

UNDERSTANDING MICHAEL PORTER

The Essential Guide to Competition and Strategy

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JOAN MAGRETTA is a senior associate at the Michael Porter Institute for Strategy and Competitiveness at Harvard Business School. She was the strategy editor at *Harvard Business Review* when Michael Porter published his two seminal articles *What is Strategy?* and *The Five Competitive Forces That Shape Strategy*. She is the author of several books about strategy including *What Management Is: How It Works and Why It's Everyone's Business*. She was previously a partner at Bain & Co and a professor in the humanities teaching literature and film. She is a graduate of the University of Wisconsin, Columbia, the University of Michigan and Harvard Business School.

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MAIN IDEA

For anyone in business, Michael Porter is the undeniable gold standard when it comes to developing strategy. His two books *Competitive Strategy* (1980) and *Competitive Advantage* (1985) addressed squarely the two most important questions in business:

- What is competition?
- What is strategy?

If you study and understand Michael Porter's answers to those questions, you'll be able to come up with the kind of clear strategic thinking that's invaluable in today's business climate.

"The essence of strategy is choosing what not to do."
 - Michael Porter



What is competition and why are some companies more profitable than others?

What is strategy and why does it matter for an organization anyway?

What is Competition? Pages 2 - 4

Porter makes the valid point if there was no competition, there would be no need for strategy. Customers would buy whatever you make and pay whatever you want. Obviously, that's never the case so you'd better understand how competition works and what it achieves before you even think about strategy.

What is competition and why are some companies more profitable than others?

- 1 Competition is a race to be unique, not a race to be "the best." Only by competing to be unique can an organization achieve sustained, superior performance.
- 2 Competition is always a struggle for the biggest share of the value an industry creates. It's not about who is the biggest, it's about who is the most profitable.
- 3 Competitive advantage is not about what you're good at. Rather, competitive advantage is derived from having a better value chain and a superior P&L than others.

What is Strategy? Pages 5 - 7

In practical terms, strategy is the antidote to competition. A good and robust strategy will result in superior economic performance, nothing else. Great strategies are defined by their ability to pass five tests:

What is strategy and why does it matter for an organization anyway?

The five tests of robust and viable strategies

- 1 Do you offer customers unique value?
- 2 Do you perform activities differently?
- 3 Have you made smart trade-offs?
- 4 Is what you do a good fit with your organization?
- 5 Is there continuity and consistency in what you do?

Porter in a Nutshell Page 8

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