

# Introduction

**M**ICHAEL PORTER DIDN'T GET to be a giant in the field of competition and strategy by hunting small game. Very early in his career, he went after the single biggest and most consequential question in business: Why are some companies more profitable than others? One big question led to another. Why are some industries consistently more profitable than others, and what does this mean for the manager developing a strategy? Why are some countries or regions more successful than others, and what does this mean for companies in a global era? Since the publication of his groundbreaking classics, *Competitive Strategy* (1980) and *Competitive Advantage* (1985), Michael Porter has been steadily building answers to these fundamental questions about competition and competitive success. What could be more important for managers?

The thing about classics, as Mark Twain once observed, is that they are often books “that everybody wants to have read and nobody wants to read.” Tackling Porter's work can be a bit like undertaking a serious exercise regimen. It will be good for you, even transformative. But it won't be easy, especially for managers who already have too much on their plates. Where to begin? How to navigate thousands of pages of writing, some of it written for scholars as well as managers?

Do you start with the earliest work, which is also the densest? Or do you try to jump in on the latest thinking, without first mastering the basics? The good news is that Porter's work is ambitious and deep. That is the bad news as well: his writing demands more effort and concentration than many readers today think they can spare.

But if you are serious about strategy, Porter's work is the foundation. This book distills the essence of that work for managers. If there can be such a thing as a book-length executive summary, this is it. My premise in writing this book is very simply that clear strategic thinking is essential for any manager in any setting, and Porter's work lays out the basic principles and frameworks you need to master. My goal is to present the essential Porter in a form that can be more easily digested and put to work than the original. But, to extend my metaphor, if you really want to digest these critically important ideas, you have to be willing to chew on them before you swallow. Strategy is not fast food, and neither is Porter.

"The essence of strategy," Porter often says, "is choosing what not to do." You might want to read that last sentence a second time, because it probably accounts for more failures of strategy than any other cause. In setting out my strategy for this book, I resolve to practice what Porter preaches. In a nutshell, here is what this book is *not*:

- It is not an academic book for scholars of strategy. This book is aimed at managers, and at those who advise and work with them.
- It is not an attempt to summarize *all* of Porter's work. This book focuses on competition and strategy, leaving out lots of great work on topics such as economic development or the application of competitive principles to social problems such as health care and the environment.

- It is not an extension of Porter's work. I do, however, integrate ideas that were developed at different stages in Porter's career, updating the earlier work to reflect later extensions of it. I have benefited from Porter's full cooperation, including access to the latest material from unpublished speech transcripts and lectures.
- It is not primarily a how-to book, in the sense that a book about aerodynamics and the principles of flight would not, alone, qualify you for a pilot's license. This is more of a "how-to-think-about" book, one that will help you to recognize a good (or bad) strategy when you see one and to tell the difference between a solid strategy and the latest management fad.

## Why Now?

Porter's work, while never trendy and always relevant, has never been as timely for so many people working in both the private and the public sectors as it is today. This is a time of enormous economic upheaval in many industries and countries around the world. Amidst that upheaval, competition is at a crossroads. It is extolled by some as a path, indeed the *only* path, to growth and prosperity. It is feared and hated by others who see it as a destructive race to the bottom. And strategy itself has come under fire: some argue that execution, not strategy, is the only path to competitive success. They claim that even if an organization creates a competitive advantage, it simply cannot last in today's hypercompetitive world, so why bother? These are dangerous misconceptions. Master the essential Porter and you will understand not only how companies sustain competitive advantages for decades, but also why strategy is even more important—not less so—in turbulent and uncertain times.

Unfortunately, too many managers get their Porter second hand, and what they usually end up getting is both inadequate and inaccurate. I'll try to fix that by laying out Porter's ideas as concisely as possible without dumbing them down. Along the way, I'll highlight the most common misconceptions about strategy and Porter's work.

## Why Me?

I first encountered Michael Porter's work when I was an MBA student at Harvard in the early 1980s and his course, "Industry and Competitive Analysis," was the hottest new offering in the curriculum. This was the course that launched a thousand strategy consultants, and I was one of them. At Bain & Company, the firm where I eventually became a partner, Porter's books didn't just sit on everyone's shelf. They were read, annotated, reread, and applied.

Over the course of my career, I've worked with clients in industries ranging from biotech and big pharma to fashion apparel to heavy manufacturing, and with nonprofits in a variety of fields. No matter the industry or the company, for-profit or not, I have always found Porter's work to be essential in making sense of what was going on. Why is this company, in this market space, thriving or flailing? Why is that organization stuck in a kind of satisfactory underperformance? It could do better; it should do better. What's wrong? Much of the good strategy work I've seen over three decades builds—consciously or not—on the foundation that Porter created.

By the early 1990s I had become the strategy editor at *Harvard Business Review* (HBR), where Porter is a leading author. He had often worked with editors who had academic or publishing backgrounds; my first-hand business experience added another dimension. I knew the theory and, as the HBR strategy editor, engaged with

the brightest lights in the field. But I also understood the challenges managers face in the real world and brought that perspective to our many projects.

Those included some of Porter's most influential articles for HBR. Two are especially relevant for this book: "What Is Strategy?" (1996), one of the most-cited and best-selling HBR articles of all time, and "The Five Competitive Forces That Shape Strategy" (2008), a major update of the classic that put Porter on the map. I have also assisted Porter on many articles, books, op ed pieces, and presentations as he tackled a wide range of current topics—competition in health care, environmental sustainability, the business potential of inner cities, the local versus global dynamic in competition, the success and failure of Japanese companies, the role of leadership in strategy.

My collaboration with Porter continued after I left HBR to write a book of my own on the general manager's often-impossible job (*What Management Is: How It Works and Why It's Everyone's Business*). Porter then invited me to join his Harvard Business School-based Institute for Strategy and Competitiveness (ISC) as a senior associate, an affiliation that continues the working relationship begun almost two decades ago. Full disclosure: I am not an employee, nor do I depend on Porter for any substantial financial support. My enormous respect for his work rests purely on its merits.

## The Big Leap

As readers of business books well know, management gurus come and go with alarming frequency. Why, then, does Porter's work endure? What makes this work so different and so important? Porter's is the rare intellect that successfully bridges the divide between economic theory and business practice. In the oft-told joke, one econo-

mist says to another, “Sure, it works in reality. But will it work in theory?” Porter’s work endures—and is so widely cited and used—because it works in both realms, theory and practice.

Bridging the divide is an apt metaphor for Porter’s career. Picture this scene. The Harvard Business School (HBS) sits majestically along the banks of the Charles River, on the Boston side. Harvard University’s vaunted economics department is housed “across the river,” on the more traditionally intellectual Cambridge side. Crossing the river takes just a few minutes by footbridge. But as a young graduate student in the early 1970s, first earning an MBA on one side of the river and then a PhD on the other, Michael Porter confronted a seemingly impassable intellectual divide. To put it bluntly, neither side had much use for the other.

Looking back, here’s how he describes it: “The HBS research tradition saw the enterprise as an incredible complex entity. Thousands of things mattered. Every situation is unique, because it consists of different individuals, different markets, different products. Therefore, the way to study management was through in-depth cases and field research . . . . The economics tradition is completely different. In economics, you model a phenomenon. That model . . . does not try to replicate the phenomenon or capture it fully. Economic models abstract the essence of the phenomenon and represent it mathematically.”

Trained in both “schools,” Porter felt that neither one adequately explained what happens in competition. Case studies captured the complexities of an individual situation, but in so doing, failed to see the forest for the trees. There was no way to generalize. No framework for looking at industries. No way to think comprehensively about costs. Economic modeling went too far in the other direction. Because formal models could capture only those aspects of competition that could be solved mathematically, they reduced the richness and multidimensionality of competition to an abstraction that was

too far removed from reality to be useful. For example, economists' models "simplified" competition by assuming that every firm was more or less the same. Not a very helpful assumption for managers!

Porter took a different path, creating what he calls "frameworks." In his own words, "My frameworks provide a set of logical relationships that are really fundamental. They're like physics—if you're going to have higher profitability, you've got to have a higher price or a lower cost. That industry competition is driven by the five forces. That the firm is a collection of activities. These frameworks provide basic, fundamental, and I believe unchangeable relationships about the 'matter' of competition."

Porter drew on what each side of the river did best. He did the kind of data-intensive, analytic work that tested and extended the concepts of a field of economics called industrial organization (IO). He also pored through literally hundreds of cases, looking to extract the defining elements of competition that would apply across all industries. As Porter explains it, these elements had to be intuitive to managers. That is, if you present one of the frameworks to a manager, it will "make sense" in the context of his or her industry.

Porter's frameworks initially faced criticism on both sides of the river, but especially from Business School colleagues who complained that they were "too abstract." Hard as it is to imagine today, his career prospects there seemed uncertain. The first of Porter's frameworks, the five forces, now taught in every serious business program around the world, was a big leap. And, as Porter remembers, "It was a very uncomfortable leap."

But it was crucial. In a field where so-called gurus and their best sellers come and go, Porter's work has rightly stood the test of time. Managers are regularly bombarded with "groundbreaking ideas" that purport to explain everything but which, in fact, are typically relevant only to some more limited phenomenon of the moment. At best,

these are tools with a useful, but short, half-life. At worst, they are fads that send managers down destructive paths.

In contrast, Porter has steadfastly focused on timeless principles. His is the general theory that applies in all cases. If you enter Porter's world, you will have to do without the catchy metaphors: no blue oceans, no dancing elephants, no moving cheeses. What you will get, instead, is a rigorous and clear mapping between your strategy and your organization's financial performance, or, in the case of nonprofit organizations, between your strategy and your effectiveness in meeting a given social goal.

Porter occupies a unique position. Among academics, he is the most cited scholar in economics and business. At the same time, his ideas are the most widely used in practice by business and government leaders around the world. His frameworks have become the foundation of the strategy field.

## A Chapter-by-Chapter Road Map

I offer this chapter-by-chapter road map to prepare you for what lies ahead. This book is divided into two parts: the first deals with competition, the second with strategy.

### *Part 1: What Is Competition?*

I start with competition in Part 1 for the simple reason that if there were no competition, there would be no need for strategy. Competitive rivalry is a relentless process working against a company's ability to find and maintain an advantage. In Part 1, we'll do the important prep work for strategy, spelling out how competition works and dispelling the most popular, and misleading, misconceptions about com-

petition and competitive advantage.

- **Chapter 1. Competition: The Right Mind-Set.** Misconceptions of what competition is and how it works give rise to mistakes in strategy. The most common error of all is that competitive success comes from “being the best.” This mind-set is highly intuitive. It is also self-destructive, leading to a zero-sum race to the bottom. Only by competing to be unique can an organization achieve sustained, superior performance.
- **Chapter 2. The Five Forces: Competing for Profits.** We’ll see that competition is much more than a direct contest between rivals over who gets the sale. It’s a broader struggle over profits, a tug-of-war over who will capture the value an industry creates. Porter’s best-known framework, the five forces, helps you visualize the competition for profits at work in every industry. Any assessment of your competitive arena must start here. Using the five forces to declare an industry attractive or unattractive isn’t the point, although that’s a common misperception. Instead, use the framework to gain insight about your industry’s performance and your own.
- **Chapter 3. Competitive Advantage: The Value Chain and Your P&L.** Managers use the term *competitive advantage* so loosely that it has come to mean almost anything an organization thinks it is good at. Porter’s definition is more rigorously grounded in economic fundamentals. Properly understood, competitive advantage allows you to follow the precise link between the value you create, how you create it (your value chain), and how you perform (your P&L). Competitive advantage is commonly understood as the weapon you use to trounce rivals. For Porter, it’s fundamentally about creating value, and

about doing so differently from rivals. In this way, competitive advantage is about how your value chain will be different and your P&L better than the industry average.

### *Part 2: What Is Strategy?*

Part 2 answers the question, *what is strategy?* You can call any plan or program a strategy, and that's how most people use the word. But a *good* strategy, one that will result in superior economic performance, is something else. Broadly speaking, strategy is the antidote to competition. Specifically, a robust strategy is defined by its ability to pass five basic tests.

- **Chapter 4. Creating Value: The Core.** What does it mean to stake out a distinctive competitive position? The obvious answer lies in the unique value proposition a company offers its customers. This, in fact, is the first test of strategy. But Porter's second test is neither obvious nor intuitive. A distinctive value proposition will translate into a meaningful strategy only if the best set of activities to deliver it is different from the activities performed by rivals. Competitive advantage lies in the activities, in choosing to perform activities differently or to perform different activities from rivals. A tailored value chain is strategy's second test.
- **Chapter 5. Trade-offs: The Linchpin.** The third test of strategy may well be the hardest. Making trade-offs means accepting limits—saying no to some customers, for example, so that you can better serve others. Trade-offs arise when choices are incompatible. Because a successful strategy will attract imitators, choices that are difficult to copy are essential. Some people, in fact, argue that competitive advantages can no longer be

sustained. Trade-offs explain why that's not true. Trade-offs are the economic linchpins of strategy for two reasons. First, they are an important source of differences in prices and costs among rivals. Second, they make it difficult for rivals to copy what you do without compromising their own strategies.

- **Chapter 6. Fit: The Amplifier.** The fourth test of strategy is fit. Fit has to do with how the activities in the value chain relate to one another. At one level, the idea of fit is completely intuitive. Every general manager knows the importance—and the difficulty—of aligning the various functional areas needed to compete in a business. But fit goes beyond simple alignment to amplify a competitive advantage and to make it more sustainable. Its role in strategy highlights yet another popular misconception: that competitive success can be explained by one *core competence*, the *one* thing you do really well. Good strategies depend on the connection among *many* things, on making *interdependent* choices. A common piece of advice for managers has been to focus on their core activities and to outsource the rest. Fit challenges that bit of conventional wisdom.
- **Chapter 7. Continuity: The Enabler.** Competition is dynamic. Everyone can name once-proud companies brought low by their failure to change. But continuity, as pedestrian as it sounds, is also essential. Although the spotlight is more often directed at companies that change too little, Porter's fifth test is about an equal, if not greater, mistake: companies can change too much, and in the wrong ways. It takes time to develop real competitive advantage, to understand the value you create, to achieve tailoring, trade-offs, and fit. If you grasp the role of continuity in strategy, it will change your thinking about change itself. Paradoxically, continuity of strategy improves an organi-

zation's ability to adapt and to innovate.

- **Epilogue: A Short List of Implications.** I offer up a highly distilled list of takeaways as a way both of summarizing where we have been and how Porter's core ideas can be applied in practice.

Beyond the body of the book, you'll find more than the usual end matter:

- **FAQs: An Interview with Michael Porter.** This is a must-read interview with Michael Porter in which he answers the questions about competition and strategy managers most often ask him. Among them are the following: What are the greatest obstacles to strategy and the most common mistakes companies make? How can you grow without undermining your strategy? How should you think about disruption and new business models?
- **A Porter Glossary: Key Concepts.** This contains user-friendly descriptions of key concepts along with suggestions for further reading for those who want to go beyond the essentials covered in this volume.

## A Cautionary Note About Case Examples

In presenting Porter's frameworks, I make extensive use of business case examples. They are a double-edged sword. They make ideas come to life by showing them in action, in flesh-and-blood organizations. But like flesh and blood, they can age quickly. No sooner has the book rolled off the press or been downloaded than events begin to overtake the example. As I was writing about one company's

competitive dilemma, for example, it declared bankruptcy. That story remains in the book, since it underscores my point. But for the record, my objective is to convey timeless principles, ideas that don't change even if the facts of the case do. Competition is demanding. Even outstanding companies make mistakes. Good strategies can be enduring, but none last forever.

Then there is the question of which facts to present. Porter reviewed successive drafts of this book, and he kept pushing me for "more numbers." But this is not a textbook. For readers who want more of an analytic workout, I'll suggest some great resources. Nevertheless, Porter's point, an important one, is that strategy requires clear, analytic thinking. It's not rocket science, but it's not for the fuzzy-minded. Quantifying forces you to be precise. That said, the "overtaken by events" argument is especially relevant when it comes to data about companies and markets. I ended up with enough numbers, I hope, to make Porter's point without getting bogged down. Where I have used precise numbers to reflect, for example, a company's relative cost advantage or the number of customers it serves, I can almost guarantee that by the time you read this, the data will have changed. Why, then, present numbers that are probably inaccurate? To make the point that strategy is—or should be—fact based. Amen to that.