

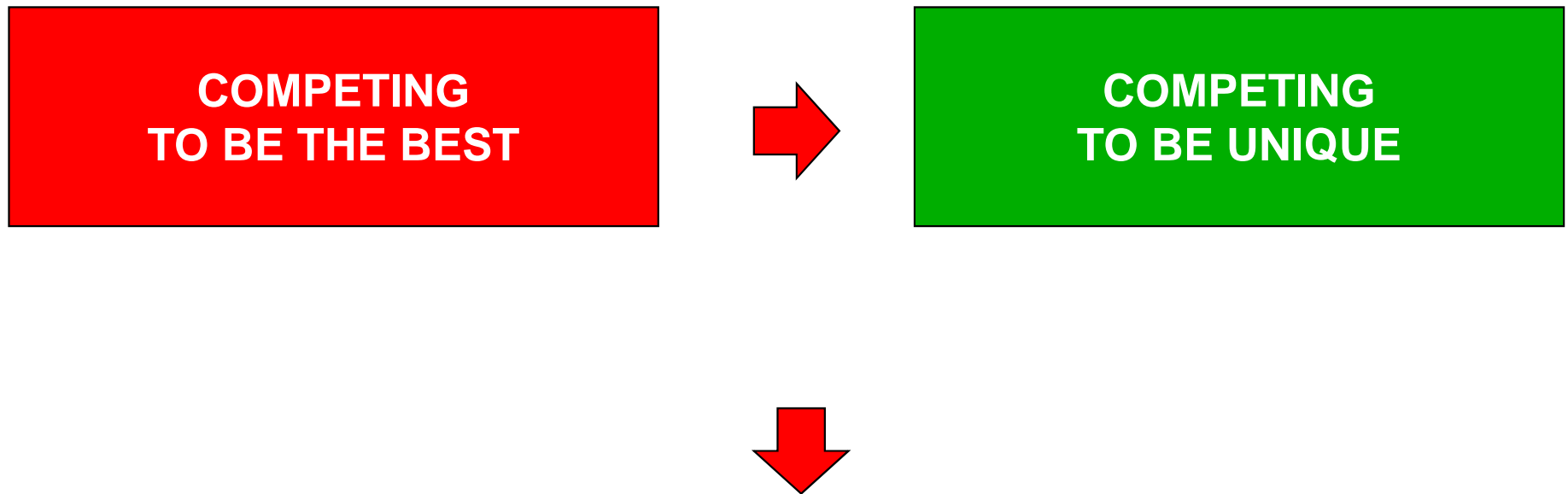
Strategic Positioning in a Challenging World: Creating Shared Value

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Harvard Business School

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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); and *On Competition* (*Harvard Business Review*, 2008). 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.

Thinking Strategically



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

What Do We Mean by a Strategy?

- Strategy is different than **aspirations**
 - “Our strategy is to be #1 or #2...”
 - “Our strategy is to be the world leader...”
 - “Our strategy is to grow...”
 - “Our strategy is to provide superior returns to our shareholders...”
- Strategy is more than a **particular action**
 - “Our strategy is to merge...”
 - “... internationalize...”
 - “... consolidate the industry...”
 - “... outsource...”
 - “...double our R&D budget...”
- Strategy is not the same as **vision / values**
 - “Our strategy is to advance technology for mankind ...”
 - “...to be ethical...”



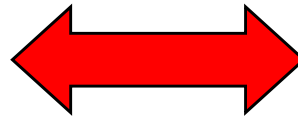
- Strategy defines the company’s **distinctive approach** to competing and the **competitive advantages** on which it will be based

Economic Foundations of Competition

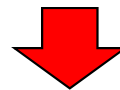
- Company economic performance results from **two** distinct causes



- *Industry Attractiveness*



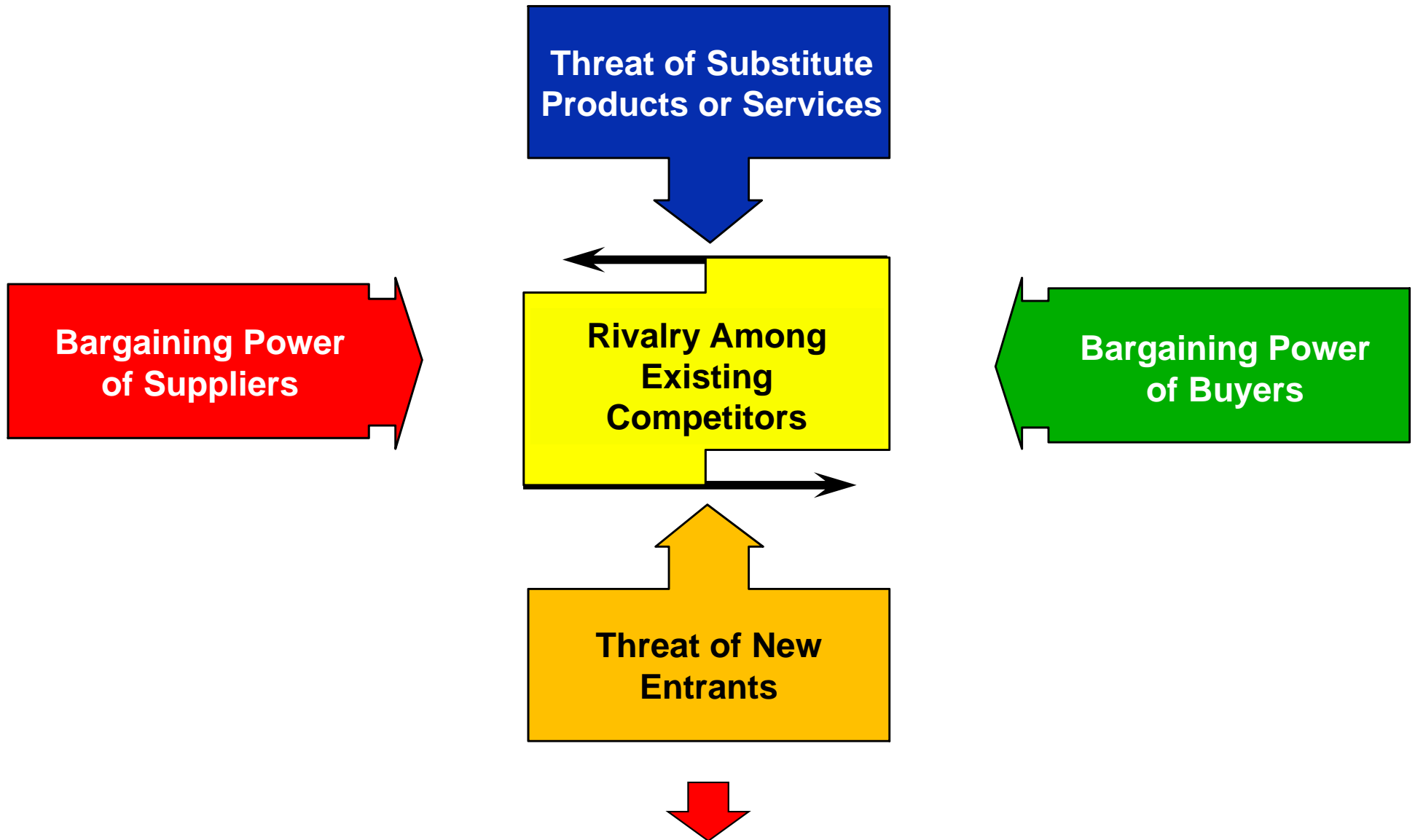
- *Sustainable Competitive Advantage*



- Strategic thinking must encompass **both** areas
- Companies must focus on the **health of the industry**, not just their own position

Determinants of Industry Profitability

Industry Structure

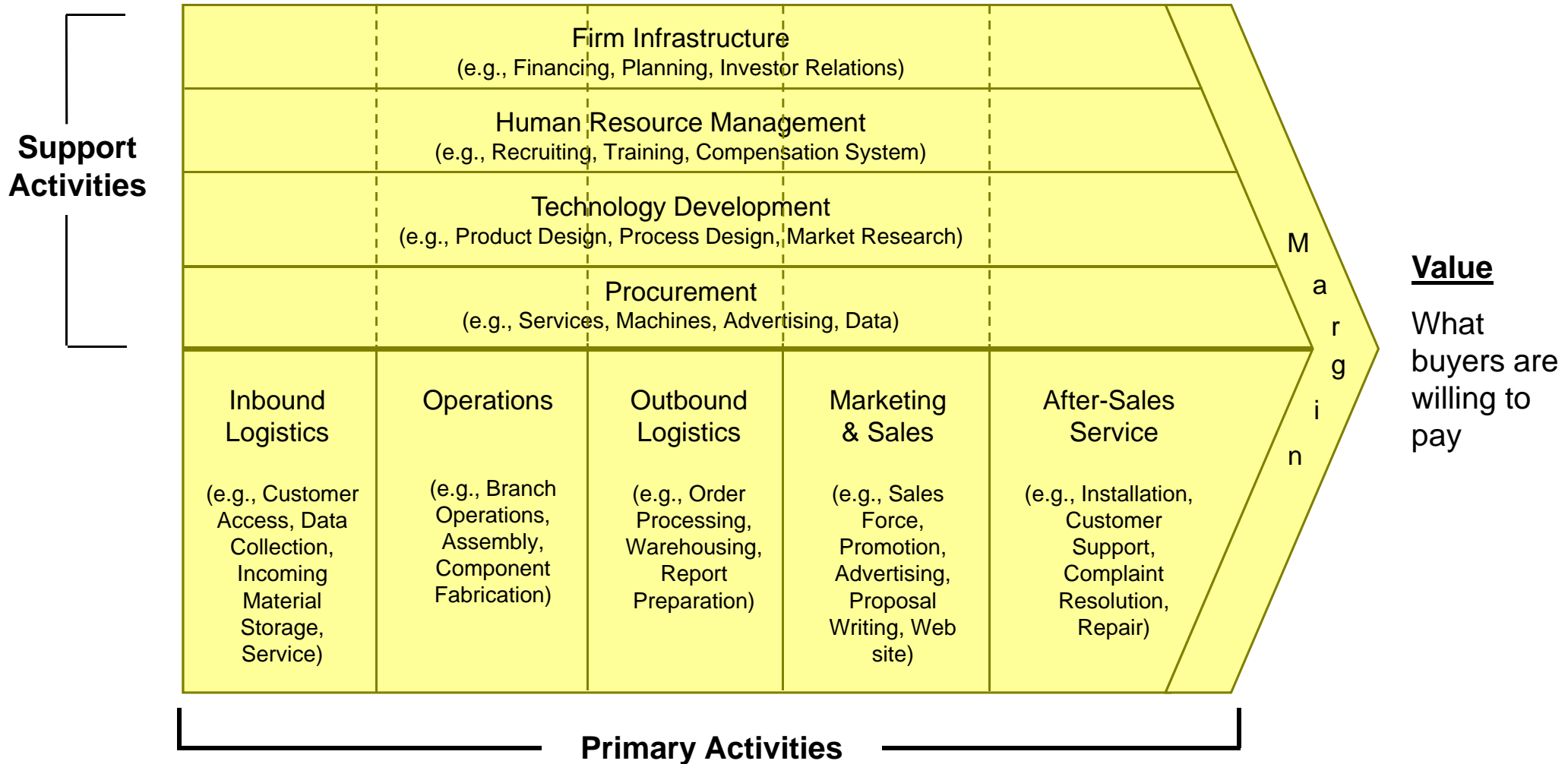


- Part of strategy is to drive a **positive transformation** in industry structure

Achieving Superior Performance



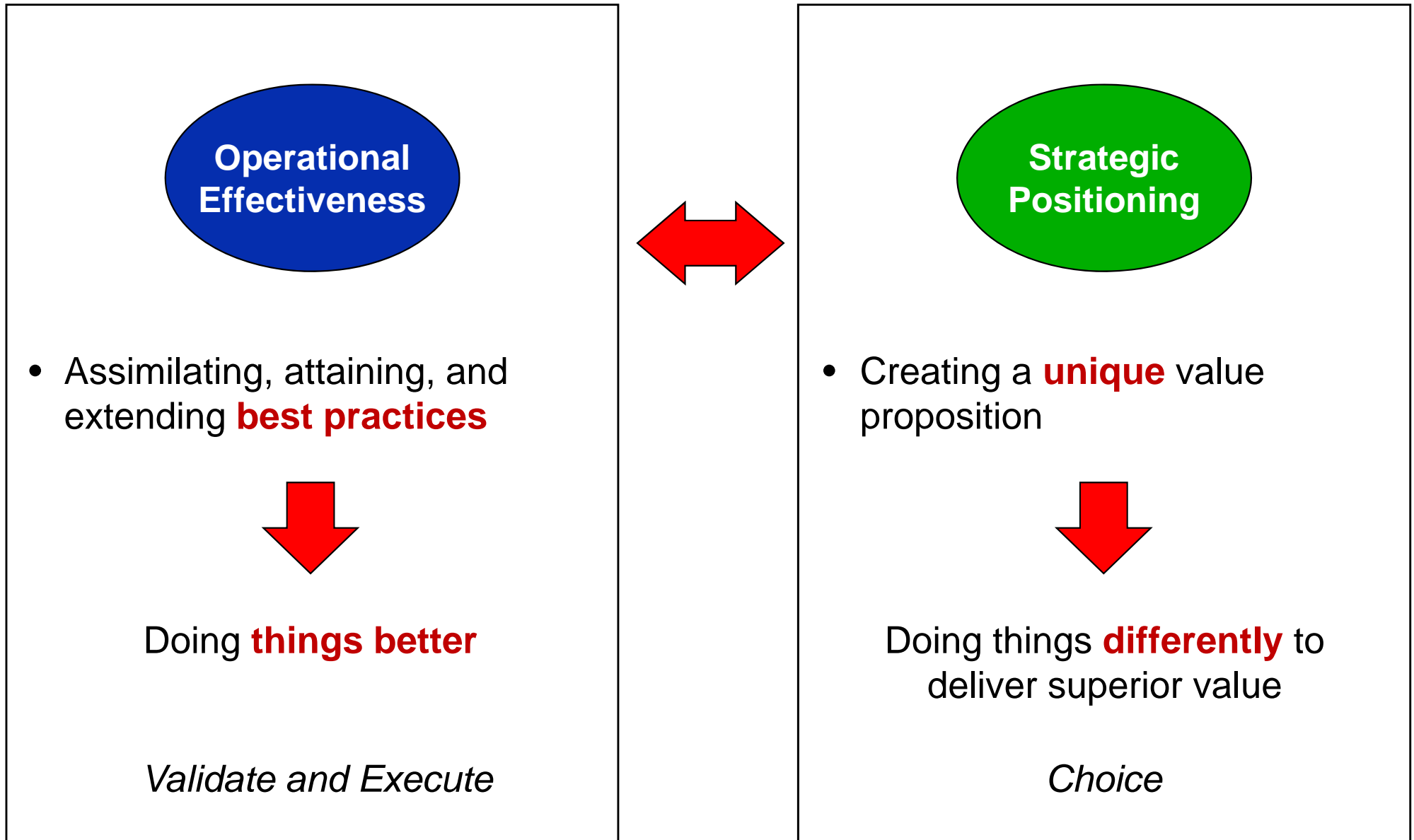
Competitive Advantage and the Value Chain



- The value chain is the **set of activities** involved in delivering value to customers
- All competitive advantage **resides** in the value chain. Strategy is manifested in **choices** about how activities in the value chain are configured and linked together

Achieving Superior Performance

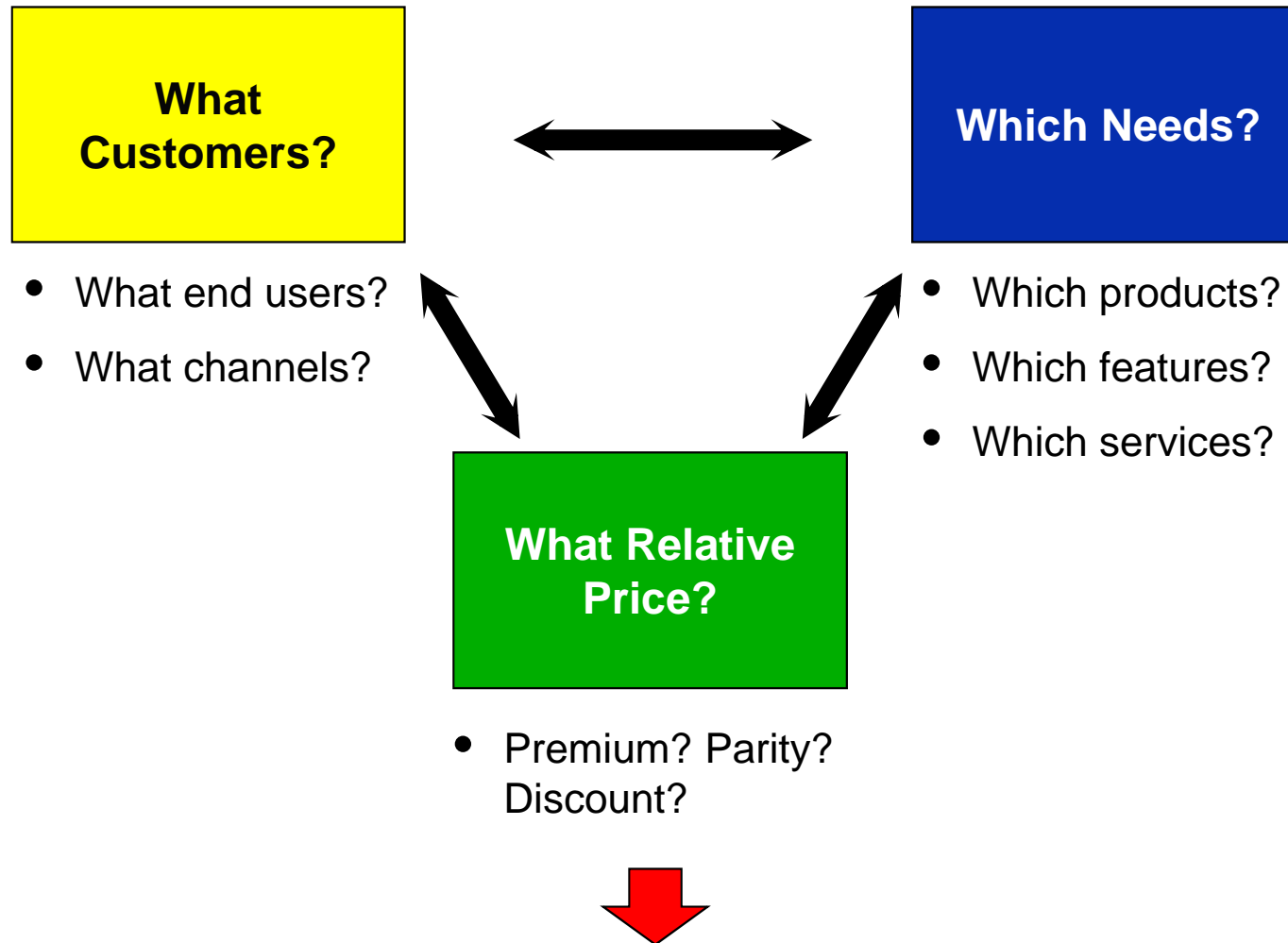
Operational Effectiveness Is Not Strategy



What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations

Defining the Value Proposition



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

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** embodying choices about how the organization will operate differently

Strategic Positioning

IKEA, Sweden

Value Proposition

- Young, first time, or price-sensitive buyers with design sophistication
- Stylish, space efficient and compatible furniture lines and accessories at very low price points

Distinctive Activities

- Modular, ready-to-assemble, easy to ship furniture designs
- In-house design of all products
- Wide range of styles which are all displayed in huge warehouse stores with large on-site inventories
- Self-selection by the customer
- 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
- Suburban locations with large parking lots
- Long hours of operation
- On-site, low-cost, restaurants
- Child care provided in the store
- Self-delivery by most customers

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** embodying choices about how the organization will operate differently
- Making clear tradeoffs, and choosing what **not to do**

Making 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

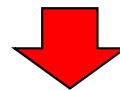
Typical Furniture Retailer

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



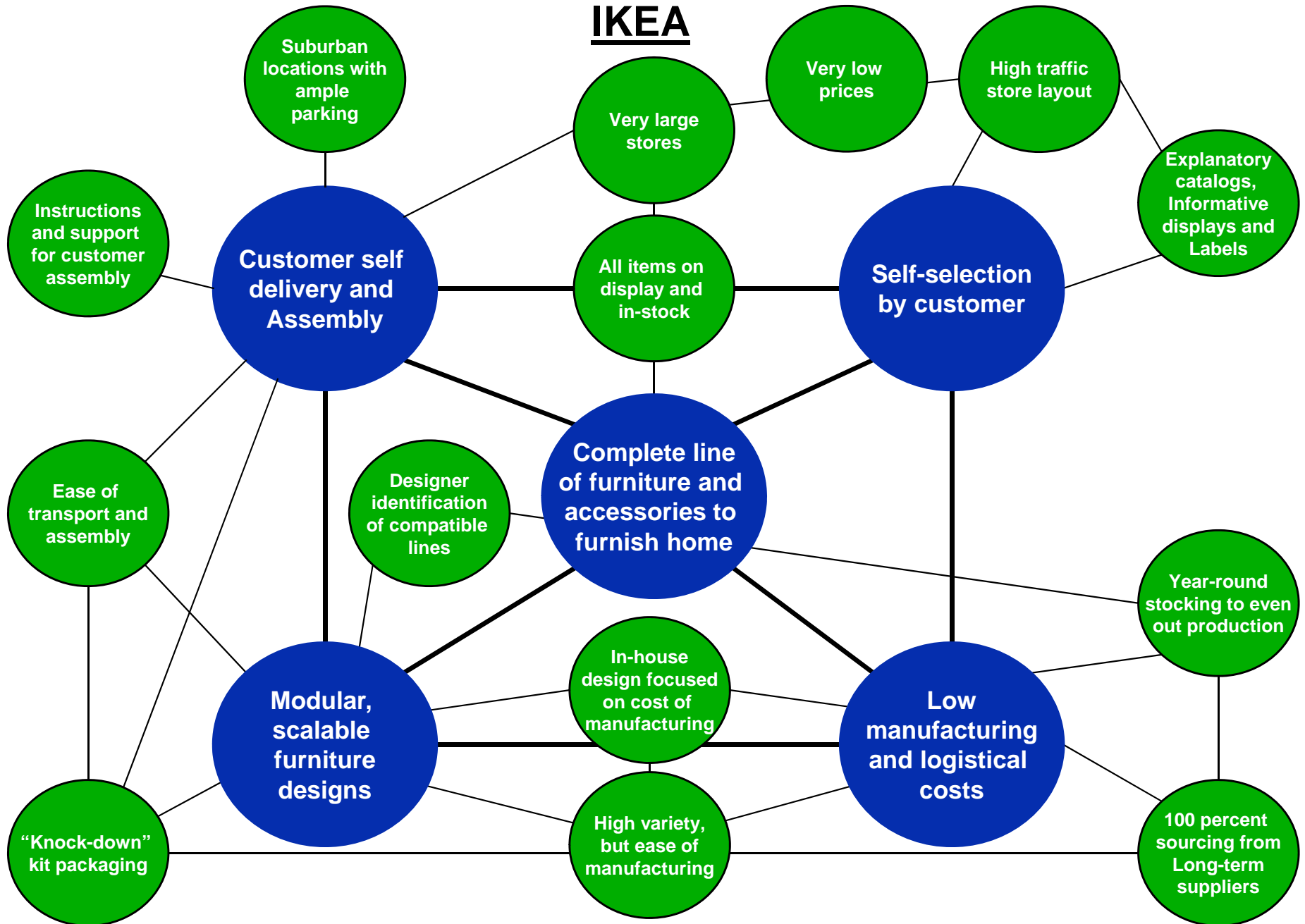
- Tradeoffs create the need for **choice**
- Tradeoffs make a strategy **sustainable** against imitation by established rivals
- An essential part of strategy is choosing what **not** to do

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** embodying choices about how the organization will operate differently
- Making clear tradeoffs, and choosing what **not to do**
- Choices of activities across the value chain that **fit together and reinforce each other**

Mutually Reinforcing Activity Choices

IKEA



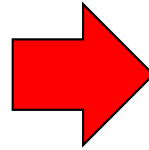
- Fit is leveraging what is different to be **more** different

What Creates a Successful Strategy?

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- Making clear tradeoffs, and choosing what **not to do**
- Choices of activities across the value chain that **fit together and reinforce each other**
- **Continuity** of strategic direction

Competing on Strategy

Zero Sum Competition



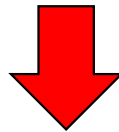
Positive Sum Competition

- Compete **head to head**
- One company's **gain** requires another company's **loss**
- Competition often **undermines** industry structure and profitability

- Compete on **strategy**
- **More than one** company can be successful
- Competition **expands** the customers served, the needs that are met, and the overall value pool

The Role of Business in Society

- Only business can **create prosperity**
- Healthy businesses need a **healthy community**



- There is an ever **growing awareness** of major societal challenges
- Government and NGO's **lack sufficient resources and capabilities** to fully meet these challenges
- More of the public sees business as prospering **at the expense** of the society
- Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

The Role of a Company in Its Communities

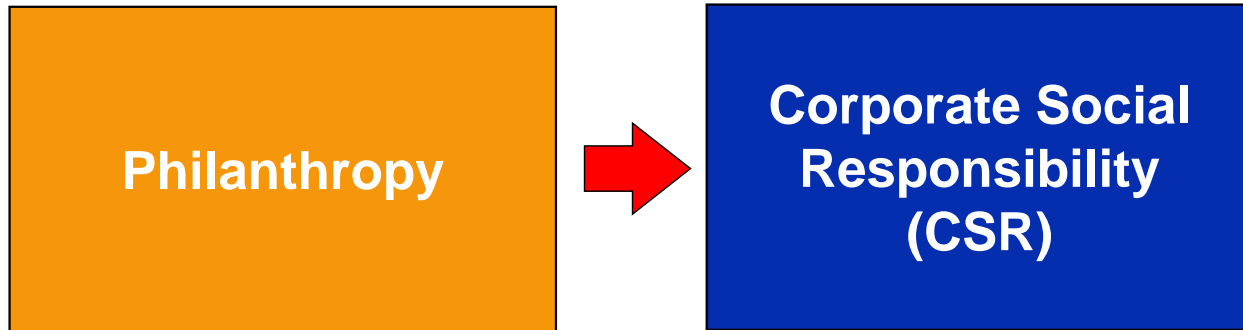
Evolving Approaches

Philanthropy

- Donations to worthy social causes
- Volunteering

The Role of a Company in Its Communities

Evolving Approaches



- Donations to worthy social causes
- Volunteering

- Compliance with community standards
- Good corporate citizenship
- “Sustainability”

The Role of a Company in Its Communities

Evolving Approaches

