

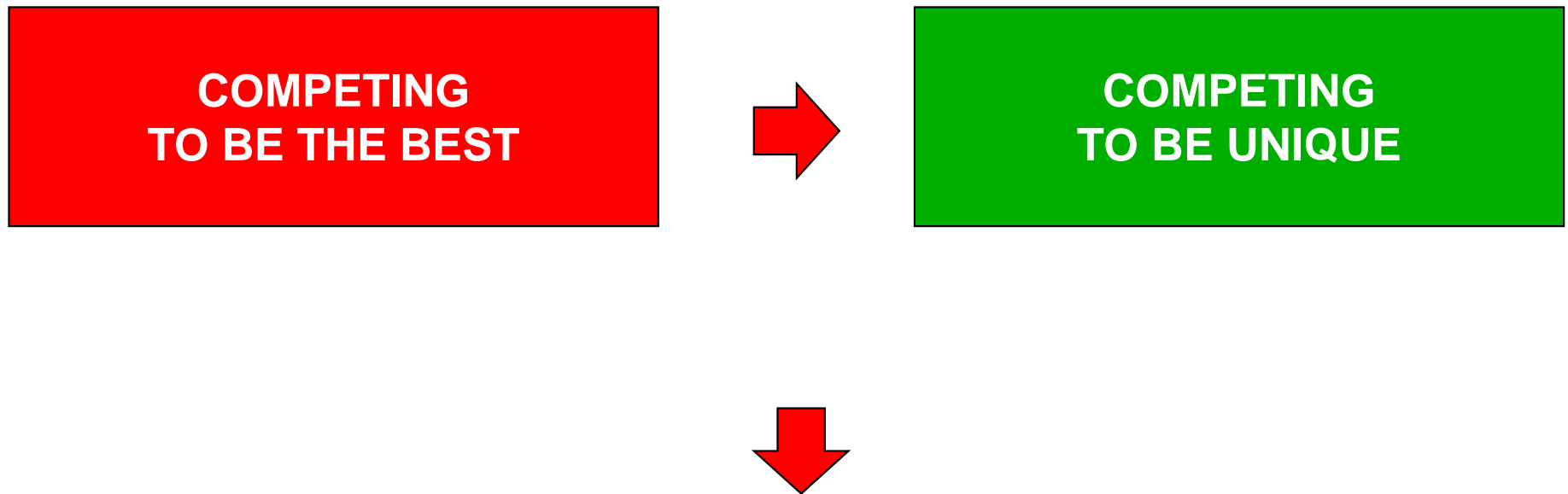
Competitive Advantage: Enduring Ideas and New Opportunities

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Harvard Business School

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Conference for Leaders
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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**

Defining a Strategy

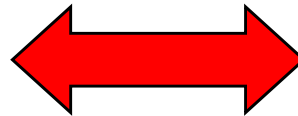
- Strategy is different than **aspirations**
 - “Our strategy is to be #1 or #2...”
 - “Our strategy is to be the world leader...”
 - “Our strategy is to grow...”
 - “Our strategy is to provide superior returns to our shareholders...”
 - Strategy is more than a **particular action**
 - “Our strategy 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 customer centric...”
- 
- Strategy defines the company’s **distinctive approach** to competing and the **competitive advantages** on which it will be based

Economic Foundations of Competition

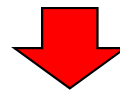
- Company economic performance results from **two** distinct causes



- *Industry Attractiveness*



- *Sustainable Competitive Advantage*



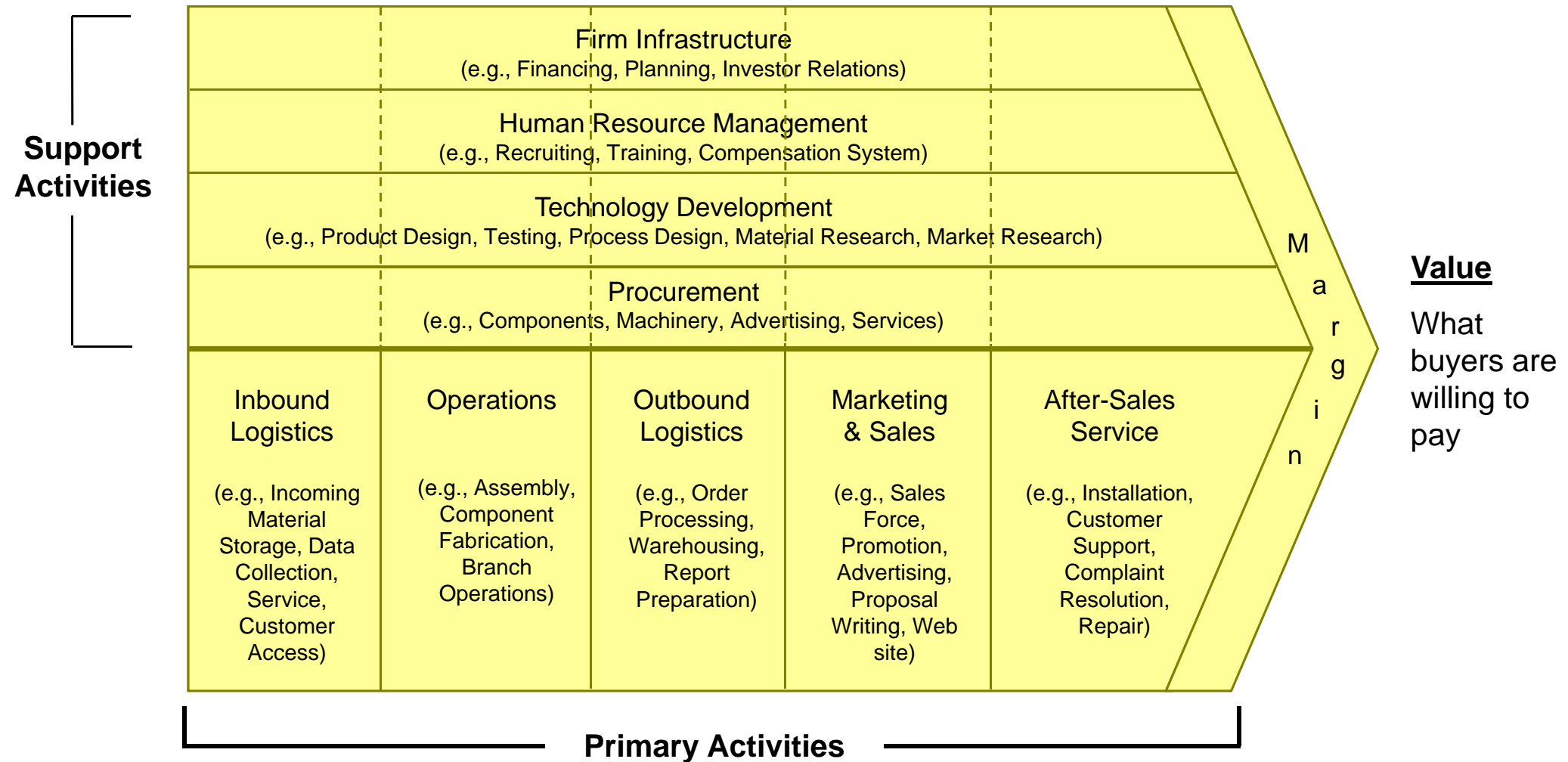
- Strategic thinking must encompass **both** areas
- Companies must focus on the **health of the industry**, not just their own position

Strategic Positioning

Achieving Superior Performance



Competitive Advantage and the Value Chain



- 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

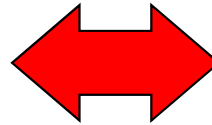
Operational Effectiveness Is Not Strategy

Operational
Effectiveness

- Assimilating, attaining, and extending **best practices**

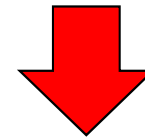


Do the **same thing better**



Strategic
Positioning

- Creating a **unique** and **sustainable** competitive position



Do things **differently** to
achieve a **different purpose**

What Creates a Successful Strategy?

- A **unique value proposition** compared to other organizations
- A **distinctive value chain** tailored to the value proposition
- Making clear tradeoffs, and choosing what **not to do**
- Choices across the value chain that **fit together and reinforce each other**
- **Strategic continuity**, with continual improvement in realizing the strategy

Strategic Positioning

IKEA, Sweden

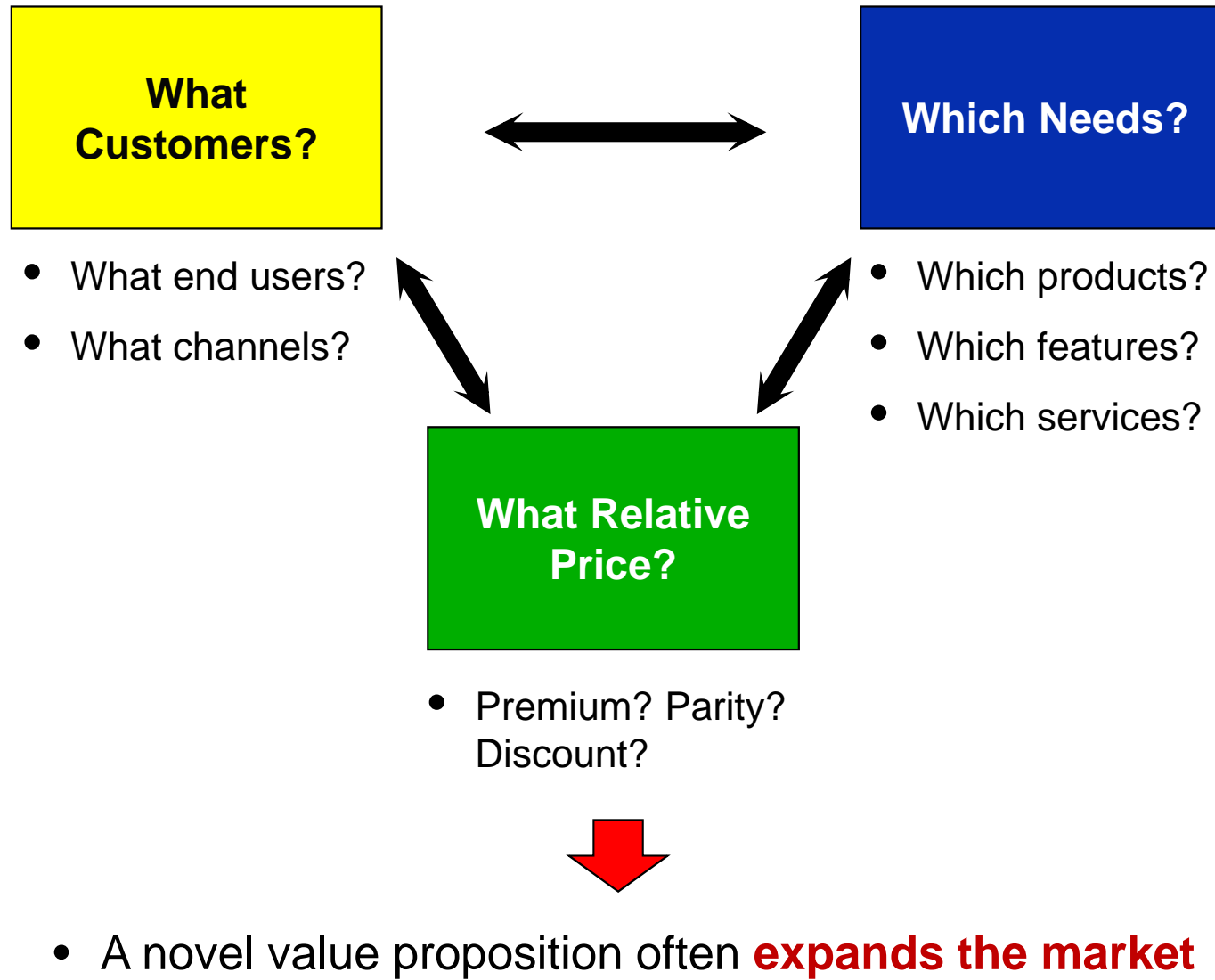
Value Proposition

- 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

Defining the Value Proposition



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

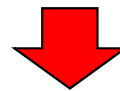
Typical Furniture Retailer

Product

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

Value Chain

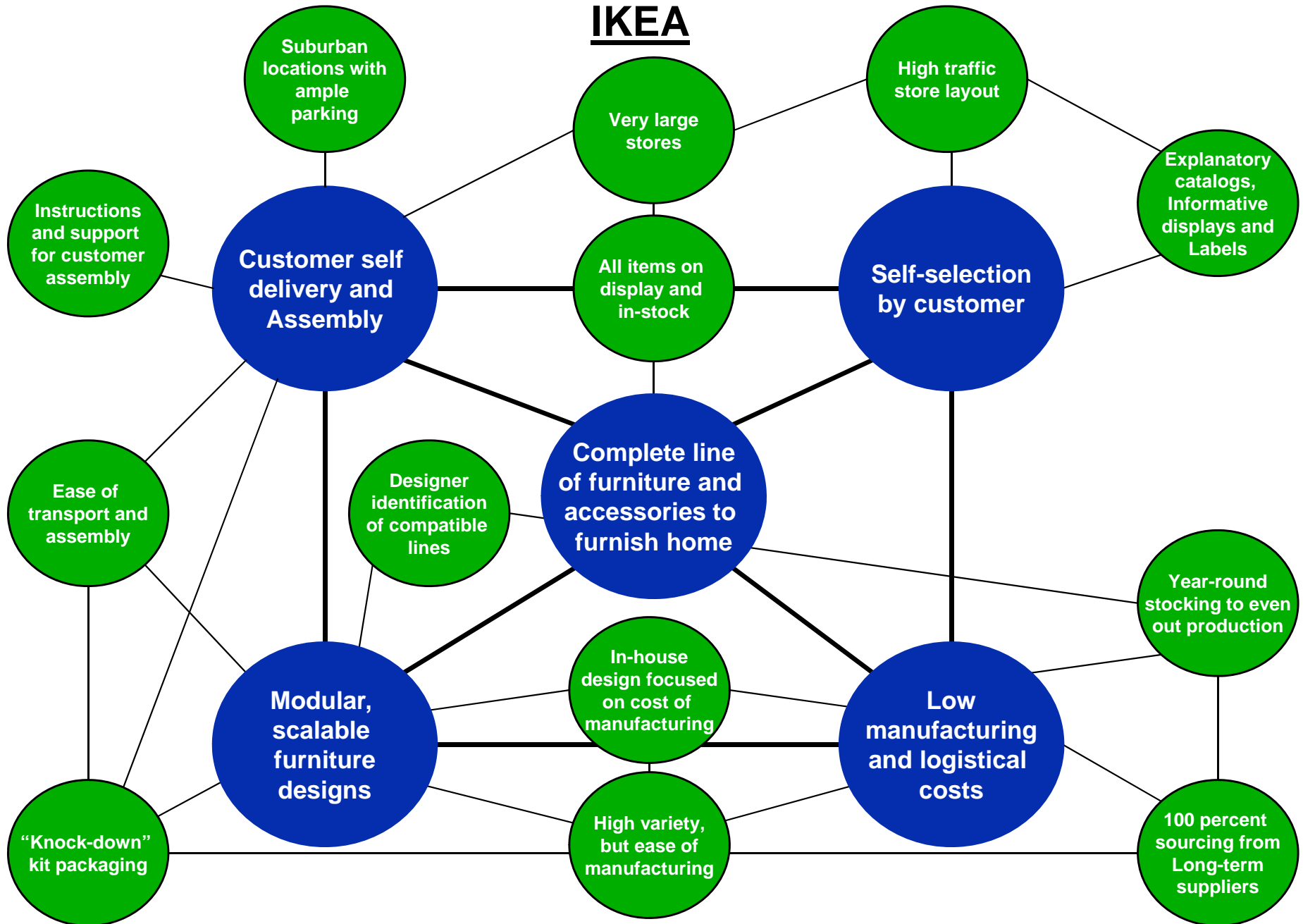
- Source some or all lines from outside suppliers
- Medium sized showrooms with limited portion of available models on display
- Limited inventories / order with lead time
- Extensive sales assistance
- Traditional retail hours



- 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

Mutually Reinforcing Activity Choices

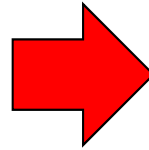
IKEA



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

Reshaping Industry Competition

Zero Sum Competition



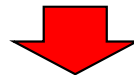
Positive Sum Competition

- Compete **head to head**
- One company's **gain** requires another company's **loss**
- Competition often **undermines** industry 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 Leaders in Strategy

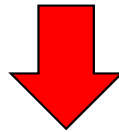
- Drive **operational improvement**, but clearly distinguish it from **strategy**
- Lead the **process of choosing** the company's unique position
 - The CEO is the chief strategist
 - The choice of strategy **cannot** be entirely democratic
- **Communicate** the strategy relentlessly to all constituencies
 - Harness the **moral purpose** of strategy
- Maintain **discipline** around the strategy, in the face of many distractions.
- Decide **which** industry changes, technologies, and customer needs to respond to, and how the response can be **tailored** to the company's strategy
- **Measure progress** against the strategy using metrics that capture the implications of the strategy for serving customers and performing particular activities
- **Sell the strategy** and **how to evaluate** progress against the strategy to the financial markets



Commitment to strategy is tested every day

The Role of Business in Society

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



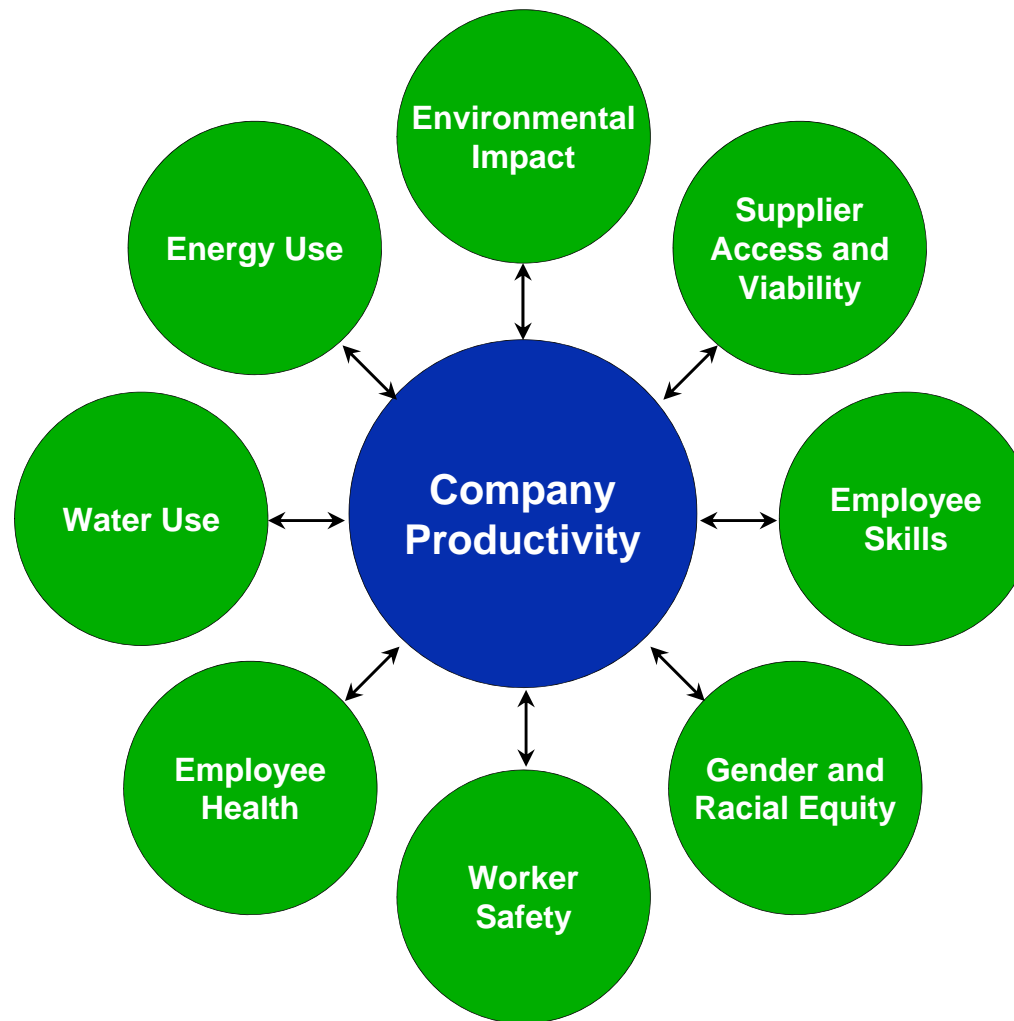
- There is an ever **growing awareness** of major societal challenges
- Government and NGO's **lack sufficient resources and capabilities** to fully meet these challenges
- Companies are increasingly perceived to be prospering **at the expense of the broader community**, and a **cause** of social, environmental, and economic problems
- Despite growing corporate citizenship activities, the **legitimacy of business** has fallen

The Role of a Company in Its Communities

Evolving Approaches



Societal Needs and Economic Value Creation



- **Social** deficits create **economic** cost
- **External** conditions shape **internal** company productivity
- Social needs represent the **largest market opportunities**

Levels of Shared Value

- Reconceiving **products, needs, and customers**
 - Meeting **societal needs** and reaching **unserved** or **underserved customers**
- **Redefining productivity** in the value chain
 - How the organization **better uses resources** in value chain, including employees, to improve fundamental productivity
- Enabling **local cluster development**
 - Improving available **skills, suppliers, and supporting institutions** in the region

Creating Shared Value in Products

Intuit SnapTax

SnapTax provides low-income consumers with access to tax preparation services over the phone and enables rapid refunds

- **15 minutes for \$15**, electronic filing included
- Data extracted from **mobile phone photos** of W-2s via optical character recognition
- **Debit card** option for direct deposit of refunds for unbanked households
- **Simple IRA option** to enable use of refund for retirement savings

Creating Shared Value in Products

Dow Chemical Insect Control

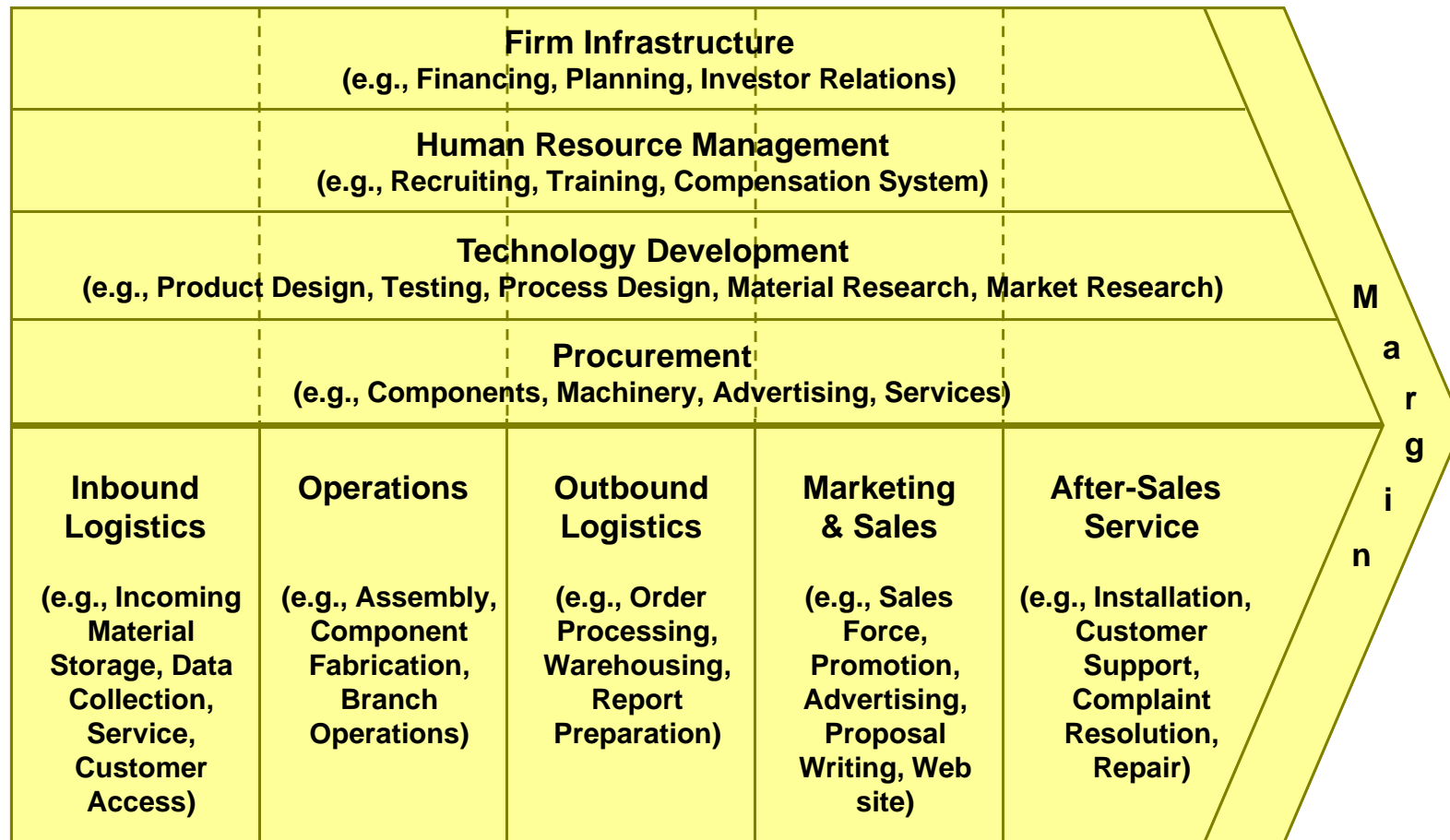
The Spinetoram™ Family of insect control products are derived from a **biological organism** that provides control of a broad spectrum of insect pests in a variety of crops

- Natural degradation through UV light and soil microbes
- Low solubility in water
- Favorable toxological profile
- Carries lowest human hazard label
- Organic version available



- Ability to be applied at **lower rates** than conventional insecticides
- **Low impact** on beneficial insects
- **Double-digit growth** since launch in 2010

Redefining Productivity in the Value Chain



- Shared value purchasing
- Energy use
- Resource use
- Location of facilities / supply chain
- Logistical efficiency
- Employee productivity

Local Cluster Development

Anglo-American

- Anglo American has established Anglo Zimele, a South African enterprise investment fund, for **mining-related small and medium-sized businesses** in South Africa
- As of 2010, the fund had invested in **509 businesses**, which collectively employed 9,514 people with annual revenues of \$215 million

Economic value

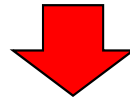
- Anglo-American has created reliable, high-quality **local suppliers**
- Local suppliers reduce transaction costs and improve **service levels** and **quality**

Community value

- **10,000 new jobs** created
- Significant increase in **income** for SME employees and owners
- **Spillover effects** of these new businesses on their communities

Adding a Social Dimension to Strategy

- Shared value opens up new **needs**, new **markets**, new **value chain configurations**, and new **ways of thinking** about the business
- This creates new opportunities for **strategic positioning** and new **competitive advantages**



- Companies can incorporate a **social dimension** in their value proposition
- Shared value can **reinforce** and even **anchor** a company's strategy
- The social dimensions of strategy can be more **sustainable vs. competitors** than conventional cost and quality advantages

Shared Value and Strategic Positioning

Whole Foods Markets

Value Proposition

- Natural, fresh, organic, and prepared foods and health items with excellent service at premium prices
- Cater to specialized nutritional requirements (gluten allergies, vegan, etc.)
- Educated, middle class, and affluent customers who are passionate about food and a healthy lifestyle

Distinctive Activities

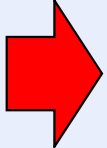
- Well-lit, inviting supermarket store formats with appealing displays and extensive prepared foods sections
- Produce section as “theater”
- Café-style seating areas with wireless internet for meals and meetings
- Each store carries local produce and has the authority to contract with the local farmers. Company provides low-interest loans if needed
- Nutrition information and education provided to shoppers along with products
- High touch in-store customer service via knowledgeable, flexible, and highly motivated personnel
- Flat compensation structure
- Own seafood procurement and processing facilities to control quality, sustainability and price from the boat to the counter
- Heavy emphasis on environmental sustainability in all activities
- Emphasis on supporting community development



- Successful strategies in the future will embody a significant **shared value dimension**

Transforming Strategic Positioning

	<u>Traditional Positioning</u>	<u>New Positioning</u>
Nestlé	<ul style="list-style-type: none">• Food	<ul style="list-style-type: none">• Nutrition
Nike	<ul style="list-style-type: none">• Shoes	<ul style="list-style-type: none">• Health and Wellness
IBM	<ul style="list-style-type: none">• Computing / Technology	<ul style="list-style-type: none">• Smarter Planet / Smarter Cities
Thermo Fisher	<ul style="list-style-type: none">• Leader in Serving Science	<ul style="list-style-type: none">• Enable Customers to Make the World Healthier, Cleaner, and Safer
Zip Car	<ul style="list-style-type: none">• Car Rental	<ul style="list-style-type: none">• Rethinking Urban Mobility



- A **broader sense of purpose** motivates and attracts employees, business partners, shareholders, and the public

Creating Shared Value

Implications for Government and Civil Society

- Government and NGOs often assume that **trade-offs** between economic and social benefits are **inevitable**
- Government and NGOs will be most effective if they **enable shared value** by business

Implications for NGOs

- NGOs bring unique **expertise**, **implementation** capacity, and relationships of **trust** with communities

A New Type of NGO

- **TechnoServe** Promotes the development of agricultural clusters in more than 30 countries
- **RootCapital** Provides financing to more than 400,000 farmers and businesses
- **Bill & Melinda Gates Foundation** Forms partnerships with global corporations to foster agricultural clusters

Implications for Governments

- Governments should make **platform investments** in public assets and infrastructure to enable shared value by business
- Governments should regulate in a way that **reinforces and rewards shared value** in business, rather than working against it

The Purpose of Business

- There is an opportunity to **transform thinking and practice** about the role of the corporation in society
- Shared value gives rise to **far broader opportunities** for economic value creation
- Shared value thinking will drive the next wave of **innovation, productivity growth**, and **economic growth**
- Shared value will reignite a whole new generation of **management** thinking
- Businesses **acting as businesses**, not as charitable givers, are arguably the most powerful force for addressing many of the pressing issues facing our society
- A transformation of business practice around shared value will give **purpose** to the corporation and represents our best chance to **legitimize business again**