

# **COMPETITION DEMYSTIFIED**

## **A Radically Simplified Approach to Business Strategy**

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**MAIN IDEA**

Business strategy doesn't have to be as complex as it is often made out to be. In fact, if you fully understand the competitive structure of your industry, an appropriate strategy can usually be developed around the answer to just one question: "Are there barriers to entry that allow us to do things other firms cannot?"

- If your answer to that question is "No", then strategy is not really an issue. You have no competitive advantage, so you either pursue operational efficiency aggressively or you exit your current market segment and enter a different segment where you will have a competitive advantage you can exploit. You don't try and outmaneuver the competition by employing a superior strategy but you try and run them into the ground by operating more efficiently.
- When your answer to that question is "Yes", strategy becomes of critical importance. Your profitability will be determined by how effectively you fend off potential entrants and manage the competition among your peers so as to fully exploit your competitive advantage. You will need to identify, understand, anticipate and influence important outsiders to succeed.

Overall, despite what the experts and consultants say, business strategy is not the be-all and end-all of effective business planning. Nor is strategic planning the only available source of superior returns. Strategy does matter in the long run because if a firm pursues unrealistic strategic goals, poor business outcomes are virtually guaranteed. Strategy, however, is not the whole story. The best strategy in the world cannot offset the need for operational excellence or good management.

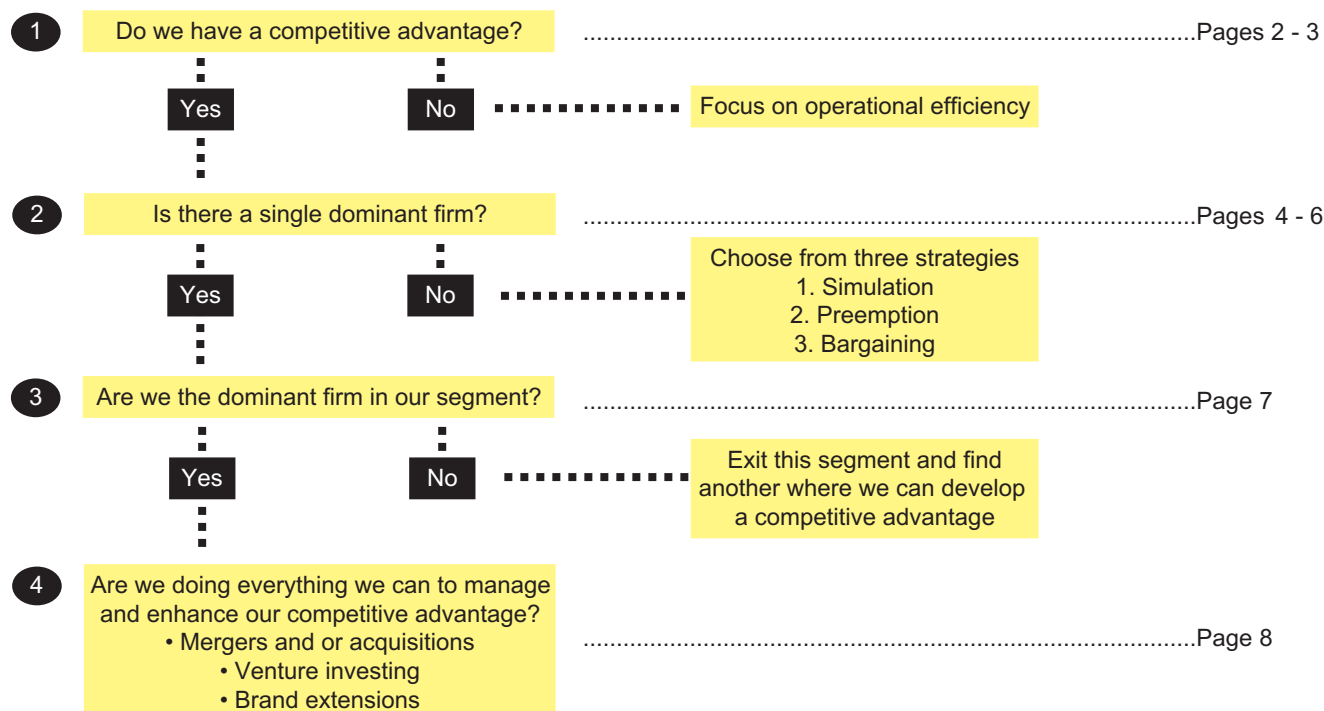
Good strategy formulation always focuses on three main goals:

1. To identify the competitive environment in which the business operates, and whether the firm has a competitive advantage.
2. To manage effectively the interactions with the other firms on which your company's own performance depends.
3. To develop a clear, simple vision of where your company needs to be heading in the future.

*"Thanks to Michael Porter's groundbreaking work, Competitive Strategy, published in 1980, strategic thinking in recent years increasingly has come to recognize the importance of interactions among economic actors. For many people, identifying the many factors in Porter's complex model and figuring out how they will play off one another has proven to be frustratingly difficult. What we proposing here is a radically simpler approach. We agree with Porter's view that five forces – Substitutes, Suppliers, Potential Entrants, Buyers and Competitors within the Industry – can affect the competitive environment. But, unlike Porter and his many followers, we do not think those factors are of equal importance. One of them is clearly much more important than the others. It is so dominant that leaders seeking to develop and pursue winning strategies should begin by ignoring the others and focus only on it. That force is barriers to entry – the force that underlies Porter's 'Potential Entrants'. Understanding the significance of barriers to entry and how they operate is the key to developing effective strategy."*

– Bruce Greenwald and Judd Kahn

How to select the right business strategy for your firm



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