Defining Strategy

Perhaps no word is bantered about in business today more than strategy. While strategy means many things to many people and many definitions are considered correct, it nonetheless remains one of the least understood words in business today.

Few will admit to confusion between strategy and tactics; but consider the following definitions from the New Oxford American Dictionary:

- **Strategy** - a plan of action or policy designed to achieve a major or overall aim.

- **Tactic** - an action or **strategy** carefully planned to achieve a specific end.

With such painfully similar definitions of what should be contrary terms, it's no wonder even very experienced managers ponder the real meaning of strategy.

It may sound perfectly reasonable to say, "our strategy is to target that market". But deciding to target a specific market is not a strategy. What you do to differentiate yourself from competitors who are targeting that same market is.

Why is it important to recognize the difference between strategy and tactics? First and foremost, If the leaders of the firm can't define the company strategy, how will subordinates execute it?

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In addition, defining strategy, both in terms of what it is, and what strategy your company will adopt, is the essential factor in achieving sustainable competitive advantage.

History of Business Strategy

Traditional views on strategy were borne from a military definition of the word that historically referred to the manner in which troops would be deployed prior to battle. In the business world, this was translated into the manner in which resources would be deployed to beat the competition. This is a broad definition of business (competitive) strategy, but nonetheless remains generally true.

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Despite this, in the 1980s, as Japanese car manufacturers began outdoing their American rivals with a focus on low-cost, high quality manufacturing, others began to imitate Japanese "lean production" techniques. As a result, competitive strategy , or the lack thereof, became largely about lowering costs, increasing quality, and generally increasing efficiencies.

Then, in 1996, the prevailing views of business strategy were summarily dismissed by Michael Porter, the godfather of modern competitive strategy, in an article in Harvard Business Review entitled, "What is Strategy?"

The Godfather

Porter's article is as close to a holy grail as one will find in the halls of business schools. It remains as relevant to today's business environment as it did in 1996. Since then, worthwhile contributions to the field of competitive strategy have been made, such as the 2004 title, Blue Ocean Strategy. But even remarkable works like this only expand upon the principles outlined in Porter's defining article.

In his 1996 classic, Porter dismisses the productivity gains, resulting from Japanese manufacturing techniques, as moot. These "best practice" techniques move quickly through an industry with the help of consultants and employees who move between companies. After a given industry has employed these techniques, he argued that the only beneficiary becomes the consumer, who gets a better product at a lower price. Not a bad thing mind you, but it has nothing to do with competitive strategy. If everybody is doing it, how is that strategy?

Porter argued that such productivity gains, which he termed "operational efficiencies", are necessary for any company to stay competitive, but that strategy was something entirely different and was being neglected by managers.

Competitive Strategy 101

Strategy is about choices and making trade-offs in those choices. It is more than market positioning. What turns a marketing slogan into a strategy is the tailored set of activities that facilitate the meaning of that slogan. Market positioning and all marketing efforts are an extension of strategy. But strategy is much more than positioning yourself, strategy is what you do and who you are.

Porter's definition of strategy centers around doing things differently than your rivals. He uses the classic example of Southwest Airlines to note how all their activities are tailored to deliver low cost air travel. With no meals offered, no seat assignments, and automated ticketing, Southwest was able to reduce the cost of commercial air travel.

But it didn't stop there. All Southwest's activities were tailored to fit this strategy. For example, Southwest leased only one type of plane. With the maintenance crews only needing to work on one type of aircraft, they became very efficient at maintaining the planes and doing routine services quickly. With the planes ready to go and no meal deliveries to wait for, Southwest was able to dramatically reduce the turnaround time at the gate and hence get more flights per plane per year. This demonstrates how Southwest not only said it was going to be a low-cost provider of air travel but tailored all its activities around this goal and had to face difficult trade-offs in the process.

Southwest did things differently than their rivals and through those differentiating activities, developed natural defenses for their business model. In order to compete with Southwest on price, a rival would be forced to eliminate meals. But most of the major airline companies already owned their own concession divisions. Next, they would have to speed up the down time for maintenance, but they already operated many different types of aircraft while Southwest used just one.

The ill-fated Continental Lite tried to imitate Southwest only to find it couldn't "straddle" what Southwest was doing, without negatively impacting the parent airline, Continental. For example, in order to lower cost, Continental Lite chose not to offer frequent flier miles. When customers became angry they reintroduced a miles program, watering down the parent airline's miles program and letting the Continental Lite customers in on it. The result was angry customers of the parent airline, Continental.

Strategy is Sustainable

The Southwest case shows the importance of making tough choices (trade-offs) in defining strategy. Strategy is about purposely making tough choices when deciding which activities to pursue to best serve the needs of a group of customers. These trade-offs force your competitors to make even tougher choices if they decide to duplicate your activities and market position. It forces them to straddle both their existing operations and your unique activities which is usually untenable . This gives you the ability to defend your position with a sustainable advantage over your rivals which is, after all, the aim of competitive strategy.

Reference: "What Is Strategy?", Michael E. Porter, Harvard Business School Press, Nov. 1, 1996.

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