Strategy Explained

All strategy is based on understanding competition. Michael Porter's frameworks help explain how organizations can achieve superior performance in the face of competition. Strategy defines the company's **distinctive approach** to competing and the **competitive advantages** on which it will be based. A good competitive strategy is one that creates unique value for a particular set of customers.

Key Concepts

UNIQUENESS

Strategy is the creation of a unique and
valuable position, involving a different set of activities.

MAKING TRADE-OFFS

Strategy requires you to make trade-offs in competing – choosing what not to do.

FIT ACROSS THE VALUE CHAIN

Strategy involves creating "fit" among a company's activities.

Thinking Strategically

COMPETING TO BE THE BEST VS. COMPETING TO BE UNIQUE

BE THE BEST	BE UNIQUE
Be number one	Earn higher returns
Focus on market share	Focus on profits
Serve “the best” customer with “the best” product	Meet the diverse needs of target customers
Compete by imitation	Compete by innovation
ZERO SUM COMPETITION A race that no one can win	**POSITIVE SUM COMPETITION** Multiple winners, many events

Strategy starts with thinking the right way about competition. Many managers compete to be “the best”—but this is a dangerous mindset that leads to a destructive, zero-sum competition that no one can win. Competing to be unique, on the other hand, is the basis of a sound business strategy that leads to a positive-sum competition with multiple winners.

Setting the Right Financial Goals

Managers should also think about setting proper financial goals for the company. Pleasing today’s shareholders is not the right goal. The fundamental goal of a company is **superior long-term return on invested capital (ROIC)**. Only if you achieve strong ROIC are you creating true economic value, which says that you can produce a product for a price that's greater than the cost of making it (including the cost of capital employed). **Revenue growth** is good **only** if superiority in ROIC is achieved and sustained.

LEVELS OF STRATEGY

There are two fundamental levels of strategy: **corporate level strategy** and **business unit strategy**. Corporate strategy defines what set of businesses to compete in, while business unit strategy describes how to compete in each distinct business or industry.

While both are essential, business units typically account for 90% or more of economic performance—and therefore it is the focus of Michael Porter's strategy work. The business unit, and not the company overall, is the core level of strategy.

BUSINESS STRATEGY

Competitive advantage is won or lost at the business unit level. To achieve competitive advantage, companies must position themselves strategically within their industries.

> MORE ABOUT COMPETITIVE STRATEGY

CORPORATE STRATEGY

In diversified companies, corporate leaders can enhance competitive advantage by capturing synergies across business units within the corporate portfolio.

> MORE ABOUT CORPORATE LEVEL STRATEGY

THE FIVE FORCES

The Five Forces is a framework for assessing competition in any industry by analyzing the industry's structure and profitability. Five Forces analysis is the first step in thinking about strategy, about how to shift the forces in your favor, and where to establish a unique positioning.

> ABOUT THE FIVE FORCES

TERMINOLOGY

The terms "*business unit strategy*," "*business strategy*" and "*competitive strategy*" are often used interchangeably in Porter's work.

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