

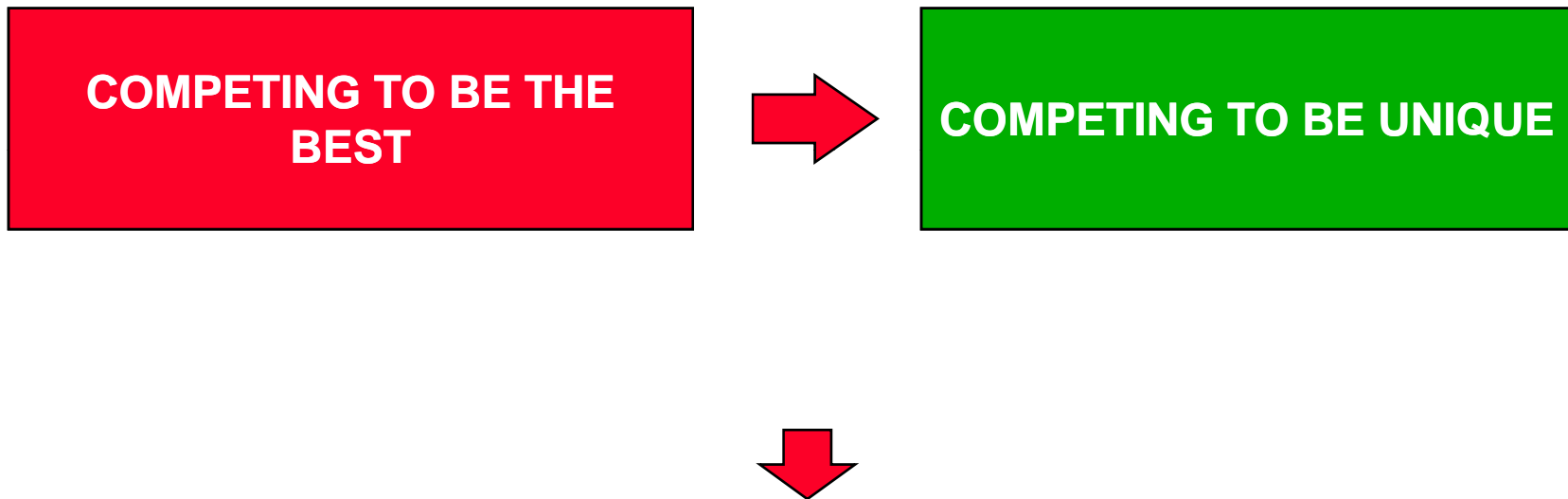
Strategy in Turbulent Times

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Inner City Capital Connections (ICCC), NYC
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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: November 18, 2008, 3pm

How Managers Think About Competition



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

Flawed Concepts of Strategy

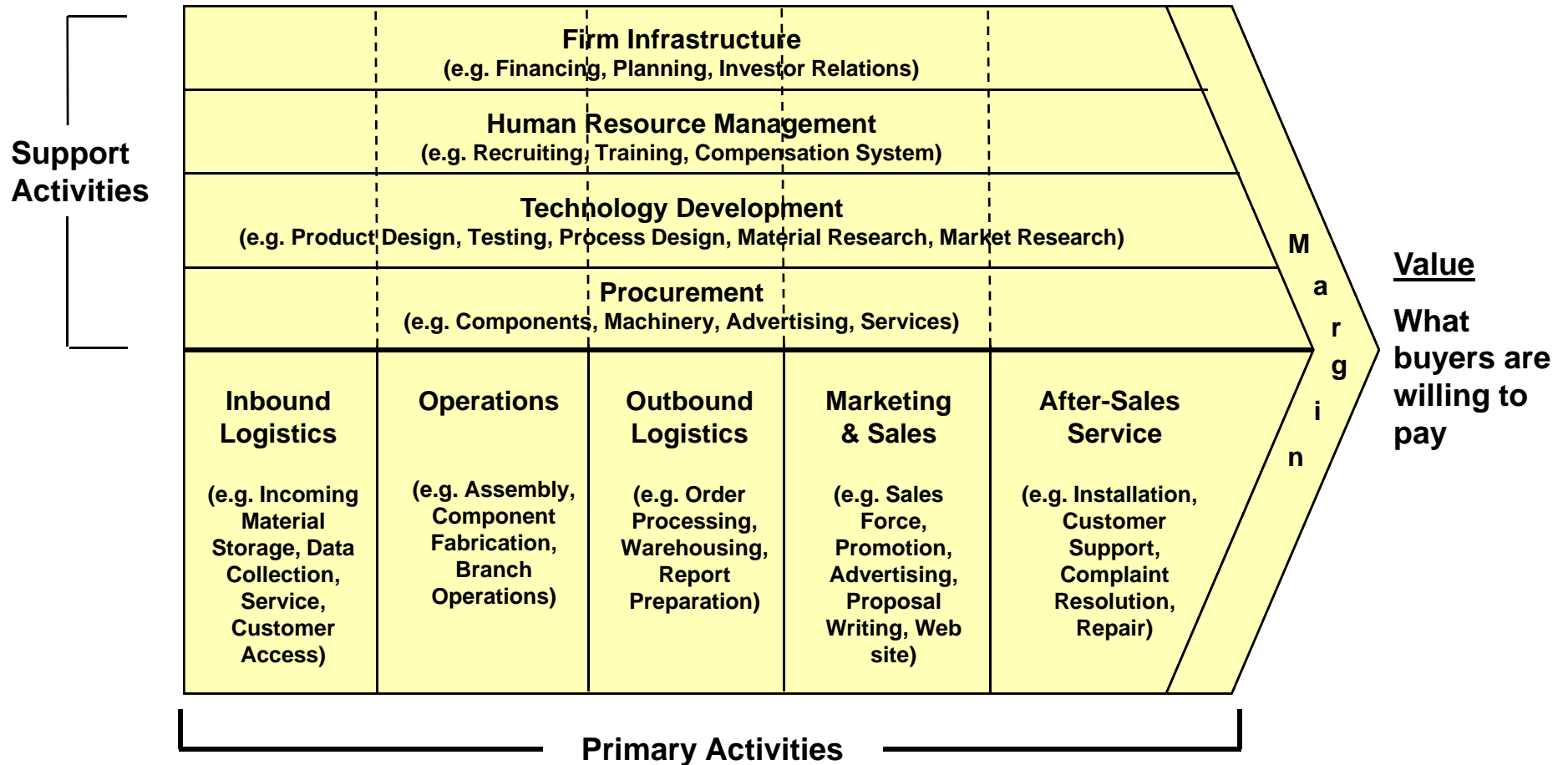
- Strategy as **action**
 - *“Our strategy is to merge...”*
 - *“... internationalize...”*
 - *“... consolidate the industry...”*
 - *“... outsource...”*
 - *“...double our R&D budget...”*
- Strategy as **aspiration**
 - *“Our strategy is to be #1 or #2...”*
 - *“Our strategy is to grow...”*
 - *“Our strategy is to be the world leader...”*
 - *“Our strategy is to provide superior returns to our shareholders...”*
- Strategy as **vision**
 - *“Our strategy is to best understand and satisfy our customers’ needs...”*
 - *“... provide superior products and services...”*
 - *“...to advance technology for mankind...”*

Determinants of Relative Performance



Foundations of Competitive Advantage

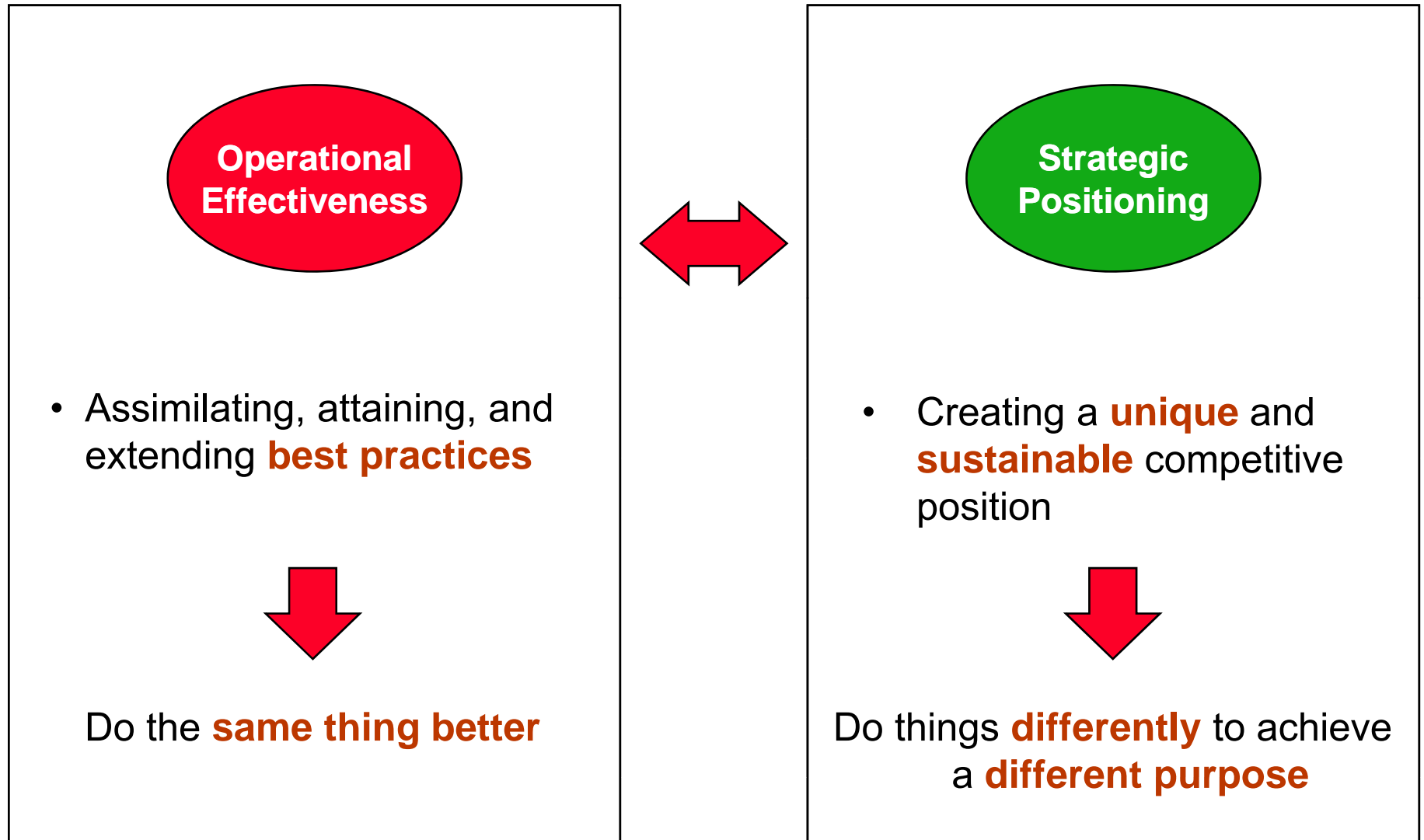
The Value Chain



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

Achieving Superior Performance

Operational Effectiveness is Not Strategy



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 in the value chain that **fit together and reinforce each other**
- **Strategic continuity** with continual improvement in realization

Strategic Positioning

IKEA, Sweden

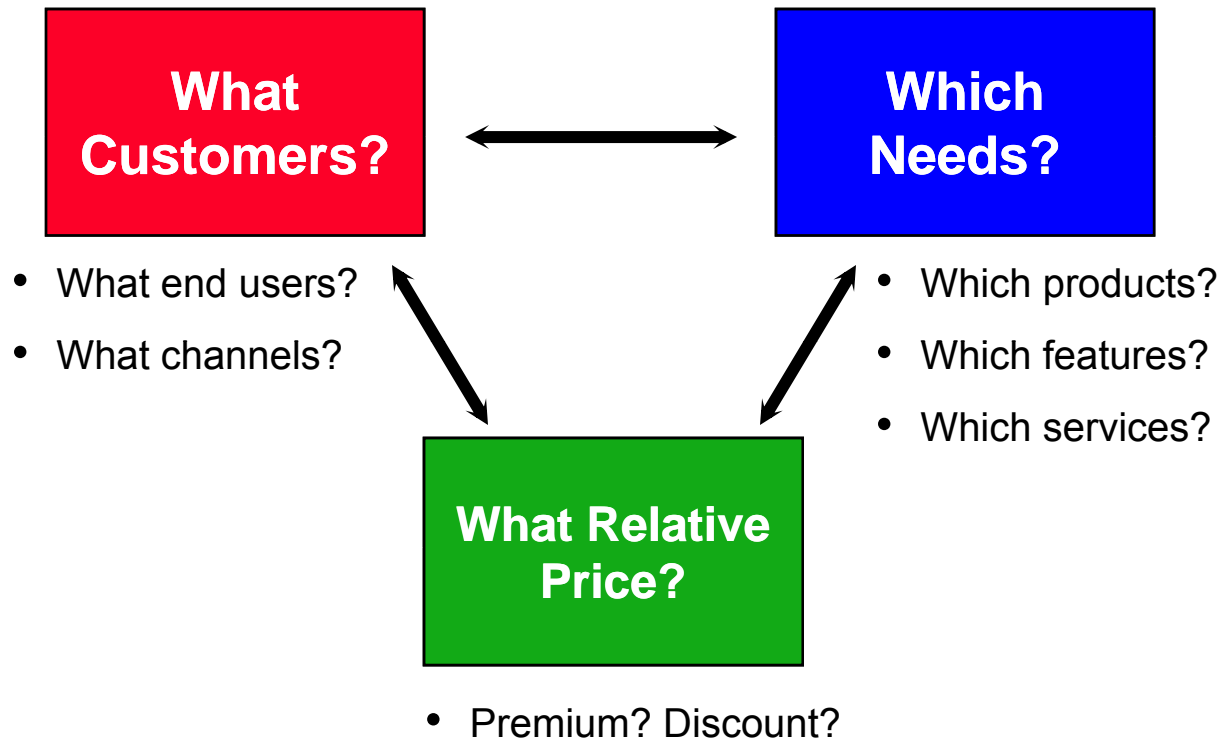
Value Proposition

- 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 related 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

Defining the Value Proposition



- A novel value proposition often **expands the market**

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

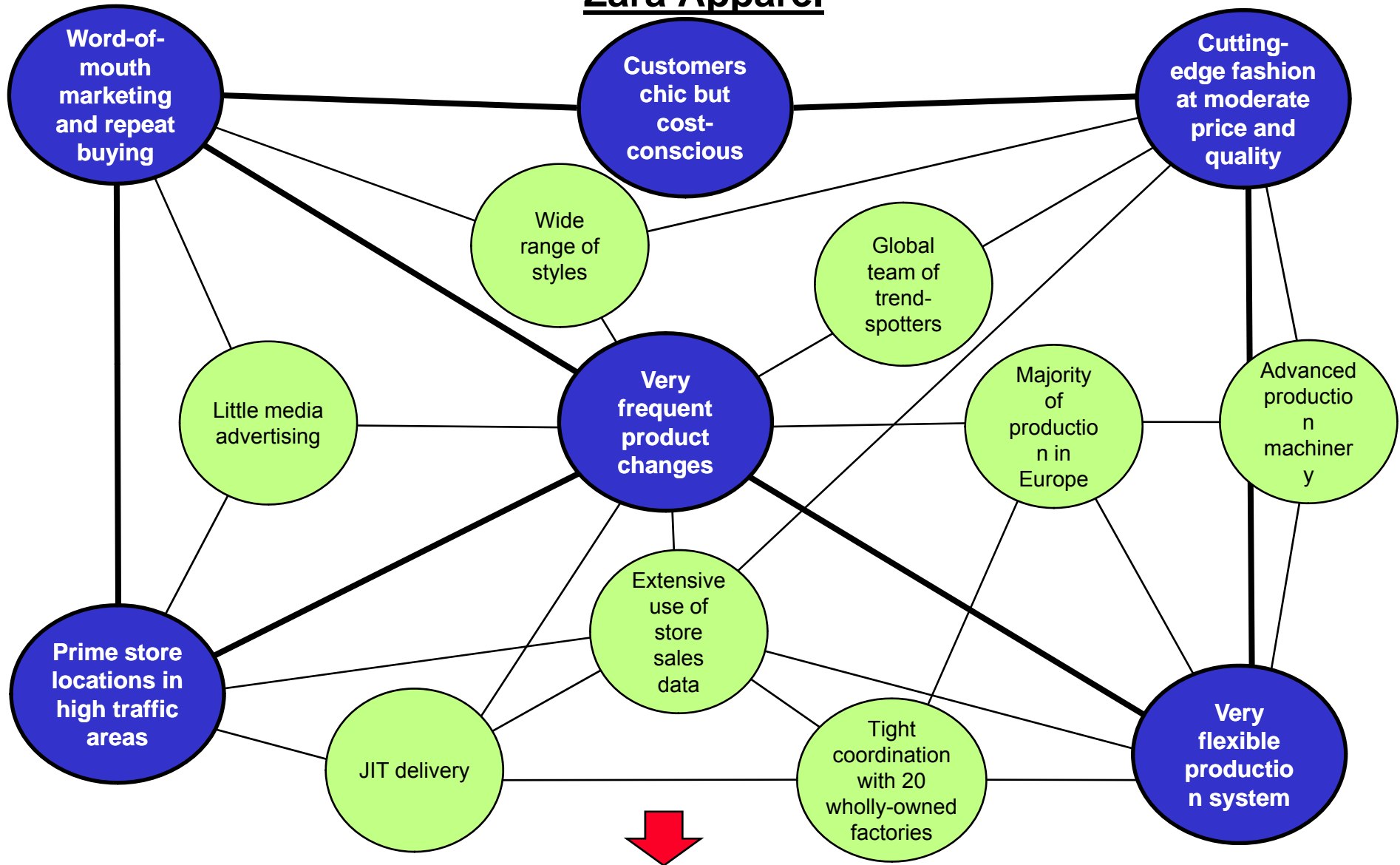
- Higher priced, fully assembled products
- Customization of fabrics, colors, finishes, and sizes
- Design driven by image, materials, varieties

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

Mutually Reinforcing Activities

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., allowing 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 **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**
- **Continuously improve** ways to realize the 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**

Creating a Social Dimension of Strategy

- Economic and social value are **complementary**, especially in the medium and long-run
- Customers value **social performance**, not just economic performance
- Companies can have the greatest social impact in areas **tightly connected to their business**
- Social Improvements can create **shared value** for the business



- Companies should incorporate a **social dimension to their value proposition**
- This social dimension can be **more sustainable** than conventional cost and quality advantages

Strategic Positioning

Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Educated, middle class, and affluent customers passionate about food as a part of a healthy lifestyle

Distinctive Activities

- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless internet for meetings and meals
- Each store carries local produce and has the authority to contract with the local farmers
- Information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, non-unionized, highly motivated personnel
- Egalitarian compensation structure
- Own seafood procurement and processing facilities to control quality (and price) from the boat to the counter
- Donates 5% of profits to non-profits
- Each store has “green projects,” directed by employees to improve environmental performance



- Excellent strategies often include a **social dimension** of the value proposition

Strategy in Economic Downturns

- Create a **positive** agenda
 - Refocus on **strategy**
 - Return to **economic fundamentals**
 - Downsize **to a strategy**, not across the board
 - **Do not overreact** to distressed industry conditions
 - Use the downturn to **get things done** that would be more difficult in normal times
 - Seize opportunities for **discontinuities** which are more likely to emerge
- 
- Strategy is **more important** in downturns, not less