

Competitive Advantage

CREATING AND
SUSTAINING SUPERIOR
PERFORMANCE

Michael E.
Porter

—AUTHOR OF—
COMPETITIVE STRATEGY

COMPETITIVE ADVANTAGE

*Creating and Sustaining
Superior Performance*

Michael E. Porter



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**To
C. Roland Christensen
and
Richard E. Caves**

Preface

Competitive advantage is at the heart of a firm's performance in competitive markets. After several decades of vigorous expansion and prosperity, however, many firms lost sight of competitive advantage in their scramble for growth and pursuit of diversification. Today the importance of competitive advantage could hardly be greater. Firms throughout the world face slower growth as well as domestic and global competitors that are no longer acting as if the expanding pie were big enough for all.

This book is about how a firm can create and sustain a competitive advantage. It grows out of my research and practice in competitive strategy over the past decade. The book reflects my deepening belief that the failure of many firms' strategies stems from an inability to translate a broad competitive strategy into the specific action steps required to gain competitive advantage. The concepts in this book aim to build a bridge between strategy formulation and implementation, rather than treating the two subjects separately as has been characteristic of much of the writing in the field.

My earlier book, *Competitive Strategy*, set forth a framework

for analyzing industries and competitors. It also described three generic strategies for achieving competitive advantage: cost leadership, differentiation, and focus. *Competitive Advantage* is about how a firm actually puts the generic strategies into practice. How does a firm gain a sustainable cost advantage? How can it differentiate itself from competitors? How does a firm choose a segment so that competitive advantage grows out of a focus strategy? When and how can a firm gain competitive advantage from competing with a coordinated strategy in related industries? How is uncertainty introduced into the pursuit of competitive advantage? How can a firm defend its competitive position? These are some of the questions that preoccupy this book.

Competitive advantage grows fundamentally out of the value a firm is able to create for its buyers. It may take the form of prices lower than competitors' for equivalent benefits or the provision of unique benefits that more than offset a premium price. This book uses a tool I call the value chain to disaggregate buyers, suppliers, and a firm into the discrete but interrelated activities from which value stems. The value chain will be a recurring theme throughout the book, and with it the specific sources of competitive advantage and how they relate to buyer value.

Competitive advantage is hardly a new subject. In one way or another, many books about business deal directly or indirectly with it. The control of cost has long been of concern, as has differentiation and segmentation. This book cuts across many disciplines, because marketing, production, control, finance, and many other activities in a firm have a role in competitive advantage. Similarly, a long tradition of research in business policy and in industrial economics bears on this subject. However, competitive advantage cannot be truly understood without combining all these disciplines into a holistic view of the entire firm. By examining all the sources of competitive advantage in a broad and integrated way, I hope to provide a new perspective that draws from, rather than substitutes for, previous research. It is not possible to acknowledge all the contributions in the various disciplines that have influenced in some way the ideas presented here. This book, however, would not have been possible without them.

This book is written for practitioners who are responsible for a firm's strategy and must decide how to gain competitive advantage, as well as those who seek to understand firms and their performance better. Potential sources of competitive advantage are everywhere in a firm. Every department, facility, branch office, and other organizational unit has a role that must be defined and understood. All employ-

ees, regardless of their distance from the strategy formulation process, must recognize their role in helping a firm achieve and sustain competitive advantage. Scholars working on the subject of competition outside the strategy field also need to be able to relate their research to some overall concept of competitive advantage. I hope that all these audiences will find this book valuable.

I have had a great deal of help in writing this book. The Harvard Business School has provided a uniquely fertile environment in which to explore this topic. I have drawn heavily on the multidisciplinary tradition at the School as well as the close connection between research and practice that exists there. Dean John McArthur has not only been a friend and source of encouragement to me for many years, but also extremely generous with resources and in providing the opportunity to integrate my research closely with my teaching responsibilities. Raymond Corey, Director of the Division of Research, has also been a staunch and valued ally. My heritage in the Business Policy group at Harvard has shaped my view of the subject, and I am particularly grateful to C. Roland Christensen for his support and to both he and Kenneth Andrews for sharing their wisdom with me. I have also drawn heavily on my work in industrial economics, and the constant intellectual stimulation of Richard Caves.

This book would not have been possible without the creative contributions of a number of colleagues and friends who have worked directly with me during the last several years. John R. Wells, Assistant Professor at Harvard, has not only taught with me but contributed greatly to the ideas in Chapters 3 and 9. John's own research in competitive strategy promises to make an important contribution to the field. Pankaj Ghemawat, Assistant Professor at Harvard, has also taught my strategy formulation course with me as well as provided many useful comments. He is also doing important research in the field. Mark B. Fuller, formerly Assistant Professor at Harvard and now at Monitor Company, has taught and worked with me for many years. His ideas have had a major impact on Chapter 11 and have influenced my thinking throughout the book. Catherine Hayden, also at Monitor, has been a constant source of encouragement and comments. Her ideas were of particular benefit to me in Chapter 4.

Joseph B. Fuller has worked with me in research and course development as well as in practicing in the strategy field. He has been a truly invaluable source of thoughtful comments and conceptual insights throughout the writing of manuscript. Richard Rawlinson, Associates Fellow at Harvard, has worked with me in my research

as well as commented perceptively on the entire book. Others who have given generously of their time in commenting on the book and contributing ideas include Mark Albion, Robert Eccles, Douglas Anderson, Elon Kohlberg, and Richard Meyer, all Harvard colleagues. Michael Bell, Thomas Craig, Mary Kearney, and Mark Thomas have most ably worked with me in putting these ideas into practice, and contributed greatly to my thinking in the process. Jane Kenney Austin, Eric Evans, and Paul Rosetti were invaluable in commenting or in researching important topic areas. Finally, I have benefited from comments from colleagues at other schools, including Richard Schmalensee and John Stengrevics.

I could not have stood up under the demands of preparing this book without my assistant Kathleen Svensson. She has not only organized my activities but also supervised the preparation of the manuscript. I am also grateful to Robert Wallace, my editor, as well as to others at The Free Press, for their patience and support in dealing with a sometimes recalcitrant author. I must also thank my many able Harvard MBA and doctoral students who have both stimulated my thinking and been a source of joy in using these ideas. I also want to thank Deborah Zylberberg for her constant encouragement. Finally, I owe a great deal to a number of thoughtful practitioners who have shared their concerns and problems with me.

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Competitive Strategy: The Core Concepts

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

Two central questions underlie the choice of competitive strategy. The first is the attractiveness of industries for long-term profitability and the factors that determine it. Not all industries offer equal opportunities for sustained profitability, and the inherent profitability of its industry is one essential ingredient in determining the profitability of a firm. The second central question in competitive strategy is the determinants of relative competitive position within an industry. In most industries, some firms are much more profitable than others,