Michael Porter’s
What Is Strategy – Summary

Background: The objective of this document is to summarize the key concepts in Michael Porter’s article, “What Is Strategy”. Its intent is to provide a reference tool that can be used in a facilitated discussion of Porter’s key concepts.

Before we get together, please read the following two items:

- Michael Porter PowerPoint Slides (from World Business Forum, March, 2005)

Porter Basics

- The primary goal — superior performance.

The Two Necessary Elements for Superior Performance

   - Performing similar activities better than rivals
   - Promotes constant change: to achieve OE, need flexibility
   - Productivity Frontier (Best in class)
     - As everyone improves their OE, the frontier expands
     - OE keeps moving outward – it is a dynamic, ever-changing target

OE is important – but it is not sufficient
- There is rapid imitation of Best Practices
  - Drives Competitive Convergence
  - Raises the bar for everyone (no advantage)
  - Homogeneity – competitors start looking the same

2. Competitive Strategy -- is about being different
- Deliberately choosing a different set of activities to deliver a unique mix of value
- The Essence of Strategy:
  - Choosing to perform activities differently than rivals
  - Example — Southwest Airlines
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Origin of Strategic Positions (3 sources)

- Variety-Based Positioning
  - Subset of products (subset of member needs)
    - Example — PSCU, Vanguard
- Needs-Based Positioning
  - All needs of a specific group (segment) of customers
  - The best set of activities to satisfy them differs
    - Example — Bessemer Trust @ 14 families > $5mm
    - Citibank 1:125; $250k
- Access-Based Positioning
  - Accessing (geography) (small vs. large)

STRATEGY IS — The creation of a unique and valuable position, involving a different set of activities — different than rivals (if there were only one position, there would be no need for strategy)

BUT — Choosing a unique position is not enough!
- Competition can ‘shift to match’
- Competition can ‘straddle’
  - Match the benefits of a successful position, while maintaining its existing position

Building Strategy, You Need To:

1. Make the Trade Offs — The more of one thing means less of another
   - Trade offs arise for three reasons
     - Inconsistencies in image or reputation
     - Different positions require different machinery, people, systems
     - Limits on internal coordination and control
   - Without ‘Trade Offs’ there is a lot of Wasted Effort — Confusing Messages

STRATEGY IS — Making trade-offs in competing. THE ESSENCE OF STRATEGY IS choosing what not to do — without trade offs, easy to copy (there is no strategy)

2. Tighten the Fit
   - Strategy is about combining activities into a System
     - Southwest = a whole collection of integrated activities (not a collection of parts)
     - Quick gate turnaround, use same aircraft type, more time in air
     - No seat assignments, no first class, no travel agents
     - No meals (except peanuts!)
     - [For this to work, need all elements]
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- There are Three Types of Fit:
  1. Simple Consistency (cumulative power of integrated system vs. erosion)
  2. Activities Are Reinforcing (supporting)
  3. Optimization of Effort (coordination)

  Interlocked Fit is hard to copy
  - If a competitor wanted to copy your strategy, they would have to change many activities

- The more the company’s positioning rests on activity systems (with second and third order degrees of fit), the more sustainable the advantage

- Organization structure, systems and processes need to be strategy-specific

- A 10 year horizon (vs. costly, frequent shifts)

STRATEGY IS — Creating fit between a company’s activities (doing many things well in an integrated way!)

External Changes

Although external changes can be the problem, the greater threat to strategy comes from within!

- Imitating everything (not a “choice”)

Some related research done by PW/Coopers on Why change initiatives fail... the challenges from within --

- Competing priorities
- Functional boundaries
- Lack of skills
- Insufficient communications
- Organization fatigue
- Poor vision
- Effort Based vs. Result Based
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Some Traps –

- Growth through compromise and inconsistencies – erodes the competitive advantage
  - Should concentrate on deepening your competitive position
    - Making the company’s activities more distinctive
    - Strengthening the ‘fit’
    - Better meet needs

LEADERSHIP IS — Defining and communicating the company’s unique position; making trade-offs and forging the fit among activities. Leaders must provide discipline (to say NO to ideas and initiatives that do not fit your strategy)!