



# SWOT Analysis I: Looking Outside for Threats and Opportunities

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# 1

## SWOT Analysis I

*Looking Outside for Threats and Opportunities*

### **Key Topics Covered in This Chapter**

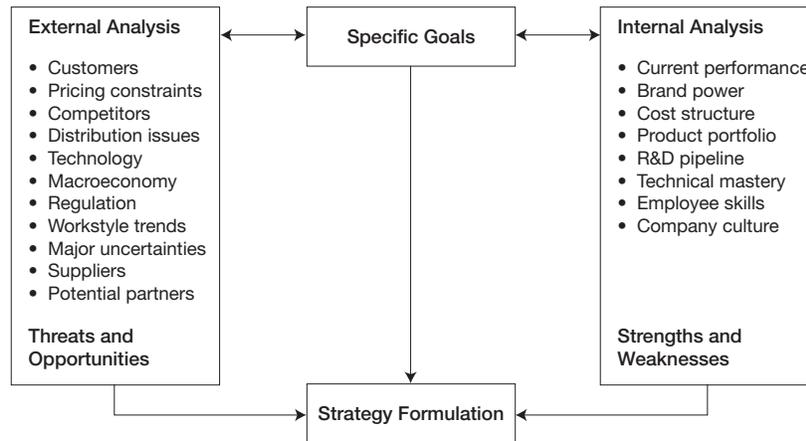
- *Identifying threats and opportunities in the external environment*
- *The world of workstyle and lifestyle trends that can affect your business*
- *Assessing customers*
- *Changes in the competitive arena*
- *Porter's five forces framework*

**S**TRATEGY BEGINS WITH goals, which naturally follow from an entity's mission. But for practical purposes goals cannot stand in isolation. They are informed by an iterative sensing of the external environment and the organization's internal capabilities. As much as some may think that everything devolves from goals, the fact is that practical people form goals based on what is feasible, given the environment in which they must operate their own resources and capabilities. For example, 3M Corporation has committed itself to annual numerical goals: 10 percent earning growth or better, 27 percent return on employed capital, and so forth. Those specific goals didn't come out of a hat; they are a product of the insights of 3M executives and directors who understand the markets they serve and the capabilities of the company. They looked outside and inside to determine those goals.

As shown in figure 1-1, the strategic choices available to the enterprise likewise emerge from the process of looking outside and inside. Among strategic planners, this analysis goes by the acronym SWOT: *S*trengths, *W*eaknesses, *O*pportunities, and *T*hreats.

- **Strengths** are capabilities that enable your company or unit to perform well—capabilities that need to be leveraged.
- **Weaknesses** are characteristics that prohibit your company or unit from performing well and need to be addressed.
- **Opportunities** are trends, forces, events, and ideas that your company or unit can capitalize on.

FIGURE 1-1

**External and Internal Analysis**

- **Threats** are possible events or forces outside of your control that your company or unit needs to plan for or decide how to mitigate.

Considering both external and internal factors is essential because they clarify the world in which the business or the unit operates, enabling it to better envision its desired future. This chapter explains the first of these challenges: external analysis. We'll take up internal analysis later.

## External Analysis

“The essence of formulating competitive strategy,” writes scholar Michael Porter, “is relating a company to its environment.”<sup>1</sup> Every company's environment is populated with customers, competitors, suppliers, and, in most cases, regulators. And all have an impact on its profit potential. There are both current and potential customers, each with requirements for product/service quality, features, and

utility. Are any of these requirements unserved? There is also a set of current competitors and still others who might enter the arena.

Technology is part of the competitive environment, and that technology is always changing. Is there something developing in the world of technology that could alter your competitive environment, perhaps making the products of today's industry leaders obsolete?

*Substitutes* represent another threat factor in the external environment. For example, in the early 1980s, newly developed word-processing software for personal computers represented a substitute for the typewriter. The substitution rate was so rapid that typewriters were largely displaced within ten years. The current popularity of cell phones with digital imaging capabilities likewise has created a substitute for cameras and film. What are the potential substitutes for your products? Do any of your products have substitute potential in other markets?

An analysis of the external factors listed in the left-hand box of figure 1-1 helps the strategist to uncover and understand threats and opportunities, which, in turn, helps to reveal a company's strategic options. (This list is by no means exhaustive, and the reader is encouraged to think of other factors that pertain to his or her industry.) Because detailed coverage of each of these is beyond the scope of this Essentials book, we will address just a handful here. We will also discuss Michael Porter's "five forces" approach to analyzing competition in an industry, a conceptualization that has proven its value to business people for more than twenty-five years. (Note: For a more complete discussion of external analysis, see texts listed in the "For Further Reading" section at the back of this book. In particular, refer to Michael Porter, *Competitive Strategy*; David Aaker, *Developing Business Strategies*; and Jay Barney, *Gaining and Sustaining Competitive Advantage*.)

### **Workstyle and Lifestyle Trends**

No matter what industry you're in, workstyle and lifestyle trends are likely to affect your future. Consider this one: According to IDC, a private research firm, the number of U.S. employees working on the

road increased to 40 percent in 2004 and may rise to 66 percent by the end of 2006. Depending on your business, that raw statistic should provoke a number of questions:

- How will these millions of people travel?
- Where and what will they eat?
- Where will they spend the night, and what special accommodations would make evenings on the road more tolerable?
- How will they keep in touch with their families, offices, and clients while traveling?
- What can be done to reduce the cost of so much travel?
- How can wasted travel time be turned into productive time?

These are the kinds of questions for which executives in travel, restaurant, hospitality, and mobile computing and telecommunications industries should seek answers. Those answers will reveal threats for some and opportunities for others. For example, IDC's projection of increasing business travel is good news for airlines and hotels that cater to this segment of travelers. But it is also good news for companies that provide effective travel substitutes, such as Web- and videoconferencing products and services, and the success of these latter substitutes is a direct threat to those same airlines and hotels. Why spend piles of money and eat up productive time flying people to meetings when they could meet online or from videoconferencing facilities near home?

The growth in business travel is just one of many workstyle and lifestyle changes that are happening right under our noses. Each represents some combination of threat and opportunity to companies in a range of industries. Consider these:

- More and more people are working from home offices. These people rely heavily on telecommunications, PCs, and Internet connectivity. Their office-bound managers are not sure how to supervise them. How will these facts affect your business or provide opportunities for new business?

- The Internet has made shopping, research, arranging travel, and money management faster and more convenient. Will this kill your current business or open new opportunities to serve customers profitably?
- U.S. officials have declared obesity a national health epidemic, and EU citizens are also getting more portly. What does this declaration portend for food companies, restaurant chains, health clinics, and weight-control specialists?
- The price of new and older homes has exploded along the east and west coasts of the United States, putting home ownership out of reach for a growing number of people, and there is no relief in sight. What does this mean for new homebuilders, for building materials suppliers, and mortgage finance companies? Is there an opportunity here for a new approach to building and financing affordable housing?
- The populations of Europe and Japan are aging, and women of childbearing age in these countries are having fewer children. This will have huge implications for medical care systems, housing for the elderly, and labor markets. Strains on social services and pension systems are inevitable. Transitions like this contain threats for some companies and tremendous opportunities for others.

These are just a few of the many developments that are altering our world. Each is forcing companies to reformulate their strategies. So keep abreast of reports from think tanks, from IDC, Forrester Research, government agencies, and other investigative organizations. Scan many papers and periodicals. Conduct your own research into trends that may affect your business and form the basis of a new strategy. Pay particular attention to any area in which significant change is under way. Be broad-ranging in your scanning; the changes that affect you the most may be brewing outside your industry.

### **Customers**

A business, as Peter Drucker once wrote, has no higher requirement than that to create customers. In the absence of customers, the many

things that businesses do—product development, manufacturing, shipping, and so forth—are utterly pointless. Thus, analysis of external factors generally begins with a study of customers:

- Who are they?
- How sensitive are they to price?
- How can they be reached?
- How are they currently using a particular product or service?
- Which of their needs are poorly served—or unserved?
- What level of loyalty do they have to current vendors?
- Do they seek an arm's-length transaction or a long-term relationship?

Since potential questions about customers are so numerous, it's useful to segment customers into groups that have common features. *Market segmentation* comes directly from the marketer's toolkit; it is a technique for dividing a large heterogeneous market of customers into smaller segments with homogeneous features. Those homogeneous features may be defined in any number of ways. Here are some examples:

- **Age**—senior citizens, teenagers, college students
- **Gender**—women, foreign-born men
- **Geographic location**—suburban families north and west of London
- **Type of users**—heavy users of voice messaging, lead users
- **Income**—households with total incomes between € 30,000 and € 50,000
- **Behavior**—people who shop regularly via the Internet

Analysis of customer segments has many uses for strategists. Segmentation makes it easier to identify the needs (met and unmet), price sensitivity, accessibility, and loyalty of identifiable customers. The study of key segments may, for example, reveal that some customers

are much more profitable to serve than others. For instance, during the early days of the cell-phone era, research by one firm uncovered several distinct customers segments:

- **Infrequent users.** These were people (mostly women) who subscribed at the minimum level and mostly for personal safety reasons. This segment bought the lowest-price service and was unprofitable to serve. Turnover in the segment was extremely high as these customers switched service providers in response to special, low-priced deals offered periodically by rivals.
- **Occasional users.** These were customers who made only a few calls each week. The cell-phone company broke even on this group.
- **Business professionals.** These people used their cell phones regularly and subscribed to the premium services. They were also loyal and relatively insensitive to prices. Most of the company's profits came from this segment.

These findings had an impact on the telecom company's future strategy.

Take a few minutes to think about the customers in your industry—both the ones you have and the ones you'd like to recruit. How much does your company really know about these people and their needs? Has it segmented them into homogeneous groups that reveal key facts for strategists? Are any important and potentially profitable segments unserved by you or your competitors?

### **Price Sensitivity and Elasticity of Demand**

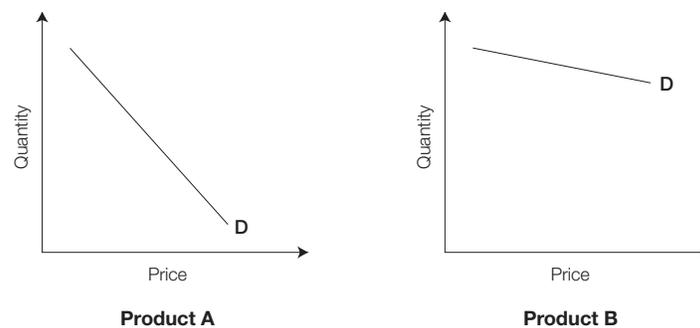
Among the external factors that strategists should understand is the price sensitivity of customers. Whether they intend to offer customers a new disk drive, a low-carbohydrate family of snack foods, or a new drug therapy, they must have an informed awareness of the relationship between price and customer demand.

A basic tenet of economics in a free market is that people will buy more of a good or service when the price goes down, and less

as the price rises, all other factors remaining unchanged. This is both intuitively obvious and easily substantiated. Rational consumers are sensitive to price. Figure 1-2 shows the elasticity of demand for two products. The sharp slope in the demand curve (D) for Product A indicates a high sensitivity to a price increase; customers will make many fewer purchases as the price increases. Product B, in contrast, demonstrates much less sensitivity to a price increase; customers reduce their purchase only slightly in the face of rising prices; as economists would say, demand is relatively inelastic.

Some goods and services demonstrate relatively low price sensitivity—at least in the short term. Consider automobile fuel. The 30 percent rise in U.S. gasoline prices in the fall of 2004, when crude oil skyrocketed to \$54 per barrel, caused only a 2 to 3 percent drop in U.S. gasoline consumption. Why? People were so locked into vacation plans and commuting routines that the increase caused little more than a ripple in demand. If that level of pricing (or rising prices) were to persist for a long time, however, consumption would drop substantially as people stopped buying gas-guzzling SUVs, opted to use public transportation, began carpooling to work, and so forth. As if to confirm this long-term effect, OPEC, the cartel of oil-producing countries, intimated that it wanted to see crude prices to return to the \$22- to \$25-per-barrel range. Though the spurt in prices was a huge

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**FIGURE 1-2****Sensitivity to Price Changes**

windfall for OPEC members, they knew that sustained high prices would induce their customers to find substitutes for petroleum and to invest seriously in alternative energy sources—hurting oil producers in the long run.

Many products and services exhibit a much more immediate and dramatic response to price changes, usually because the product or service is nonessential or because it has many available substitutes. Beef is an example. Every time that the price of beef has increased sharply, demand has declined immediately and almost as dramatically. Shoppers look at the price and say, “I think we’ll have chicken for dinner tonight.”

Economists use the term *price elasticity of demand* to quantify the impact of price changes on customer demands. If you’ve taken microeconomics, you are probably familiar with this concept. Price elasticity of demand is calculated as follows:

$$\begin{aligned} & \text{Percentage increase in price} / \text{Percentage decrease in quantity} \\ & = \text{Price elasticity of demand} \end{aligned}$$

Thus, if a company raised the price of a product price from \$100 to \$120, price would increase by 20 percent. If that increase caused the quantity sold to drop from 600 units to 550 units, the percentage decrease would be 8.3 percent. Following our formula, the price elasticity of demand would be

$$20/8.3 = 2.4$$

The higher the final number, the more sensitive customers are to price changes.

Knowing how customers will respond to a price change can often be determined by means of focus groups, questionnaires, and direct experiments in local markets. For example, the producer of a breakfast cereal sold throughout the EU might raise its price in Brussels and observe the impact on unit sales.

To complete this analysis, however, the strategist should calculate the anticipated impact of a price change on total revenue. People may be buying fewer items at a higher price. For the example just given, the company had been selling 600 units at \$100 each, earning revenues of \$60,000. Under its new scenario, it expects to sell 550

units at \$120, resulting in total revenue of \$66,000. Further analysis would be needed to determine if that higher revenue figure translated into higher or lower gross profits.

Formal studies of price elasticity of demand are normally reserved for tactical moves. Nevertheless, understanding the relationship between price levels and customer buying behavior is an important piece of the larger puzzle that strategists must understand.

How well do you understand customer price sensitivity in your markets? How does that understanding inform your strategic choices?

### **The Competitive Arena**

As George Day, a professor at the Wharton School, has perceptively written, “One of the primary issues facing managers in formulating competitive strategy is defining the arena of competition. Where are you competing? Who are your competitors? How attractive is the competitive arena?”<sup>2</sup> No examination of the external environment is complete without a thoughtful analysis of competitors and the competitive arena. You surely know who your competitors are. They are the ones your salespeople wrestle with every day in closing key sales. They are the companies that aim to steal your best customers. Yes, you know who they are, but how much do you know *about* them—their strengths and weaknesses? Are you aware of emerging arenas of competition? And what about the competitors who will appear in the months and years ahead?

Some arenas of competition are relatively static, particularly in mature, capital-intensive industries. The steel industry up until the 1970s could be defined as static. A handful of large competitors were slugging it out, each trying to lower unit production costs and capture a larger slice of the market at the expense of its rivals. Other industries are more dynamic. The entertainment industry is a prime example. Twenty years ago, people in the United States could watch three or four network television stations, a public station, and one or two local stations. They could also go to a movie theater, or attend a live performance. Today, TV viewers can still watch network channels, but can also access hundreds of cable channels. The movie theaters are still there, but thousands of movies are now available

through VHS, DVD, cable, and pay-per-view outlets. Because many of these entertainment services are vulnerable to substitution by others, vendors are scratching their head and asking, “What strategy will help us carve out a profitable niche in this dynamic marketplace? And what’s coming next?”

The hallmarks of a dynamic market include:

- Many different products/services addressing a similar need (e.g., land line phones, cell phones, instant messaging, e-mail)
- A diversity of competitors (e.g., TV networks, cable companies, video rental shops, live venues)
- Few insurmountable barriers to entry
- Market fragmentation

How well do you understand competition in the market you aim to serve? Few areas of research provide greater dividends for strategists than this one.

### **Emerging Technology**

Technology is a major driver of the modern economy. Intel, Cisco Systems, Siemens, and Genzyme have made their way in the world by creating and harnessing new or improved technologies. eBay, Amazon.com, Google, Cingular, and Yahoo! wouldn’t even exist if computers and Internet technologies had not been developed. Even your local grocery store, a very traditional business, relies on technology to speed check-out lines, reduce errors, track sales by category, and manage its inventory.

Technology represents both a threat and an opportunity. It is a threat in the sense that a new technology may undermine your existing business, just as word-processing software and PCs torpedoed the typewriter industry, and as digital imaging is currently undermining the photographic film/film-processing business today. Putting the shoe on the other foot, we know that technology can provide powerful opportunities for companies that commercialize it in ways that provide clear benefits and value to customers.

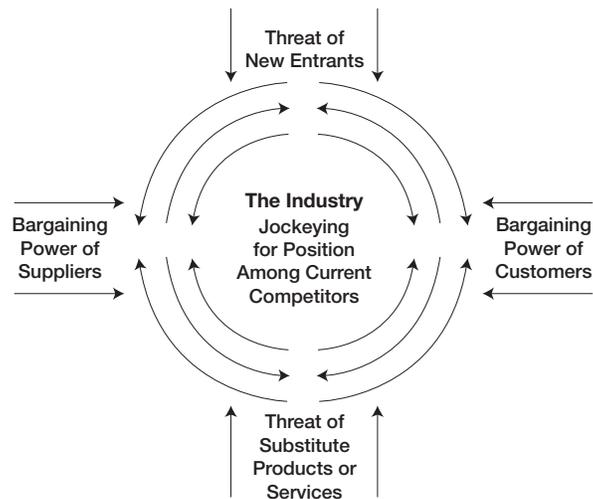
## Porter's Five Forces Framework

No discussion of the competitive environment would be complete without some discussion of Michael Porter's five forces framework. First articulated in 1979 in an award-winning *Harvard Business Review* article on "How Competitive Forces Shape Strategy," Porter's framework remains a useful tool for getting an analytical grasp on the state of competition and the underlying economics within an industry. It also encourages the strategist to look outside the small circle of current competing rivals to other actors and influences that determine potential profitability and growth. Porter identified the following forces as governing industry competition (see figure 1-3):

- Threat of new entrants
- Bargaining power of suppliers

**FIGURE 1-3**

### Porter's Five Forces



Source: Michael E. Porter, "How Competitive Forces Shape Strategy," *Harvard Business Review*, March–April 1979, 141. Reproduced with permission.

- Jockeying for position among current competitors
- Bargaining power of customers
- Threat of substitute products or services

“The collective strength of these forces,” he writes, “determines the ultimate profit potential of an industry.” Owing to these factors, the profit potential will vary from industry to industry. Today, for example, sectors of the telecommunications industry are faced with weak profit potential because so many factors conspire against existing providers: Industry participants are continually fighting to grab their rivals’ customers, often by cutting prices and extending services; customers can switch easily; and many communications options are available, including land lines, cell phones, e-mail instant messaging, and Internet phone. Meanwhile, the rapid pace of technological change is forcing the existing players to spend royally to remain on the cutting edge. Participants in other industries, in contrast, may confront a much more favorable combination of the five forces.

The key to growth and survival, according to Porter, is to use one’s knowledge of these five forces to “stake out a position that is less vulnerable to attack from head-to-head opponents, whether established or new, and less vulnerable to erosion from the direction of buyers, suppliers, and substitute goods.” Such a position, he argues, can be gained by solidifying relationships with profitable customers, product differentiation (either through redesign or marketing), integrating operations, or by gaining technical leadership.<sup>3</sup>

A complete discussion of the five forces framework is beyond the scope of this chapter. Readers are encouraged to obtain the article and apply its concepts to their own industries.

Looking outside for threats and opportunities is one piece of the preparation you must do before you even discuss strategic plans. Great companies do this continually. They send their technical people to professional conferences and subscribe to key academic journals. They are always in touch with current and potential customers via focus groups and interviews with *lead users*—that is, com-

panies and individuals whose needs are far ahead of typical users. Some even set up special “intelligence” units to scan newspapers and technical journals, keep an eye on proposed regulations, and so forth. These companies are constantly sensing the outer world for threats and opportunities that could affect them. Your company should do the same.

### **Summing Up**

- Workstyle and lifestyle trends are likely to affect your future.
- Market segmentation is a useful tool for dividing a large heterogeneous market of customers into smaller segments with homogeneous features. Analysis of these segments can help you understand which are more profitable to serve. Segmentation also makes it easier to identify the met and unmet needs, price sensitivity, accessibility, and loyalty of identifiable customers.
- By determining the price elasticity of demand for your product or service, you can quantify the impact of price changes on customer demand.
- Porter’s framework for competitive analysis encourages strategists to examine five industry forces: the threat of new entrants; the threat of substitute products or services; the bargaining power of suppliers; the bargaining power of customers; and tactical jockeying for position among current competitors.

## For Further Reading

### Articles

- Christensen, Clayton. “Making Strategy: Learning by Doing.” *Harvard Business Review*, November–December 1997. Companies find it difficult to change strategy for many reasons, but one stands out: Strategic thinking is not a core managerial competence at most companies. Managers are unable to develop competence in strategic thinking because they do it so rarely. Harvard Business School professor Clayton Christensen helps managers develop a creative strategy and a proficiency in strategic decision making. This article presents a three-stage method executives can use to conceive and implement a creative and coherent strategy themselves. The process forces managers to dig deep in order to understand the forces affecting their business. This method is a useful tool for managers because it helps them link strategic thinking with operational planning—two activities that are often separate but are more effective when connected.
- Collis, David J., and Cynthia A. Montgomery. “Competing on Resources.” *Harvard Business Review*, July–August 1995. How do you create and sustain a profitable strategy? Many of the approaches to strategy championed in the past have focused managers’ attention inward, urging them to build a unique set of resources and capabilities. In practice, however, notions like core competence have too often become a “feel-good” exercise that no one fails. These authors explain how a company’s resources drive its performance in a dynamic competitive environment, and they propose a new framework that moves strategic thinking forward in two ways: (1) by laying out a pragmatic and rigorous set of market tests to determine whether a company’s resources are truly valuable enough to serve as the basis for strategy, and (2) by integrating this market view of capabilities with earlier insights about competition and industry structure.

- Collis, David J., and Cynthia A. Montgomery. "Creating Corporate Advantage." *Harvard Business Review*, May–June 1998. What differentiates truly great corporate strategies from the merely adequate? How can executives at the corporate level create tangible advantage for their business that makes the whole more than the sum of the parts? This article presents a comprehensive framework for value creation in the multibusiness company. It addresses the most fundamental questions of corporate strategy: What businesses should a company be in? How should it coordinate activities across businesses? What role should the corporate office play? How should the corporation measure and control performance?
- Eisenhardt, Kathleen, and Donald Sull. "Strategy as Simple Rules." *Harvard Business Review*, January 2001. The success of Yahoo!, eBay, and other companies that have become adept at morphing to meet the demands of changing markets can't be explained using traditional thinking about competitive strategy. These companies have succeeded by pursuing constantly evolving strategies in market spaces that were considered unattractive according to traditional measures. In this article—the third in an HBR series by Eisenhardt and Sull on strategy in the new economy—the authors ask, What are the sources of competitive advantage in high-velocity markets? The secret, they say, is strategy as simple rules. The companies know that the greatest opportunities for competitive advantage lie in market confusion, but they recognize the need for a few crucial strategic processes and a few simple rules. In traditional strategy, advantage comes from exploiting resources or stable market positions. In strategy as simple rules, advantage comes from successfully seizing fleeting opportunities. Key strategic processes, such as product innovation, partnering, or spinout creation, place the company where the flow of opportunities is greatest. Simple rules then provide the guidelines within which managers can pursue such opportunities. Simple rules, which grow out of experience, fall into five broad categories: how-to rules, boundary conditions, priority rules, timing rules, and exit rules. Companies with simple-rules strategies must follow the rules religiously and avoid the temptation to change them too frequently. A consistent strategy helps managers sort through opportunities and gain short-term advantage by exploiting the attractive ones.
- Gadiesh, Orit, and James L. Gilbert. "Transforming Corner-Office Strategy into Frontline Action." *Harvard Business Review*, May 2001. In addition to a strategic plan and companywide meetings, organizations use other channels to communicate their strategies to managers and employees. One of these channels is called a strategic principle—a memorable, action-oriented phrase that distills the company's strategy. Here are some examples: Southwest Airlines' "Meet customers' short-haul

travel needs at fares competitive with the cost of automobile travel”; AOL’s “Consumer connectivity first—anytime, anywhere”; eBay’s “Focus on trading communities.” A good strategic principle encourages managers and employees to focus on the corporate strategy and take risks in identifying ways to support the strategy. By communicating your company’s strategic principle frequently and consistently, you’ll soon have people throughout your organization—as well as customers and competitors—“chanting the rant.”

Kaplan, Robert S., and David P. Norton. “Using the Balanced Scorecard as a Strategic Management System.” *Harvard Business Review*, January–February 1996. The Balanced Scorecard has attracted widespread notice as a powerful tool for clarifying and communicating strategy throughout an organization, as well as measuring strategy implementation performance. In this article, the authors explain how the Balanced Scorecard links companies’ short-term activities to long-term objectives through four processes: (1) *translating the vision* by forcing managers to come to agreement on the metrics they’ll need to operationalize their visions; (2) *communicating and linking* the strategy by “cascading” the top-level scorecard down to the units and then to individuals; at each level, people identify objectives and metrics needed to support the corporate-level scorecard; (3) *linking strategic planning and budgeting* by ensuring that financial budgets support strategic goals; and (4) *encouraging feedback and learning* by enabling managers to reflect on inferences suggested by their scorecard results and adjusting their theories about cause-and-effect relationships.

Porter, Michael E. “How Competitive Forces Shape Strategy.” *Harvard Business Review*, March–April 1979. This award-winning and highly influential article contends that many factors determine the nature of competition, including not only rivals, but also the economics of particular industries, new entrants, the bargaining power of customers and suppliers, and the threat of substitute services or products. A strategic plan of action based on this model might include: positioning the company so that its capabilities provide the best defense against competitive forces; influencing the balance of these forces through strategic moves; and anticipating shifts in the factors underlying competitive forces.

Porter, Michael E. “Strategy and the Internet.” *Harvard Business Review*, March 2001. Many of the pioneers of Internet business, both dot-coms and established companies, have competed in ways that violate nearly every precept of good strategy. Rather than focus on profits, they have chased customers indiscriminately through discounting, channel incentives, and advertising. Rather than concentrate on delivering value that earns an attractive price from customers, they have pursued indirect revenues such as advertising and click-through fees. Rather than make

trade-offs, they have rushed to offer every conceivable product or service. It did not have to be this way—and it does not have to be in the future. When it comes to reinforcing a distinctive strategy, Porter argues, the Internet provides a better technological platform than previous generations of IT. Gaining competitive advantage does not require a radically new approach to business; it requires building on the proven principles of effective strategy. Porter also contends that, contrary to recent thought, the Internet is not disruptive to most existing industries and established companies. It rarely nullifies important sources of competitive advantage in an industry; it often makes them even more valuable. And as all companies embrace Internet technology, the Internet itself will be neutralized as a source of advantage. Robust competitive advantages will arise instead from traditional strengths such as unique products, proprietary content, and distinctive physical activities. Internet technology may be able to fortify those advantages, but it is unlikely to supplant them.

- Porter, Michael E. “What Is Strategy?” *Harvard Business Review*, November–December 1996. This classic HBR article starts with the premise that today’s dynamic markets and technologies have called into question the sustainability of competitive advantage. Under pressure to improve productivity, quality, and speed, managers have embraced tools such as TQM, benchmarking, and reengineering. As described by Porter, dramatic operational improvements have resulted, but rarely have these gains translated into sustainable profitability. And gradually, the tools have taken the place of strategy. As managers push to improve on all fronts, they move further away from viable competitive positions. Porter argues that operational effectiveness, although necessary to superior performance, is not sufficient, because its techniques are easy to imitate. In contrast, the essence of strategy is choosing a unique and valuable position rooted in systems of activities that are much more difficult to match.
- Raffoni, Melissa. “Three Keys to Effective Execution.” *Harvard Management Update*, February 2003. Execution gets little intellectual respect. In contrast, strategic planning has all the cachet and gets all the ink. Why? Because it rewards creativity, the most valued of intellectual endeavors. But experienced unit heads know that the most creative, visionary strategic planning is useless if it isn’t translated into action. Think simplicity, clarity, focus—and review your progress relentlessly. Execution is what separates the companies that prosper in hard times from the ones that go under. Includes the sidebar “Books on Execution.”
- Van Zwieten, John. “How Not to Waste Your Investment in Strategy.” *Training & Development*, June 1999. Perhaps you’ve experienced this in

your company: The organization creates a great plan for the future but gets undesirable results when it rolls the plan into action. Managers now lack the confidence to carry out a new plan. Good strategy has apparently been defeated by bad change management. In this article, Van Zwieten explores six common dilemmas faced by executive and lower-level managers attempting to change strategic direction. He then provides a diagnosis for each dilemma and offers lessons. For example, one dilemma is characterized by divisions that are working at cross-purposes. Such companies, the author explains, likely encourage competition between divisions. The solution? An overarching vision of how divisions can cooperate, including a plan for presenting “one face” to customers. The article concludes by identifying characteristics of the most successful organizations. These include: a well-defined purpose that employees understand, a clear explanation of how the proposed change supports the purpose, shared values that guide the way business is practiced, and a “BHAG”—a “big, hairy, audacious goal” (as defined by James Collins and Jerry Porras).

### Books

- Aaker, David A. *Developing Business Strategies*, 6th edition. New York: John Wiley & Sons, Inc., 2001. A textbook with a practical sense, this book is designed to give managers a framework for identifying and selecting appropriate strategies. It provides a very thorough discussion of strategic analysis—i.e., analysis of the market, customers, and competitors. It then goes through the various categories of alternative strategic choices, including global.
- Andrews, Kenneth R. *The Concept of Corporate Strategy*. Revised edition. Homewood, IL: Richard D. Irwin, Inc., 1980. First published in 1971, this is the book that started it all. Andrews defined strategy in terms of what a business could do—that is, in terms of its strengths and weaknesses—and what possibilities were open to it—that is, the outer environment of threats and opportunities. *The Concept of Corporate Strategy* remains one of the classics of modern business literature.
- Barney, Jay. *Gaining and Sustaining Competitive Advantage*, 2nd edition. Upper Saddle River, NJ: Prentice Hall, 2001. A thorough treatment of the subject in college textbook form. Barney presents the core strategies and how they can be used in complementary fashion.
- Bossidy, Larry, and Ram Charan. *Execution: The Discipline of Getting Things Done*. New York: Crown Business, 2002. These authors, a retired CEO and a business consultant, write that “Execution is *the* great unaddressed issue in the business world today. Its absence is the biggest single obstacle

to success and the cause of most of the disappointments that are mistakenly attributed to other causes.” A great strategy is insufficient for success; it must also be executed with skill. This book provides prescriptions for strategy execution.

Day, George, and David J. Reibstein. *Wharton on Dynamic Competitive Strategy*. New York: John Wiley & Sons, Inc., 1997. For the strategist, the changing external environment represents a serious challenge. This book aims to help readers rise to that challenge by offering a dynamic and integrative view of competitive strategies. These are presented in chapters written by various management professors of the Wharton School.

Fogg, C. Davis. *Implementing Your Strategic Plan: How to Turn Intent into Effective Action for Sustainable Change*. AMACOM, 1999. This book lays out the steps required to understand your company’s strategy and strategic plan, develop a unit plan, and implement your unit plan. Fogg organizes the book around eighteen keys to successful implementation of a plan. These include establishing accountability; turning strategic priorities into assigned, measurable action plans; fostering creative leadership and mental toughness; removing resistance; allocating resources effectively; empowering employees; and communicating strategy to everyone, all the time. The book includes a wealth of examples, practical advice, and techniques for turning strategic plans into reality. Though aimed at senior managers, it offers lessons for managers and team leaders at every level of an organization.

Fogg, C. Davis. *Team-Based Strategic Planning: A Complete Guide to Structuring, Facilitating, and Implementing the Process*. AMACOM, 1994. Fogg focuses on strategic planning in a team environment, exploring six key aspects: (1) structure and customization—designing the planning process to meet the needs of your organization, (2) facilitation—making things happen, from running meetings to documenting decisions, (3) teamwork—building teams and resolving conflicts, (4) leadership—forging the vision and making the plan operational, (5) organizational involvement—gaining commitment at all levels, and (6) information gathering and analysis—benchmarking, competitive analyses, and other valuable techniques. Examples from actual companies illustrate each step of the process, and case studies reveal what worked and what didn’t. The book also includes hands-on tools for mastering the strategic planning process.

Kieffer, David, Haig Nalbantian, Rick Guzzo, and Jay Doherty. *Playing to Your Strengths*. New York: McGraw Hill Publishing Company, 2003. Few executives take the time to examine the alignment between their business strategies and their people practices and policies. These authors

explain how misalignment here can jeopardize the success of even the best strategy. Their research describes several companies whose promotion, retention, and rewards practices were inadvertently encouraging employee behaviors contrary to strategic intentions. In one case, a U.S. manufacturer's policy of building general management skills through frequent, short-term job assignments was undermining its higher goals of product quality and bringing new models to market quickly. Analysis indicated that managers who accepted short-term assignments were rewarded with promotions and higher pay, but they failed to build the technical skills needed to advance the company's higher-level strategy.

Markides, Constantinos C. *All the Right Moves: A Guide to Crafting Breakthrough Strategy*. Boston: Harvard Business School Press, 2000. Markides explores the key questions companies must answer to define a strategy: "Who should we target as customers? What products or services should we offer them? How should we do this efficiently? How can we differentiate ourselves from rivals to stake out a unique competitive position?" But even the best strategies have a limited life. Companies must continually create new strategic positions—often by breaking the rules of the game. *All the Right Moves* reveals how creative thinking—including examining an issue from a variety of angles and experimenting with new ideas—leads to strategic innovation. Strategy formulation also requires companies to make tough choices. This book offers concrete advice for thinking through those choices—systematically and successfully.

Pascale, Richard T., and Anthony G. Athos. *The Art of Japanese Management*. New York: Simon & Schuster, 1981. Though currently out of print, this 1980s classic is still available on the Web and still speaks to the importance of excellence in implementation. The authors take a hard look at two corporations—one American and one Japanese—and explain why the Japanese company had become so much more productive.

Pascale, Richard T. *Managing on the Edge: Companies That Use Conflict to Stay Ahead*. New York: Simon & Schuster, 1990. Pascale, an academic and consultant, is concerned with corporate renewal. He recommends that executives attend to four internal principles to keep their companies at the top of their games. These are: fit, split, contend, and transcend. *Fit* describes the corporation's internal consistency; *split* refers to the wisdom of reducing big organizations into smaller more manageable units; *contend* refers to the inevitable organizational contradictions that must be managed. Leaders must also *transcend* the complexity that afflicts every business.

Porter, Michael E. *Competitive Strategy*. New York: Free Press, 1980. This is the granddaddy of all strategy books and has influenced more business

executives around the world than any other. In explaining how to analyze the competitive situation in an industry, the author captures the complexity of industry competition in five underlying forces. He also explains three generic strategies—low cost, differentiation, and focus—and demonstrates how these can help the individual firm with strategic positioning, and how they are linked to profitability. Readers will find his suggestions on treatment of rival firms very useful. He provides a practical framework for predicting how competitors will respond to one's own strategic moves. The book provides two very useful appendices: Portfolio Techniques in Competitor Analysis, and How to Conduct an Industry Analysis.

Yoffie, David, and May Kwak. *Judo Strategy*. Boston: Harvard Business School Press, 2001. These authors reveal how a centuries-old strategy can enable smaller firms to meet and defeat rivals many times their size. At the heart of judo strategy is the premise that sheer size and raw strength are no match for balance, skill, and flexibility. Using examples from companies such as Wal-Mart, PalmPilot, CNET, and others, the authors explain how to translate the three key principles of judo into a winning business strategy: use movement to throw off your opponent's balance; maintain your balance as you respond to attacks; and exploit leverage to magnify your strength. Highly practical tools aid managers in developing their own judo strategies, including identifying competitors' vulnerabilities, staking unoccupied terrain, and regaining ground after setbacks. A warrior's manual for understanding how judo strategy and defense can strengthen your firm, this powerful book is for both Davids and Goliaths who want to compete and win on the new business battlefield.

# Notes

## Chapter 1

1. Michael E. Porter, *Competitive Strategy* (New York: Free Press, 1980), 3.
2. George Day and David J. Reibstein, *Wharton on Dynamic Competitive Strategy* (New York: John Wiley & Sons, Inc., 1997), 23.
3. Michael E. Porter, “How Competitive Forces Shape Strategy,” *Harvard Business Review*, March–April 1979, 113–145.

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