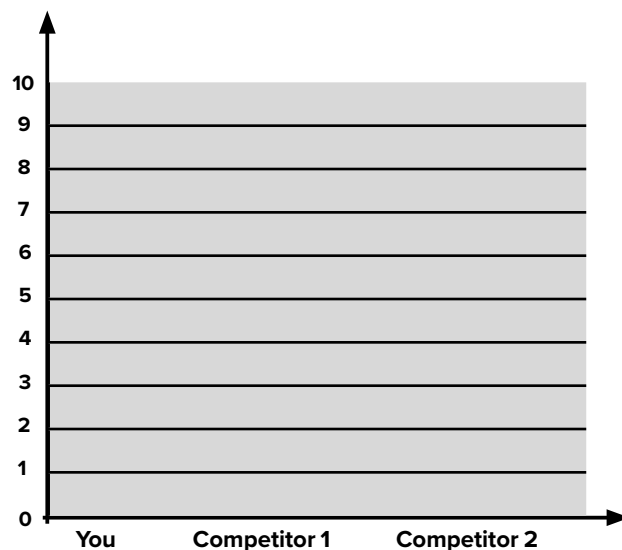


### Action:

Write down three criteria or characteristics that you believe your customers most value about your product or service. Then rank yourself (out of 10), as well as two of your competitors using this criteria. How do you measure up? What areas are you strong and weak in by comparison?

Product Features Most Valued by Your Customers	Company	Score (out of 10)
A.	You	
	Competitor 1	
	Competitor 2	
B.	You	
	Competitor 1	
	Competitor 2	
C.	You	
	Competitor 1	
	Competitor 2	

Plot a line graph to display the results of your analysis for yourself and your two competitors. If you're writing your answers directly into this PDF, you may need to print this page out, or use a separate piece of paper to do this.



Now, in the table below, write a simple statement to describe your USP in relation to your competitors. Then suggest one way that you could increase or defend your USP.

<b>This is our USP</b>	
<b>This is how I would defend our USP.</b>	

Carrying out a USP Analysis has the added advantage of allowing you to think critically about your competitors. So, it helps you gain a greater understanding of your environment, as well as of your organization.

## 3.2. Core Competence Analysis

Core Competence Analysis helps you to identify what customers value about your organization, so you can focus your efforts on developing your expertise in the areas that really matter to them.

Just as with USP Analysis, the underlying principle of Core Competence Analysis is that customers are willing to pay more for something from an organization with a unique and valuable set of skills and abilities.

So, what qualifies as a core competence? It's easy for an organization to state boldly what it is good at. But for such claims to be considered core competences, they must pass three tests:

### 1. Relevance

The competence must strongly influence your customer to choose your product or service. If it doesn't, there will not be a favorable effect on your competitive position.

### 2. Difficulty of Imitation

The competence should be difficult to copy. This allows you to reap the rewards of offering products that are better or different from those of your competitors. And, as you continually strive to improve them, you can maintain your competitive position.

### 3. Breadth of Application

This competence should give you access to a number of potential markets. Although small niche markets can be attractive, success in them is unlikely to be enough to sustain substantial growth.

To undertake a core competence analysis, you first need to identify what competencies are most important to your customers. Identify the factors that influence people's purchase decisions when they're buying products or services like yours. Make sure that you don't focus too heavily on your product features, and include all decision-making points. For example, price, brand values, or brand reputation.



### Action:

Brainstorm the competencies that you think are most important to your customers. Then mark whether they meet the three key criteria to be a core competency - relevance, difficulty of imitation, and breadth of application.

Competencies Important to Customers	Relevance	Difficulty of Imitation	Breadth of Application



### Action:

Now, brainstorm your organization's competencies. Then, as you did in the previous exercise, screen them against the three core competency criteria - relevance, difficult of imitation, and breadth of application.

Your Organization's Key Competencies	Relevance	Difficulty of Imitation	Breadth of Application

Once you've brainstormed your core competencies according to your customers needs and wants, and your existing product offering, you need to review your findings:

- If you've identified core competencies that you already have, then great! Work on building them and protecting them! They will likely be your USP!
- If you have no core competencies, then look at the ones you could develop from the items you listed that you believe are important to customers.



- If you have no core competencies and you're unable to build any that customers would value, then it might be best to go back to your USP analysis to identify core competencies you could develop. Alternatively, you could think about other markets or environments that suits your competencies.

Also, think about the things you do that are most costly and time-consuming. If any of these things don't contribute to your core competencies, perhaps you could look at cutting them or outsourcing them, so you can make more time to focus on your core competencies.

For example, if you're a small business, are you still doing your own HR and payroll? Or, if you're a big business, are you manufacturing non-core product items or performing non-core activities?

### 3.3. SWOT Analysis

This is perhaps the most popular of all strategy tools. It can be applied effectively to your business or your personal circumstances. It's also easy to use and understand, and can help you to identify potential, strategic courses of action quickly.

What makes SWOT particularly powerful is that it provides a link between understanding your organization from both product and competency points of view. And it gives equal weighting to identifying negative factors (such as threats and weaknesses) and positive factors (such as opportunities and strengths.)

SWOT stands for Strengths, Weaknesses, Opportunities, and Threats. To do a simple SWOT Analysis, answer the questions in the chart below:

<b>Strengths:</b> <ul style="list-style-type: none"> <li>• What does your organization do well?</li> <li>• What unique resources can you draw on?</li> <li>• What do competitors and customers see as your strengths?</li> </ul>	<b>Weaknesses:</b> <ul style="list-style-type: none"> <li>• What could you improve?</li> <li>• Where does your organization have fewer resources or expertise than the competition?</li> <li>• What are your customers and competitors likely to see as your weaknesses?</li> </ul>
<b>Opportunities:</b> <ul style="list-style-type: none"> <li>• What opportunities are open to you, such as changes in technology, government policy and demographics?</li> <li>• What trends could you take advantage of?</li> <li>• What opportunities do your strengths open up?</li> </ul>	<b>Threats:</b> <ul style="list-style-type: none"> <li>• What trends or market changes could harm your organization?</li> <li>• What is your competition doing?</li> <li>• What threats do your weaknesses expose you to?</li> </ul>

To help you to identify your strengths and weaknesses, consider your organization both from an internal perspective, and from your customers' and competitors' points of view.



### Action:

As an example, let's do a SWOT Analysis from the perspective of your team. Write down two strengths and two weaknesses of your team as may be seen from your client's perspective.

Strengths	Weaknesses



### Action:

Now, convert your strengths into opportunities, and identify any threats that results from your weaknesses. (Opportunities often come from strengths, and threats often come from weaknesses.)

Opportunities	Threats

SWOT Analysis can also be used by an organization to assess its competitors. This can give you an excellent insight into how you can combat their strengths and exploit any weaknesses.

## 4. Understanding Potential Strategic Options

**M**ichael Porter, a leading authority on competitive strategy and creator of the Five Forces tool we looked at earlier, set out three generic strategies that could be applied to products or services in any industry, in his 1985 book, [“Competitive Advantage: Creating and Sustaining Superior Performance.”](#) His three strategies are:

### 1. Cost Leadership

This involves being cheaper than anyone else – the so-called “no frills” approach – and having lower costs than anyone else, so your margins increase compared to your competitors.

There are two ways of achieving competitive advantage with a cost leadership strategy:

- Increasing profits by reducing costs while charging industry-average prices.
- Increasing market share by reducing prices, while still making a profit through reduced costs.

Cost leadership is about minimizing the cost to your organization of delivering your products and services. The price paid by your customers often follows.

### 2. Differentiation

This is all about offering a uniquely desirable product or service. This usually means your product has high-end features, good functionality, excellent customer support, or a valuable brand image.

Organizations opting for a differentiation strategy will need good and agile research and development to ensure that they can innovate constantly, the ability to deliver high-quality products or services, and strong sales and marketing to sell the benefits of their differentiated offering to their customers.

### 3. Focus

This strategy involves offering a specialized service in a niche market, divided into:

- **Cost Focus:** emphasizing a minimal cost within a focused market.
- **Differentiation Focus:** offering a unique and desirable product or service within a focused market.

For example, a global auto manufacturer may decide to launch a brand focused on the luxury car market. Adopting a differentiation focus, it might focus on fun, ultra-high performance, luxury electric vehicles targeted at wealthy, environmentally conscious consumers. Adopting a cost focus, it might also offer a reasonably-priced, functional estate targeted at families.

Your choice would depend on your desire for performance, your interest in luxury, and your level of environmental consciousness.



### Action:

Consider the two airline types below. Which of Porter's three generic strategies (cost leadership, differentiation and focus) could be applied to their service?

Airline Type	Generic Strategy
Cheap, "no frills."	
Luxury carrier with excellent service.	

Your choice of generic strategy underpins all your strategic decisions, and Porter stresses that you do need to make a choice, rather than "hedge your bets" by adopting more than one strategy.

You need to pick the strategy that fits best with your competences and strengths.

## 5. Key Points

In this Skillbook, we've looked at these three stages of developing a strategy:

- Understanding your environment.
- Understanding your organization.
- Understanding your potential options.

**PEST Analysis** and **Porter's Five Forces** are key tools used to evaluate the environment you operate in.

**USP Analysis** is a tool for identifying your unique selling proposition and understanding how others are competing in your industry. By ranking yourself and your competitors on the criteria customers use in making purchasing decisions, you can gain a better understanding of your competitive edge.

**Core Competence Analysis** is similar to USP Analysis in that it gives you a deeper understanding of your organization. A **SWOT Analysis** is a simple but effective framework for highlighting your strengths, weaknesses, opportunities, and threats.

Finally, **Porter's Generic Strategies** helps you to understand the potential strategic options available to you.