



Porters Competitive Advantage

419 The Parkway # 224, Greer SC 29650
864 641 8131 – info@chvgroup.com

What is Strategy? [Here is a link to Porter's essay.](#)

In this essay, Porter makes a great distinction between **strategy** and **operational effectiveness**. Many executives confuse these two concepts. **Operational effectiveness** refers to doing the same activities as other companies but doing them better or more efficiently. **Strategy**, on the other hand, refers to doing a set of different activities from other companies to provide a "unique mix of value." Companies can generate a competitive advantage from either superior strategy or operational effectiveness, but Porter makes a persuasive argument that competitive advantages from strategy are more sustainable than those derived from operational effectiveness. Companies typically attempt to benchmark best practices to maximize their operational effectiveness, so Porter argues that companies begin to look more and more alike in terms of their operations.

This immediately made me think of Buffett's comments about standing on your toes to see a parade. It only gives you an advantage until the person in front of you stands on his or her toes as well. This is why the Internet was not a game changer in terms of business profitability. Sure, the Internet can allow businesses to reduce costs, reach more people, be more effective, etc., but it gives this capability to **all** businesses, so **everyone** is essentially standing on their toes. Customers benefit and workers benefit from increased productivity (which eventually leads to higher compensation), but businesses don't benefit in the long run. This is why we don't see returns on capital that just go up and up and up over time despite continual increases in productivity and efficiency.

Sustainable competitive advantage is still the key to earning high returns on capital over long periods of time. The question is, how does a company develop a sustainable competitive advantage? A sound strategy -- as opposed to operational effectiveness -- might be the answer. Strategy is based on the **unique** things a company does. It requires focus. It requires making trade-offs. This is what makes a sound strategy so hard to duplicate. Focusing and making trade-offs is extraordinarily difficult. Maybe it is the "institutional imperative" that encourages business executives to try to do too much. I don't know, but it is rare that a company can maintain its focus and make the trade-offs necessary to effectively execute a core strategy. Too often the strategy gets muddled, and the company is left in an ineffective straddle position.
