
Developing Strategic Capability

Week 6



Recap

The definition of Strategy: which one is your favorite?

'... the determination of the long-run goals and objectives of an enterprise and the adoption of courses of action and the allocation of resources necessary for carrying out these goals'

Alfred D. Chandler

'Competitive strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value'

Michael Porter

'a firm's theory about how to gain competitive advantages'

Peter Drucker

'a pattern in a stream of decisions'

Henry Mintzberg

'the long-term direction of an organisation'

Exploring Strategy

Sources: A.D. Chandler, *Strategy and Structure: Chapters in the History of American Enterprise*, MIT Press, 1963, p. 13; M.E. Porter, 'What is strategy?', *Harvard Business Review*, November–December 1996, p. 60; P.F. Drucker, 'The theory of business', *Harvard Business Review*, September–October 1994, pp. 95–106; H. Mintzberg, *Tracking Strategies: Towards a General Theory*, Oxford University Press, 2007, p. 3.

Recap

- Mintzebergs 10 Schools of Thought



The Strategic Position



- 1. The macro-environment
- **PESTEL Analysis:** Examines Political, Economic, Social, Technological, Environmental, and Legal factors that impact the organization.
- 2. Industry and sector

Porter's Five Forces: Assesses competitive pressures within an industry, including supplier power, buyer power, threats of new entrants, substitute products, and industry rivalry.

Industry Life Cycle Analysis: Tracks the life cycle stages (introduction, growth, maturity, decline) of an industry.

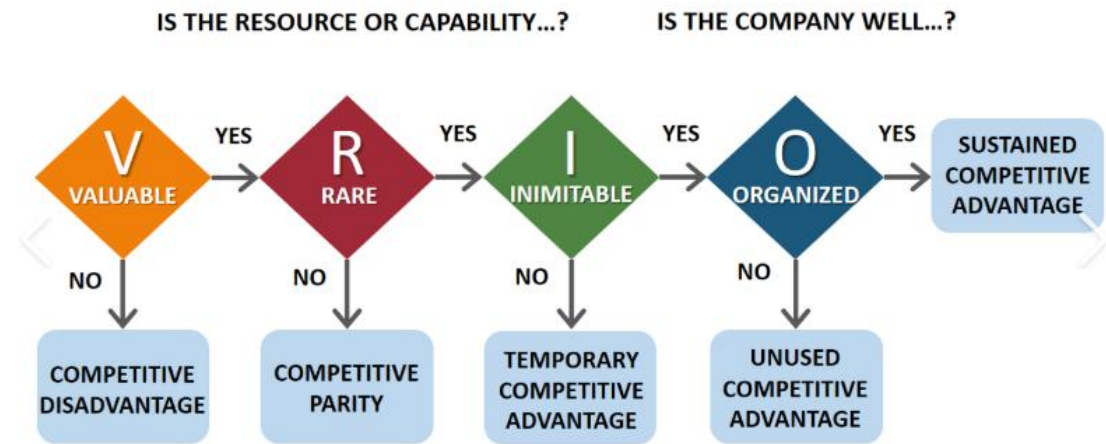
- 3. Stakeholders and Governance

Stakeholder Mapping: Uses the Power/Attention Matrix to identify and prioritize key stakeholders.



4. Resources

- **VRIO Framework:** Evaluates resources based on their Value, Rarity, Inimitability, and Organization.



Any Questions
so far?



Let's start!- How to apply these frameworks into analysis

- 1. Macro-environment - PESTLE analysis
- A PESTLE (or PESTEL) analysis gives a macro picture of the industry, covering **political, economic, social, technological, legal, and environmental factors** which can affect an industry and a business.
- A strong PESTLE analysis will help you to understand **long term trends** as well as support a range of business planning situations. You can **use a PESTLE for planning a range of business objectives such as strategy**, marketing, product development, organisational change, as well as workforce and people planning.

P	E	S	T	L	E
Political	Economical	Social	Technological	Legal	Environment
Political and government stability	National debt	Demographics	Technology demand	Legislation in areas such as competition, Health & Safety and employment laws	Global warming
Political orientation	Consumer spending	Customer attitudes and buying patterns	Technology development (current & future)	Environmental legislation	Pollution levels
Local and National elections	Government Spending (current & future)	Media	Levels of research and development funding	Changes and effects of EU law and Brexit	Plastic waste
Taxation (current & future)	Inflation	Influencers and role models	Intellectual property rights & copyright	Pandemic law changes	Attitude of customers, media, protestors, and law makers on the environment
Trade Unions	Unemployment levels	Brand image	Lifecycle of a product	Regulatory bodies	Renewable energy
Wars (both home and international)	Taxation	Ethical issues	Government investment in technology		Deforestation
Pandemic policies	Exchange rate	Consumer spend	Internet connectivity		Green issues
Grants, and other funding	Supply chain volatility	Post pandemic lifestyle changes			Sustainability
Pressure groups	Overall economic situation	Cultural shifts			Environmental protection

- The political aspect of PESTLE is mainly concerned with **governments**; however, you also need to consider **trade unions** and **their collective bargaining power** which could impact your business (**for example, strikes and wage negotiations**).
- **Wars** are another example where a government may reduce business spending, and consumers can see cost rises in raw materials (oil and gas for example). **Political stability and instability or elections** should also be factored in as new governments can change/reverse current legislation.
- The next aspect to consider is **taxation**. There are many types of taxes that businesses need to be aware of. Some businesses must charge more tax for certain items (e.g., sugar tax). As a business, you need to ensure you stay up to date with **any tax changes and assess how they will impact your business**.



E

Economical

National debt

Consumer
spending

Government
Spending (current
& future)

Inflation

Unemployment
levels

Taxation

Exchange rate

Supply chain
volatility

Overall
economic situation

- Economies are fragile and by understanding the economic factors that can affect a business, you can begin to mitigate risks. Economic changes can be felt **locally, on a countrywide basis, or even globally.** Economic factors are those which have the potential to affect goods, services, and finances. Things to consider here are interest rates, recessions, inflation, exchange rates as well as supply and demand.
- A government may reduce or increase spending, which can affect businesses, and they can also influence working hours, working conditions and wages. Along with working conditions and hours, unemployment rates can also be a factor that affects businesses. Other things to consider here are national debt, cost of living and credit availability.

S

Social

Demographics

Customer
attitudes and
buying patterns

Media

Influencers and
role models

Brand image

Ethical issues

Consumer spend

Post pandemic
lifestyle changes

Cultural shifts

- Social factors include cultural trends, demographic shifts, lifestyle changes, and consumer attitudes that shape market demand.

T

Technological

Technology
demand

Technology
development
(current & future)

Levels of
research and
development
funding

Intellectual
property rights &
copyright

Lifecycle of a
product

Government
investment in
technology

- Technological factors involve advancements in technology, innovation, R&D activity, and the rate of technological change that influence industry dynamics.



Legal

Legislation in areas such as competition, Health & Safety and employment laws

Environmental legislation

Changes and effects of EU law and Brexit

Pandemic law changes

Regulatory bodies

- Legal factors refer to **laws, regulations, and legal frameworks** that shape business operations and compliance requirements.
- eg: E-commerce tax laws in India impacting online retailers' pricing strategies.



Environment

Global warming

Pollution levels

Plastic waste

Attitude of
customers,
media,
protestors, and
law makers on
the environment

Renewable
energy

Deforestation

Green issues

Sustainability

Environmental
protection

- Environmental factors include ecological and environmental aspects, such as climate change, sustainability pressures, and environmental regulations
- eg: Increasing consumer demand for eco-friendly packaging materials.
- Stricter emissions regulations influencing automotive manufacturers.

TEST

1. Which of the following best describes the “Political” factor in a PESTLE analysis?

- A. Demographic changes and cultural attitudes
- B. Government policies, trade restrictions, and tax laws
- C. Technological advancements and infrastructure development
- D. Ethical standards and company governance

2. What does the “Economic” factor in PESTLE mainly address?

- A. Climate change and sustainability
- B. Consumer spending patterns and inflation rates
- C. Legal regulations and industry compliance requirements
- D. Cultural values and customer preferences

3. Which PESTLE factor considers the impact of societal attitudes, lifestyles, and demographic trends?

- A. Social
- B. Technological
- C. Political
- D. Environmental

4. In PESTLE, which factor would you examine to understand the adoption rate of new digital tools or platforms in an industry?

- A. Political
- B. Technological
- C. Social
- D. Economic

5. Which PESTLE factor focuses on regulations, intellectual property rights, and compliance standards?

- A. Legal
- B. Environmental
- C. Economic
- D. Political
- Correct Answer: A

6. When considering factors like renewable energy policies, carbon emissions, and waste management, which PESTLE category are you analyzing?

- A. Economic
- B. Environmental
- C. Social
- D. Political

Tips for conducting a PESTLE analysis for organisational strategy

1. Use reliable sources of information

- *Make sure the data you rely on comes from credible sources, such as **industry reports, government statistics, reputable market research firms, and reliable news outlets**. The validity of your conclusions depends heavily on the quality of your data.*

2. Link insights to internal capabilities

- *The findings from PESTLE should be evaluated in the context of your organisation's internal resources and capabilities. Consider how external changes can be leveraged or managed given your current strengths and limitations, ensuring the analysis leads to **actionable strategies**.*

3. Combine qualitative and quantitative data

*While PESTLE is generally **qualitative**, support your conclusions **with quantitative data** wherever possible. Metrics like **GDP growth rates, R&D investment percentages, or population demographics** can lend credibility and specificity to your analysis.*

Activity1: Please develop a PESTLE Analysis for Tesla's Market Strategy (one classmate is responsible for one dimension)

1. Political Factors

- EV policies, subsidies, and incentives.
- Trade agreements, tariffs, and sanctions.
- Government support for green energy infrastructure.
- (Example: U.S. federal tax credit of up to \$7,500 for EV buyers)

2. Economic Factors

- Consumer purchasing power and GDP growth in target markets.
- Cost and supply of critical materials (e.g., lithium, cobalt).
- Currency exchange rates and their impact on pricing.
- (Example: Rising cobalt prices influencing battery costs)

3. Social Factors

- Increasing consumer preference for sustainable products.
- Urbanisation trends and tech-savvy demographic segments.
- Social movements driving environmental awareness.
- (Example: Growing demand for EVs among millennials in urban areas)

4. Technological Factors

Battery technology advancements.

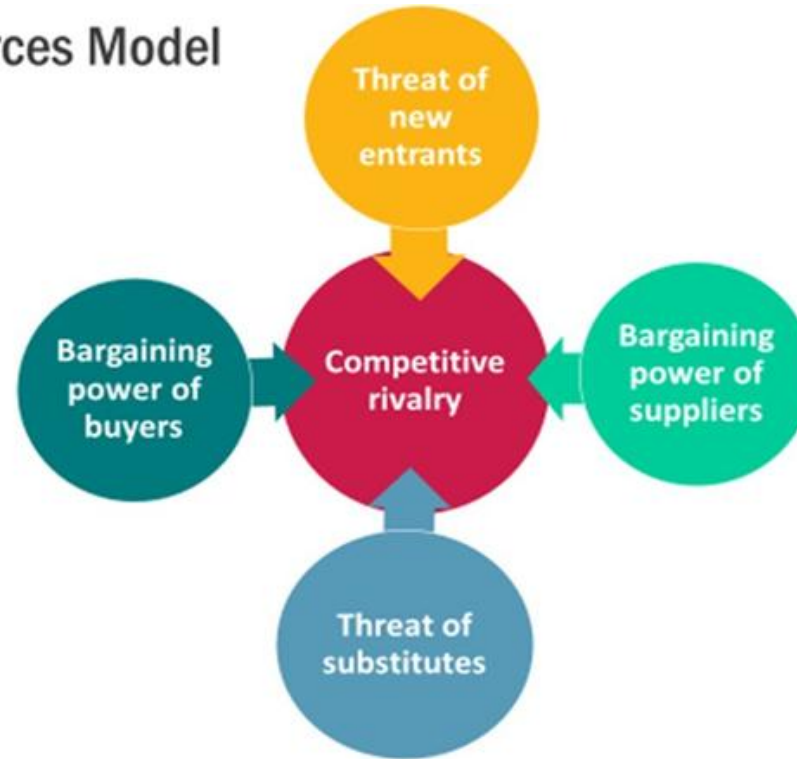
Development of autonomous driving and AI systems.

Expansion of Tesla's Supercharger network.

(Example: Tesla's introduction of 4680 battery cells to improve range and reduce costs)

Porter's Five Forces

Porter's Five Forces Model

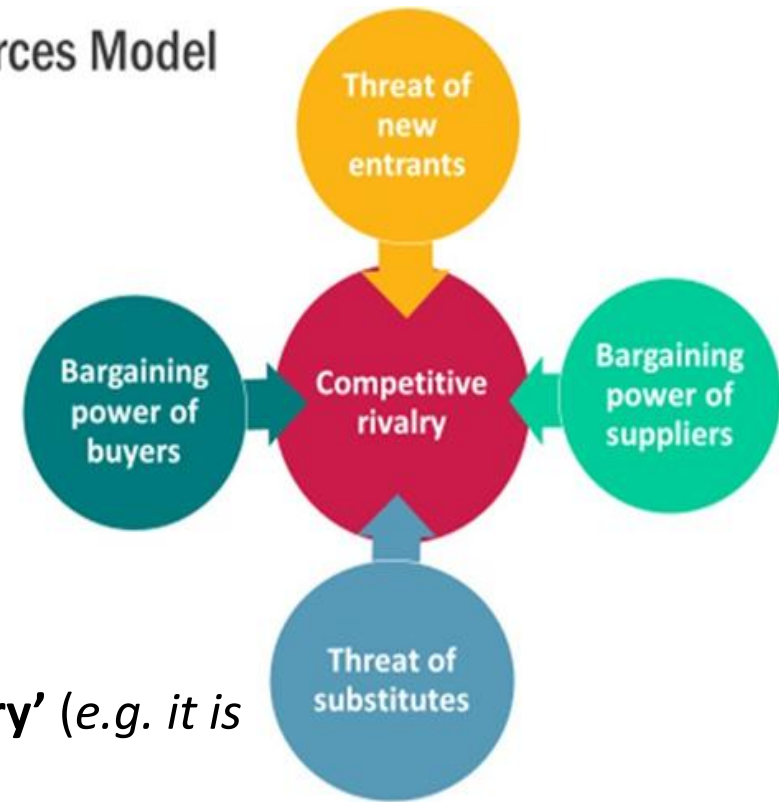


A tool used to analyse Industry Structure and Competitive Intensity

Force 1: Threat of new entrants

Porter's Five Forces Model

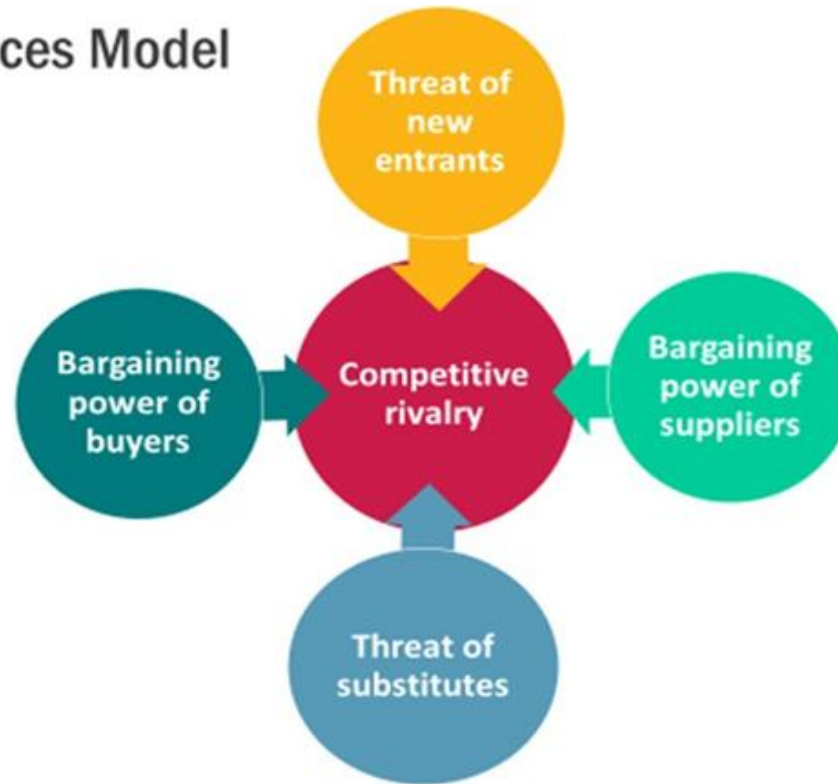
- This looks at the threat of new competitors entering the market
- New competitors will enviably gain some market share
- Rivalry will intensify
- This is less likely to occur if an industry has **'high barriers of entry'** (*e.g. it is hard to set up a business in that market*)



Barriers to Entry

How easy or difficult is it to set up a new business in that industry. This can be determined by:

Porter's Five Forces Model



Investment costs or capital required

- The pharmaceutical industry requires substantial investment in research and development, clinical trials, and regulatory compliance before a new drug can be brought to market. This high capital requirement limits entry to firms that can secure the necessary funding.



Government Policies

- Description: Regulations and licensing requirements that restrict entry into certain industries.
- Example: In telecommunications, government regulations may limit the number of licenses issued for broadcast frequencies. This can prevent new entrants from competing in the market unless they can acquire a license from an existing holder.



Brand Loyalty

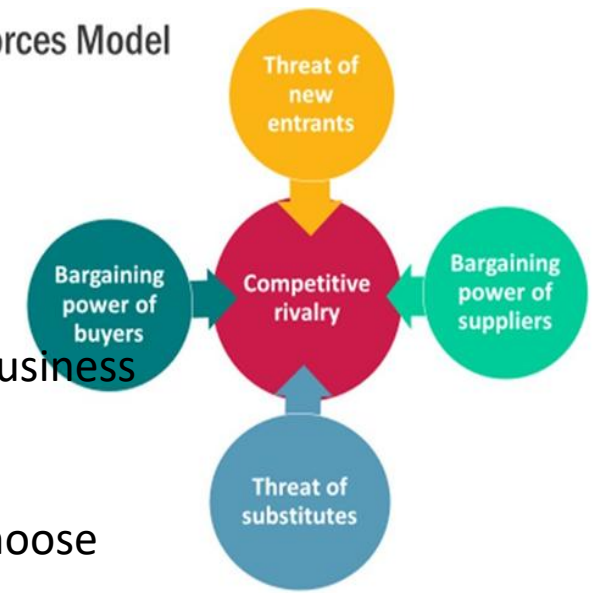
- Description: Established firms often have strong brand recognition and customer loyalty, making it difficult for new entrants to attract customers.
- Example: In the soft drink industry, brands like Coca-Cola and Pepsi have a loyal customer base built over decades. New entrants struggle to compete against these well-established brands without significant marketing investment and unique product offerings.



Bargaining power of suppliers

This is looking at the level of 'power' the supplier has over the business

- A high level of power would lead to **suppliers increasing their prices** as they know the business will make it
- Higher power often come from there being **very little alternatives for the business** to choose from so they are reliant on that supplier



Bargaining power of Buyers

If the buyer has more power over the suppliers, it will often result in the **supplier lowering the price**

e.g. Large supermarkets will have big buying power of their suppliers

Threat of substitute products

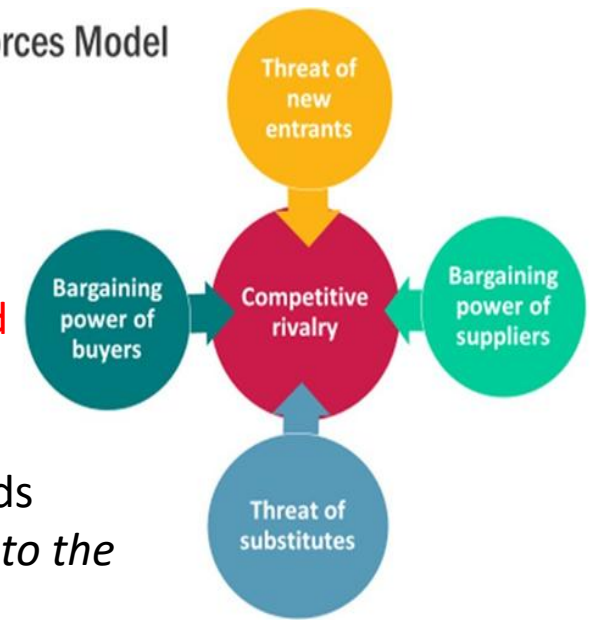
This refers to **how many other products are there in the market that meet the same need**

Substitute products can be produced in different industries but still satisfy customer needs
e.g. If an airline is too expensive, a customer might get the train which will still get them to the destination and cause the airline to lose a customer

The threat of substitutes can **limit the prices** charged by a firm because they need to remain as competitive as possible

Businesses can rely on customer loyalty here to ensure customers 'do not switch'

Porter's Five Forces Model



Rivalry Among Existing Competitors

- price competition, advertising battles, product launches
- Factors influencing rivalry: number of competitors, market growth, product differentiation.

Example: Apply Porter's Five Forces model to analyze the competitive landscape of the global **smartphone industry**

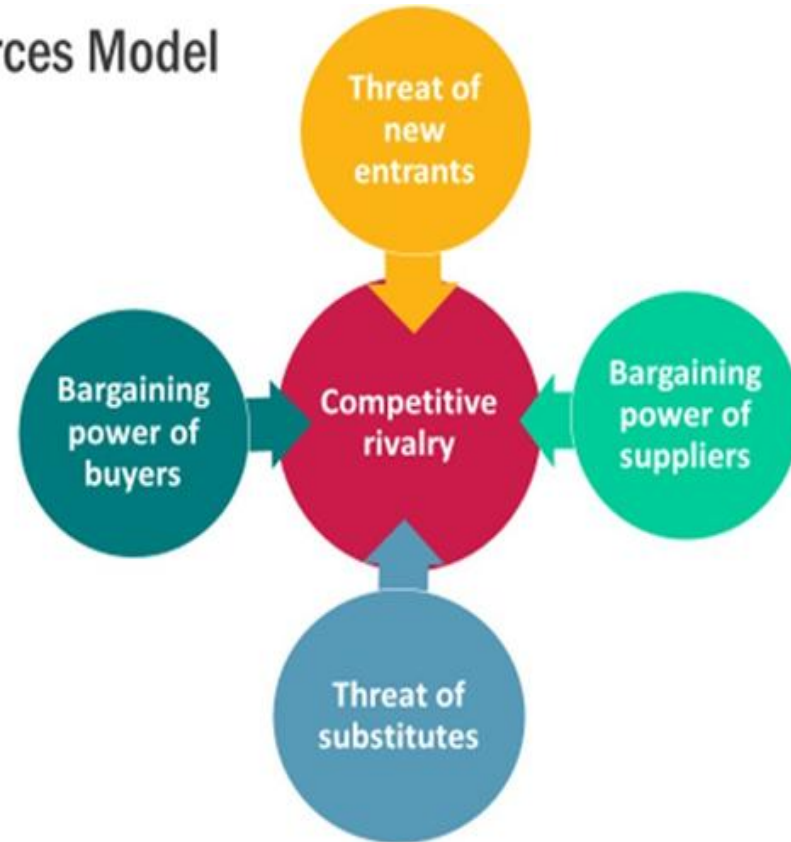


SMARTPHONE INDUSTRY

- Force 1
- Force 2
- Force 3
- Force 4
- Force 5

• LOW MODERATE HIGH

Porter's Five Forces Model



- 1. Threat of New Entrants
- **Low to Moderate:**
- The smartphone industry requires significant capital investment in R&D, manufacturing, and marketing to compete effectively. The market is dominated by established players like Apple, Samsung, and Huawei.
- the **high costs and brand loyalty** enjoyed by leading companies act as substantial barriers to new entrants.

- 2. Bargaining Power of Suppliers
- **Moderate to High:**
- The smartphone industry depends on various suppliers for components such as semiconductors, display panels, and camera modules. Key suppliers like Qualcomm for processors and Corning for Gorilla Glass have significant bargaining power due to the specialized technology they provide.

- 3. Bargaining Power of Buyers
- High:
- Consumers have a wide choice of smartphones across different price points, giving them significant bargaining power. overall, the industry sees intense competition, with companies continually innovating and adjusting pricing to attract buyers.

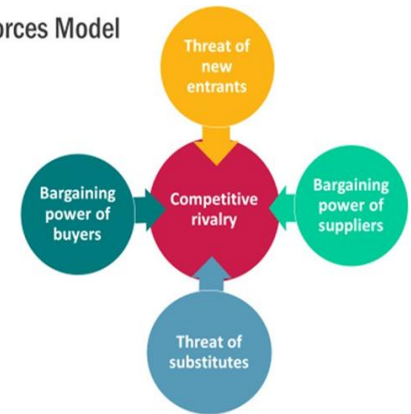
- 4. Threat of Substitute Products or Services
- Low to Moderate:
- The smartphone's versatility and central role in digital life make direct substitutes limited. Emerging technologies like augmented reality (AR) glasses or smartwatches present a long-term substitute threat but currently serve more as complements.

- 5. Rivalry Among Existing Competitors
- High:
- The rivalry in the smartphone industry is intense, with major players competing on innovation, brand value, price, and marketing;
- The market sees frequent product launches, high advertising spending, and aggressive pricing strategies to capture market share. The competition is not just on hardware but increasingly on software, ecosystem, and services.

Why is this important for strategy?

- It can help a firm identify the attractiveness of a certain industry
- Evaluate investment options
- Assess the level of competitive within the market
- Make the decision on 'where to next'
- Lead to changes to be made on certain products or services

Porter's Five Forces Model



TEST

1. What is the primary purpose of Porter's Five Forces framework?

- A) To analyze internal strengths and weaknesses of a company
- B) To assess the competitive forces shaping an industry
- C) To determine financial viability of a business model
- D) To create an organizational structure for a compan

Test

2. Which of the following factors would decrease the **threat of new entrants** in an industry?

- a) Decreased regulation
- b) High capital requirements
- c) Increased access to distribution channels
- d) A decrease in patent protections

3. The threat of substitute products or services increases when:

- a) The price of substitutes is higher than the industry's product.
- b) Substitutes are readily available and affordable.
- c) There is low awareness of substitutes among customers.
- d) The cost of switching to substitutes is high.

4. Which of the following scenarios exemplifies high bargaining power of buyers?

- a) The product sold by the industry is unique.
- b) Buyers purchase in small quantities.
- c) The industry has many small operators.
- d) Buyers can easily switch to another product.

5. What is the primary purpose of Porter's Five Forces framework?

- A) To analyze internal strengths and weaknesses of a company
- B) To assess the competitive forces shaping an industry
- C) To determine financial viability of a business model
- D) To create an organizational structure for a company

6. What happens when the threat of new entrants is high in an industry?

- A) Existing firms are likely to have strong market power
- B) Profit margins tend to increase
- C) Competition intensifies, leading to lower prices
- D) Suppliers gain more bargaining power

In an industry with many alternative products, which force is strongest?

- A) Threat of substitutes
- B) Bargaining power of suppliers
- C) Competitive rivalry
- D) Bargaining power of buyers

The Strategic Position



3. Stakeholders and Governance

Stakeholder Mapping: Uses the Power/Attention Matrix to identify and prioritize key stakeholders.



What is Stakeholder Mapping?

- **Definition:** Stakeholder mapping is a process of identifying, analyzing, and prioritizing stakeholders based on their influence and interest in a project, organization, or initiative.
- **Key Purpose:**
 - Helps in effective communication and engagement
 - Identifies key players who can impact project success
 - Aids in resource allocation and decision-making



- Types of Stakeholders
- Primary Stakeholders – **Directly impacted** by the project (e.g., employees, customers, investors)
- Secondary Stakeholders – **Indirectly impacted** (e.g., government agencies, local communities, media)
- Key Stakeholders – **Have significant influence** over the project (e.g., board members, regulators, major investors)

Stakeholder Mapping Process

1. Identify Stakeholders – List all potential stakeholders
2. Analyze Stakeholders – Assess their influence and interest
3. Prioritize Stakeholders – Use a **stakeholder matrix**
4. Engage and Manage Stakeholders – Develop a communication plan



Stakeholder Matrix (Power-Interest Grid)

- **High Power, High Interest** – Key players (Manage closely) *High Interest CEO, Investors*
- **High Power, Low Interest** – Keep satisfied *Government regulators*
- **Low Power, High Interest** – Keep informed *End-users, local community*
- **Low Power, Low Interest** – Monitor with minimal effort *General public*



TEST

- 1. What is the main purpose of the Power-Interest Matrix?
- A) To determine the financial profitability of stakeholders
- B) To classify stakeholders based on their level of influence and involvement
- C) To identify which stakeholders should be removed from a project
- D) To assess employees' job satisfaction

- 2. Which of the following stakeholders would typically fall into the “High Power, High Interest” category?
- A) Customers of a coffee shop
- B) Competitors in the market
- C) Major investors in a new startup
- D) Local media covering the business

- 3. If a stakeholder has high power but low interest, how should they be managed?
- A) Keep them satisfied
- B) Keep them informed
- C) Monitor them with minimal effort
- D) Manage them closely

- 4. In a new real estate development project, which stakeholder is most likely to be in the “Low Power, High Interest” category?
- A) Local residents affected by construction
- B) The CEO of the development company
- C) Government regulators
- D) Real estate investors

- 5. What is the best way to manage stakeholders who have low power and low interest?
- A) Engage them in every major decision
- B) Keep them satisfied with regular updates
- C) Monitor them with minimal effort
- D) Give them decision-making power

- In a stakeholder matrix for an airport expansion project, which of the following would most likely be classified as High Power, High Interest?
- A) Airline passengers
- B) Airline companies operating in the airport
- C) Tourists visiting the city
- D) Travel bloggers writing about the airport

Activity 2: Understanding the Power-Interest Matrix with a Business Example

- Scenario: **Launching a New Coffee Shop in Town**
- opening a new coffee shop in your local area. You need to identify the key stakeholders and map them on a Power-Interest Matrix to develop an engagement strategy.





- Step 1: Identify Stakeholders
- Step 2: Place Them in the Power-Interest Grid
- Step 3: Presentation - Each group should answer:
 - *Why is their stakeholder important to the coffee shop's success?*
 - *How should the coffee shop engage with them? (e.g., marketing, meetings, contracts, social media)*
 - *What could happen if the business ignores this stakeholder?*

Many Thanks

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