

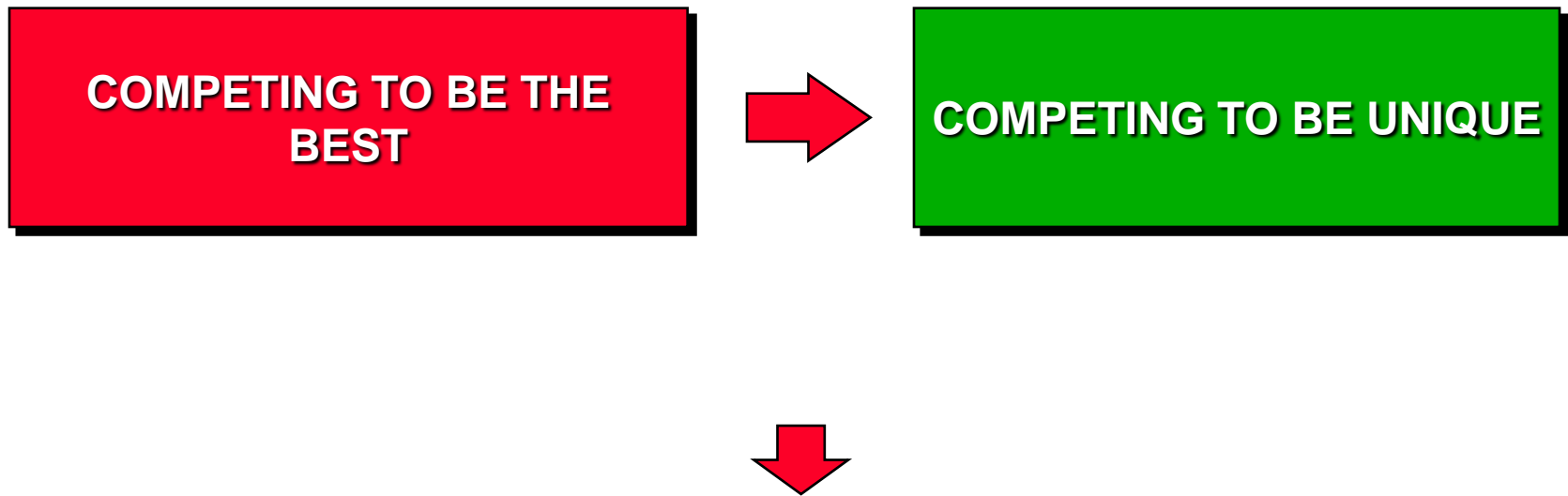
Strategy: Creating Competitive Advantage for Growing Businesses

Professor Michael E. Porter
Harvard Business School
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This presentation draws on ideas from Professor Porter's books and articles, in particular, *Competitive Strategy* (The Free Press, 1980); *Competitive Advantage* (The Free Press, 1985); "What is Strategy?" (*Harvard Business Review*, Nov/Dec 1996); "Strategy and the Internet" (*Harvard Business Review*, March 2001); and a forthcoming book. No part of this publication may be reproduced, stored in a retrieval system, or transmitted in any form or by any means—electronic, mechanical, photocopying, recording, or otherwise—without the permission of Michael E. Porter. Additional information may be found at the website of the Institute for Strategy and Competitiveness, www.isc.hbs.edu. Version: April 25, 2008, 12pm

How Managers Think About Competition



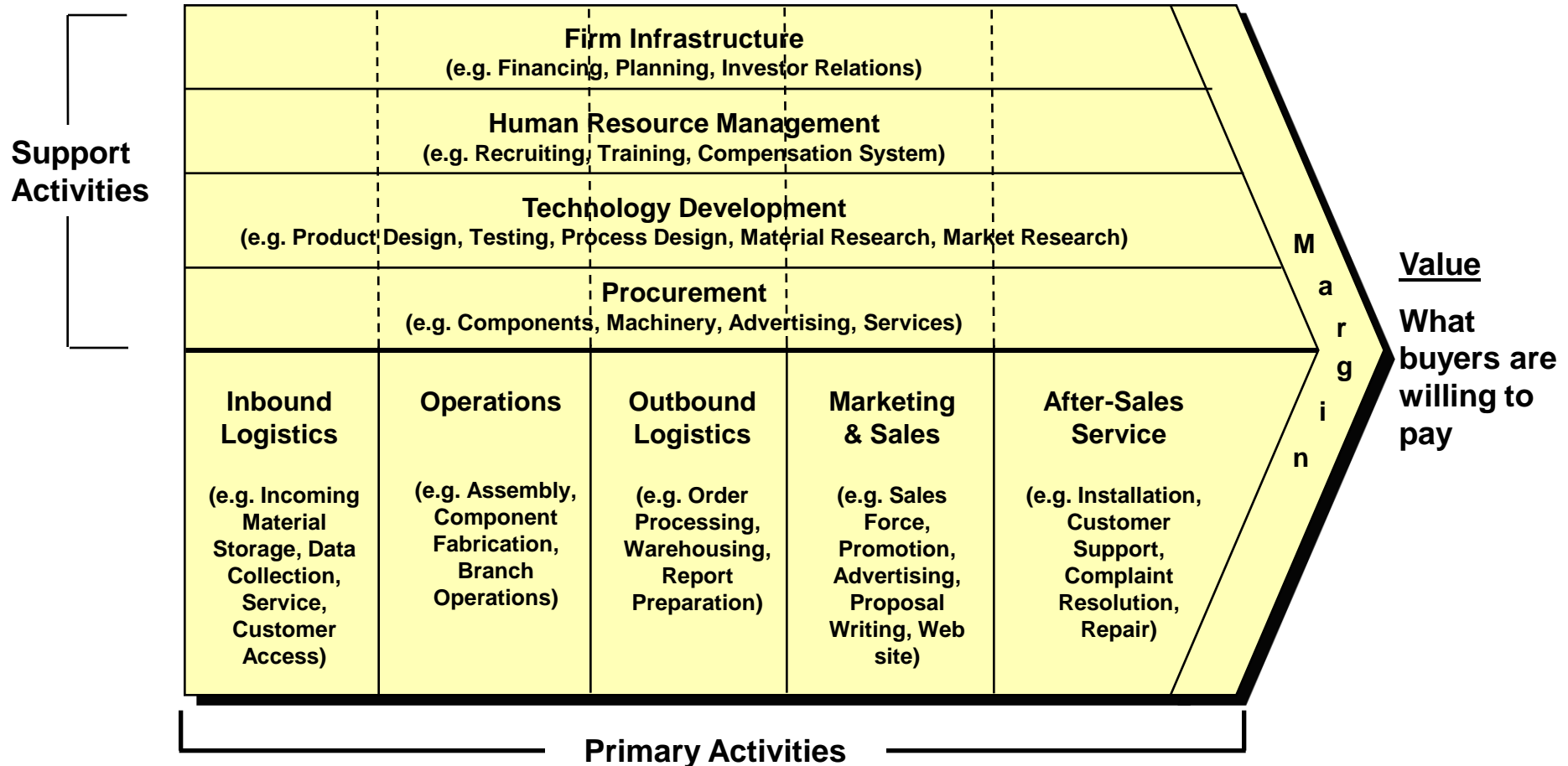
- The worst error in strategy is to compete with rivals on the **same dimensions**

Principles of Strategic Positioning



Sources of Competitive Advantage

The Value Chain



- Competing in a business involves performing a set of discrete **activities**, in which **competitive advantage resides**

Achieving Superior Performance

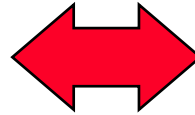
Operational Effectiveness is Not Strategy



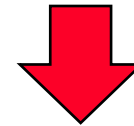
- Assimilating, attaining, and extending **best practices**



Run the same race faster



- Creating a **unique** and **sustainable** competitive position



Choose to run a different race

Five Tests of a Good Strategy

- A **unique value proposition** compared to other organizations
- A **different**, tailored value chain
- Clear tradeoffs, and choosing what **not** to do
- Activities that **fit** together and reinforce each other
- **Strategic continuity** with continual improvement in realizing the strategy

Strategic Positioning

Enterprise Rent-A-Car

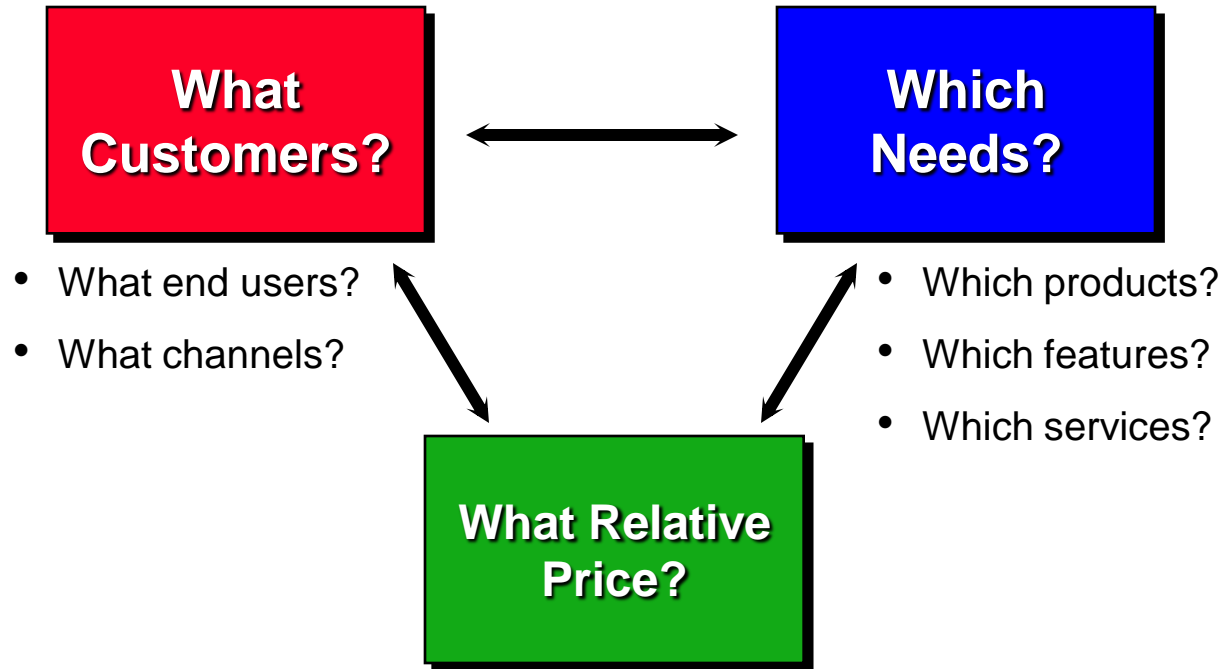
Value Proposition

- Home-city replacement cars for drivers whose cars are being repaired or who need an extra vehicle, at low rates (30% below airport rates)

Distinctive Activities

- Numerous, small, inexpensive offices in each metropolitan area, including on-premises offices at major accounts
- Open during daylight hours
- Deliver cars to customers' homes or rental sites, or deliver customers to cars
- Acquire new and older cars, favoring soon-to-be discontinued older models
- Keep cars six months longer than other major rental companies
- In-house reservations
- Grassroots marketing with limited television
- Cultivate strong relationships with auto dealerships, body shops, and insurance adjusters
- Hire extroverted college graduates to encourage community interaction and customer service
- Employ a highly sophisticated computer network to track the fleet

Defining the Value Proposition



- A novel value proposition can grow the pie/expand the industry

Strategic Positioning

IKEA, Sweden

Value Proposition

- Young, first time, or price-sensitive buyers who want stylish, space efficient and scalable furniture and accessories at very low price points.

Distinctive Activities

- Modular, ready-to-assemble, easy to package designs
- In-house design of all products
- Wide range of styles displayed in huge warehouse stores with large on-site inventories
- Self-selection
- Extensive customer information in the form of catalogs, explanatory ticketing, do-it-yourself videos, and assembly instructions
- Ikea designer names attached to products to inform coordinated purchases
- Long hours of operation
- Suburban locations with large parking lots
- On-site, low-cost, restaurants
- Child care provided in the store
- Self-delivery by most customers

Making Strategic Tradeoffs

- Tradeoffs occur when strategic positions are **incompatible**
 - The need for a **choice**

Sources of Tradeoffs

- Incompatible product / service features or attributes
 - Differences in the best configuration of activities in the value chain to deliver the chosen value proposition
 - Inconsistencies in image or reputation across positions
 - Limits on internal coordination, measurement, motivation, and control
- Tradeoffs make a strategy **sustainable** against imitation by established rivals



- An essential part of strategy is choosing what **not** to do

Strategic Tradeoffs

IKEA, Sweden

IKEA

Product

- Low-priced, modular, ready-to-assemble designs
- No custom options
- Furniture design driven by cost, manufacturing simplicity, and style

Value Chain

- Centralized, in-house design of all products
- All styles on display in huge warehouse stores
- Large on-site inventories
- Limited sales help, but extensive customer information
- Long hours of operation

Typical Furniture Retailer

Product

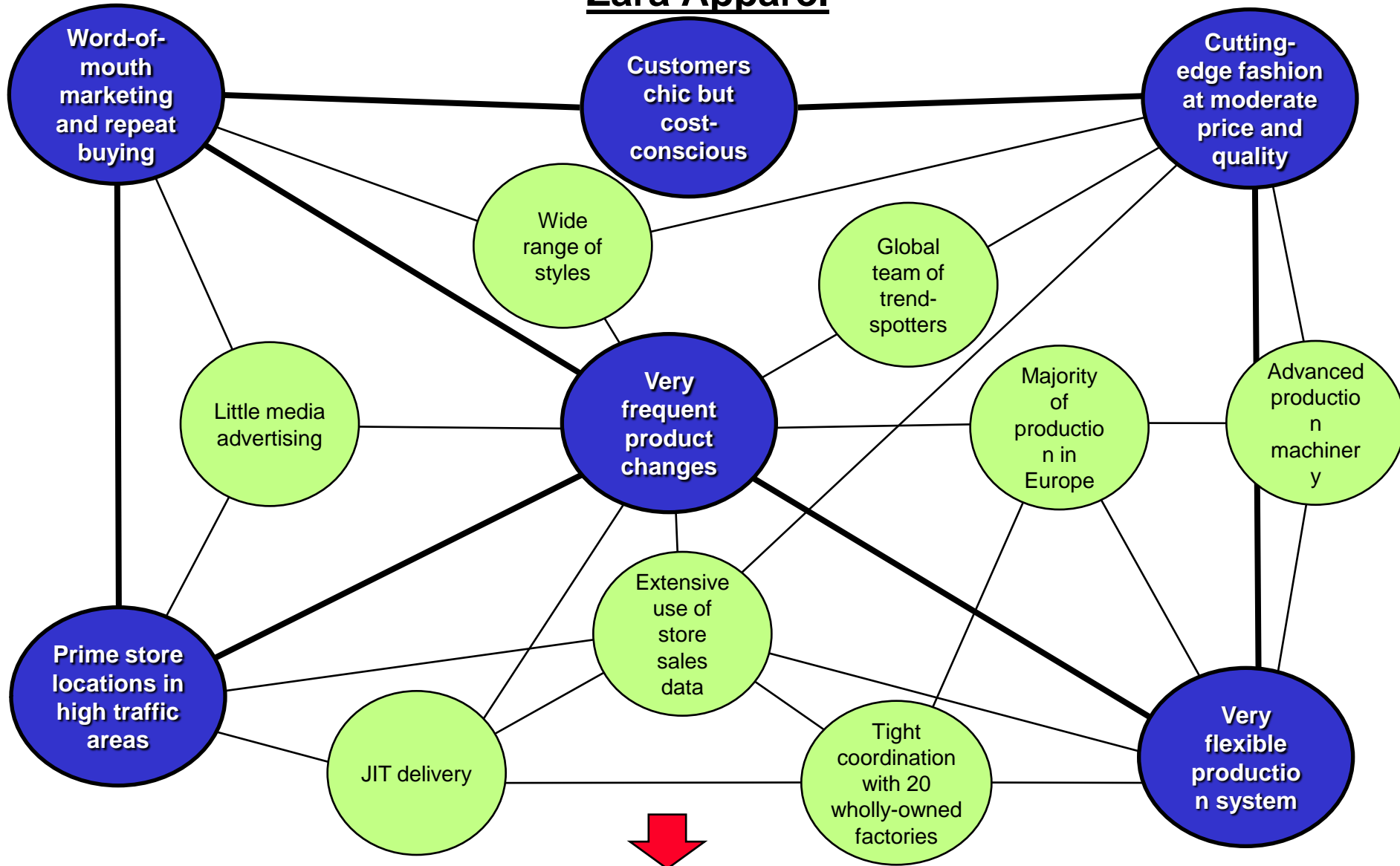
- Higher priced, fully assembled products
- Customization of fabrics, colors, finishes, and sizes
- Design driven by image, materials, varieties

Value Chain

- Source some or all lines from outside suppliers
- Medium sized showrooms with limited portion of available models on display
- Limited inventories / order with lead time
- Extensive sales assistance
- Traditional retail hours

Leveraging the Activity System

Zara Apparel



- Fit is leveraging what is different to be **more** different


Strategic Continuity

- **Continuity of strategy** is fundamental to sustainable competitive advantage
 - e.g., allows the organization to **understand the strategy**
 - building truly **unique skills** and **assets** related to the strategy
 - establishing a clear **identity** with customers, channels, and other outside entities
 - strengthening the **fit** across the value chain
- **Reinvention** and **frequent shifts in direction** are costly and confuse the customer, the industry, and the organization



- Maintain continuity in the **value proposition**
- Successful companies **continuously improve in how they realize their value proposition**
 - Strategic continuity and continuous change should occur **simultaneously**. They are not inconsistent
- Continuity of strategy allows learning and change to be **faster and more effective**

The Role of Leaders in Strategy

- Lead the **process of choosing** the company's unique position
 - The CEO is the chief strategist
 - The choice of strategy **cannot** be entirely democratic
 - Clearly distinguish **operational effectiveness improvement** and **strategy**
 - **Communicate** the strategy relentlessly to all constituencies
 - Harness the **moral purpose** of strategy
 - Maintain **discipline** around the strategy, in the face of many distractions.
 - Decide **which** industry changes, technologies, and customer needs to respond to, and how the response can be **tailored** to the company's strategy
 - **Measure progress** against the strategy using tailored metrics that capture the implications of the strategy for serving customers and performing particular activities
 - Sell the strategy and how to evaluate progress to the **financial markets**
- 
- Commitment to strategy is **tested every day**