
A good competitive strategy will result in sustainably superior performance. Strategy explains how an organization, faced with competition, will achieve superior performance. This definition is deceptively simple.

A No-Win Strategy: Competing To Be “The Best”. How often have you heard an organization’s leaders urging their people to be “the best”? How often have you heard the call to make your company the “best in its industry”? Companies proudly proclaim that they produced the “best” products, provide the “best” service, and attract the “best” talent. These phrases reflect an underlying belief about the nature of competition that feels so intuitively correct that most people, that is, almost never examined the question. If you want to win, it’s obvious that you should be the best. Or is it? Michael Porter has a name for this syndrome. He calls it *competition to be the best*. It is, he will tell you, absolutely the wrong way to think about competition. If you start out with this flawed idea about competition, it will lead you inevitably to a flawed strategy, and that will lead to mediocre performance. In the vast majority of businesses, there is simply no such thing as “the best”. Thus, a major flaw of *competition to be the best* is that if the organization sets out to be the best, it sets itself an impossible goal.

Instead of competing to be the best, companies can – and should – compete to be unique. This concept is all about value. It’s about uniqueness of the value you create and how you create it.

Is about the struggle for profits, the tug-of-war over who gets to capture the value in the industry creates. Competitive advantage is not about trouncing rivals; it’s about creating superior value. If you have a real competitive advantage, it means that compared with rivals, you operate at lower cost, command a premium price, or both. These are the only ways that one company can outperform another. If strategy is to have any real meaning at all, it must link directly to your company’s financial performance. Anything short of that is just talk.
Therefore, a complete definition of competitive advantage is: A difference in relative price or relative costs that arise because of differences in the activities being performed.

Whenever a company has achieved competitive advantage, there must be differences in activities. But those differences can take two distinct forms. A company can be better at performing the same configuration of activities, or it can choose a different configuration of activities.

By now, you recognize that the first approach is competition to be the best. Porter uses the phrase operational effectiveness to refer to a company’s ability to perform similar activities better than its rivals. Most managers use the term “best practice” or “execution”. Whatever term you prefer we’re talking about a multitude of practices that allows a company to get more out of the resources it uses. The important thing is not to confuse operational efficiency with strategy. Simply improving operational effectiveness does not provide a robust competitive advantage because rarely are “best practice” advantages sustainable. Once a company establishes a new best practice, its rival tends to copy quickly. This treadmill of imitation is sometimes called hyper-competition.

**Operational efficiency and disciplined execution are necessary, but not sufficient to create a sustainable competitive advantage.**

No company can afford sloppy execution. Inefficiency can overwhelm even the most distinctive and potentially valuable strategies. But betting that you can achieve competitive advantage – a sustainable difference in price or cost – by performing the same activities as your rivals is a bet that you will probably lose.

Porter’s five tests of every good strategy:

1. A distinctive value proposition
2. A tailored value chain
3. Trade-offs different from rivals
4. Fit across the value chain
5. Continuity over time

**Creating Value**

Choosing the particular kind of value you will offer your customers is the core of competing to be unique. But recall the definition of competitive advantage: *a difference in relative price or relative costs that arise because of differences in the activities being performed.* Your value chain must be specifically tailored to deliver your value proposition. A value proposition that can be effectively delivered without a tailored value chain will not produce sustainable competitive edge.
Strategy means deliberately choosing a different set of activities to deliver a unique mix of value.
The value proposition is the element of strategy that looks outward customers, at the demand-side of the business. The value chain focuses internally on operations. Strategy is fundamentally integrative, bringing the demand and supply sides together. If you’re trying to describe a strategy, the value proposition is a natural place to begin. It’s intuitive to think of strategy in terms of the mix of benefits aimed at meeting the customer’s needs. But the second test of strategy is often overlooked because it is not intuitive at all. A distinctive value proposition will not translate into meaningful strategy unless the set of activities to deliver it is different from the activities performed by rivals. The essence of strategy and competitive advantage lies in the activities, in choosing to do activities differently or to perform different activities from those of rivals.

The Three Core Strategy Platforms
Fundamentally, there are three generic strategies: focus, differentiation, cost leadership. Each of these reflects the most basic level of consistency that every effective strategy must have. Focus refers to the breadth or narrowness of the customers and needs a company service. Differentiation allows the company to command a premium price. Cost leadership allows you to compete by offering a low relative price. These broad characterizations of strategy types capture the core dimensions of strategic choice relevant in any industry.

Limits Are Essential
Choices in the value proposition that limit what the company will do are essential to strategy because they create the opportunity to tailor activities in a way that best delivers that kind of value. Tailoring is possible only if there are limits, only if you are not trying to be all things to all people.

If there is one important take away message, it is that strategy requires choice. Competitive advantage depends on making choices that are different from those of rivals, on making trade-offs. This is Porter’s third test. Trade-offs play such a critical role that it is no exaggeration to call them the strategy linchpin. They hold a strategy together as they contribute to creating and sustaining competitive edge.

A core element in effective strategy is deciding what to say “no” to. Trade-offs make choices about what not to do as important as choices of what to do. Deciding which needs you will serve and which products to offer is absolutely key to developing a strategy. But it is just as important to decide which needs you will not serve, and which products, features, or services you won’t offer. And then comes the hard part – sticking to those decisions.
The fourth test of strategy is something that Porter calls “fit.”
It has to do with how the activities in the value chain relate to one another. This aspect of strategy highlights yet another popular misconception, that competitive success can be explained by one core competence, the one thing you do really well. The fallacy here is that good strategies don’t rely on just one thing, on making one choice. Nor do they typically result from even a series of choices. Good strategies depend on the connection among many things, on making interdependent choices.

Fit means that the value or cost of one activity is affected by the way other activities are performed. The first type of fit is basic consistency, where each activity is aligned with the company’s value proposition and each contributes incrementally to its dominant themes. When activities are inconsistent, they cancel each other out.

A second type of fit occurs when activities complement or reinforce each other. This is real synergy, where the value of each activity is raised by the other.

The third type of fit is substitution. Here performing one activity makes it possible to eliminate another.

The fifth and final test: Continuity Over Time.
To recap: the first two tests – a unique value proposition and a tailored value chain – are the core of strategy. Trade-offs, the third test is the economic linchpin. They make differences in price and cost possible and sustainable. The fourth test, fit, is the amplifier, enhancing the cost and price differences that are the essence of competitive advantage, and making it even harder for rivals to copy the strategy. Continuity is the enabler. All other elements of strategy – tailoring, trade-offs, fit – take time to develop. Without continuity, organizations are unlikely to develop competitive advantage in the first place.
Ten Practical Implications
  1. Vying to be the best is an intuitive but self-destructive approach to competition.
  2. There is no honor in size or growth if those are profitless. Competition is about profits, not market share.
  3. Competitive advantage is not about beating rivals; it’s about creating unique value for customers. If you have a competitive advantage, it will show up on your P&L.
  4. A distinctive value proposition is essential for strategy. But strategy is more than marketing. If your value proposition doesn’t require a specifically tailored value chain to deliver it, it will have no strategic relevance.
  5. Don’t feel you have to “delight” every possible customer out there. The sign of a good strategy is that it deliberately makes some customers unhappy.
  6. No strategy is meaningful unless it makes clear what the organization will not do. Making trade-offs is the linchpin that makes competitive advantage possible and sustainable.
  7. Don’t overestimate or underestimate the importance of good execution. It’s unlikely to be a source of sustainable advantage, but without it even the most brilliant strategy will fail to produce superior performance.
  8. Good strategies depend on many choices, not one, and the connections among them. A core competence alone will rarely produce a sustainable competitive advantage.
  9. Flexibility in the face of uncertainty may sound like a good idea, but it means that your organization will never stand for anything or become good at anything. Too much change can be just as disastrous for strategy as too little.
  10. Committing to a strategy does not require heroic predictions about the future. Making a commitment actually improves your ability to innovate and adapt to turbulence and prepare the organization for the future.