

STRATEGY

# What Is Strategy, Again?

by Andrea Ovans

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If you read what Peter Drucker had to say about competition back in the late '50s and early '60s, he really only talked about one thing: competition on price. He was hardly alone – that was evidently how most economists thought about competition, too.

It was this received opinion Michael Porter was questioning when, in 1979, he mapped out four additional competitive forces in “How Competitive Forces Shape Strategy.” “Price competition can’t be all there is to it,” he explained to me, when during the course of updating that seminal piece in 2008, I asked him about the origins of the five forces framework.

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And so, he famously argued, in addition to the fierceness of price competition among industry rivals, the degree of competitiveness in an industry (that is, the degree to which players are free to set their own prices) depends on the bargaining power of buyers and of suppliers, as well as how threatening substitute products and new entrants are. When these forces are weak, as in software and soft drinks, many companies are profitable. When they are strong, as in the airline and hotel industries, almost no company earns an attractive return on investment. Strategy, it follows for Porter, is a matter of working out your company's best position relative not just to pricing pressures from rivals but to all the forces in your competitive environment.

And for many, it seemed, that was pretty much the last word on the subject. As recently as March 2015, for instance, Rebecca Homkes and Don and Charles Sull said in "Why Strategy Execution Unravels - and What to Do About it": "Since Michael Porter's seminal work in the 1980s we have had a clear and widely accepted definition of what strategy is."

But that wasn't exactly so.

Interestingly, Porter's thinking on the definition of strategy wasn't published until November of 1996, which means that 17 years after he burst on the scene with his original five forces article he still felt the need to address the question explicitly.

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In "What Is Strategy," Porter argues against a bevy of alternate views, both old and then new, that were circulating in the intervening years. In particular he takes issue with the views that strategy is a matter of:

- Seeking a single ideal competitive position in an industry (as the dot-com wannabes were apparently doing at the time he was writing).
- Benchmarking and adopting best practices (a veiled reference to everyone's favorite punching bag, *In Search of Excellence*).
- Aggressive outsourcing and partnering to improve efficiencies (perhaps a reference to "The Origins of Strategy, published in 1989 by the granddaddy of strategy consulting, BCG founder Bruce Henderson).
- Focusing on a few key success factors, critical resources, and core competencies (maybe a reference to C. K. Prahalad and Gary Hamel's 1990 article, "The Core Competence of the Organization").

- Rapidly responding to ever-evolving competitive and market changes (perhaps a reference to Rita McGrath and Ian McMillan’s 1995 article on innovation strategy “Discovery Driven Planning”).

At a fundamental level, all strategies for Porter boil down to two very broad options: **Do what everyone else is doing (but spend less money doing it), or do something no one else can do.**

While either approach can be successful, the two are for him not economically (or, I think, morally) equivalent. Competing by doing what everyone else is doing means, he says, competing on price (that is, learning to be more efficient than your rivals). But that just shrinks the pie as, in the rush to the bottom, profitability declines for the entire industry.

Alternatively, you could expand the pie by staking out some sustainable position based on a unique advantage you create with a clever, preferably complicated and interdependent set of activities (which some thinkers also call a value chain or a business model). This choice is easy to see in the airline industry, where most airlines “compete to be the best,” as Porter puts it, fighting over a very stingy pie indeed, while Southwest, among a handful of other airlines, built far more profitable businesses with a completely different approach, which targeted a different customer (people who might otherwise drive, for example) with a cleverly efficient set of interdependent activities, thereby expanding the entire market.

A tour de force by any measure, “What Is Strategy?” is certainly required reading for all strategists. But it was far from the final word. One could perhaps usefully divide the vast universe of subsequent strategy ideas into those that focus on:

- Doing something new.
- Building on what you already do.
- Reacting opportunistically to emerging possibilities.

In the *do something new* camp, then, would be found Chan Kim and Renée Mauborgne’s work on finding or creating uncontested new markets, first articulated in 1999 in “Creating New Market Space,” and further fleshed out in 2004 in the now-classic “Blue Ocean Strategy,” as well Alvin Roth’s seminal 2007 work on “The Art of Designing Markets,” and Clay Christensen, Henning Kagermann, and Mark Johnson’s “Reinventing Your Business Model.” So too would transformation strategies based on reconsidering your company or your industry’s value chain. These include not only much of Porter’s work but Ian MacMillan and Rita McGrath’s “Discovering New Points of Differentiation.”

In the *building on what you already do well* camp are “Finding Your Next Core Business,” by Bain consultant Chris Zook and “Growth Outside the Core,” (about adjacency moves) by Zook and colleague James Allen, as well as the classic “Competing on Resources,” by David Collis and Cynthia Montgomery. Also in this category are the myriad of articles on competitive responses, which include Rob Lachenauer and George Stalk’s “Hardball: Five Killer Strategies for Trouncing the Competition,” and its companion “Curveball: Strategies to Fool the Competition.” And here too can be found articles on how to defend yourself against disruptors, like Richard D’Aveni’s “The Empire Strikes Back: Counterrevolutionary Strategies for Industry Leaders,” and “Surviving Disruption,” in which Clay Christensen and Max Wessel detail a systematic way to determine when it’s too soon to abandon your business to a disruptor.

It’s tempting to think the third camp – *reacting opportunistically to emerging possibilities* – represents the field’s most recent thinking. But in fact McGrath and McMillan’s work on discovery-driven planning was first introduced 20 years ago, and this camp includes other classic flexibility-as-strategy pieces that date from the 1990s, including Tim Luehrman’s “Strategy as a Portfolio of Real Options,” and David Yoffie and Michael Cusomano’s “Judo Strategy.” It also includes Michael Mankins and Richard Steel’s more recent “Stop Making Plans: Start Making Decisions,” which made the case for continuous strategic planning cycles. And finally it includes various approaches to running established companies as if they were start-ups, such as Steven Blank’s “Why the Lean Start-Up Changes Everything” from last year.

Take a look at the richness of the ideas in all three camps, and it’s hard to agree that strategy boils down to a discouraging choice between “do something so dauntingly original that no one can copy you” and “fight to the death with your rivals over the pie.” Taken in all of its variety and complexity, this body of work suggests not the terrifying terrain of competitive jeopardy but a broad expanse of opportunity -in the face of rapidly changing technologies, globalization, and the inexorably accelerating pace of change, there remain endlessly clever new ways to make money, beat the competition, and nudge Adam Smith’s invisible hand toward truly productive and profitable enterprises.

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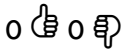
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**Carl Malartre** a year ago

I don't see why it's a discouraging choice :-)

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