

**Porter, Michael - Competitive Advantage***The Free Press, 1985, [Business] Grade*

Michael Porter has unquestionably been to corporate strategy what Mendeleev was to chemistry with the periodic table or von Linné to botany with the taxonomy system. But perhaps different from these two, for our purposes here it is a tricky task indeed to separate one piece of Porter's work to review. The sum of value of *Competitive Strategy*, *Competitive Advantage*, *The Competitive Advantage of Nations*, *On Competition* and numerous groundbreaking papers, is simply greater than the individual parts. But given the staying power of the book and Mr Porter's own opinion today, 25 years later, we believe *Competitive Advantage* is a) his best work, b) is without any precedence in management literature and c) serves up the most relevance for analyzing a business from an investor's perspective.

*Competitive Advantage* was written in 1985, five years after his "Five Forces"-book *Competitive Strategy*. Before then, the analysis of why a firm gained competitive advantage was restricted to one word - size. This was obviously a somewhat naïve and self-contradictory reasoning that dealt more with the outcome of competitive advantage rather than its true cause. With this book and its later follow-up articles, seminars, papers etc, Porter practically coined the phrase "competitive advantage" and its crucial add-on; sustainable. He had spent the years subsequent to the publishing of *Competitive Strategy* wrestling with the challenge of how to find a systematic way of examining the roots of competitive advantage that revealed essential differences between organizations without being unbearably complex or too cumbersome to use. In that way, Porter in 1985 saw *Competitive Advantage* as a major leap forward and that would stand the test of time. And he still does: "The ideas in *Competitive Advantage* are still percolating".

In the book Porter put forward two difference makers in a firm's quest towards finding and sustaining an edge vs. competition: being the low-

cost provider or having a clear product differentiation. Part IV of the book, where he deals with product differentiation as a concept, is arguably where *Competitive Advantage* comes to its fore. It is eloquently explained, relatively easy to grasp and put in historical context. As many readers and practitioners before me have opined, product differentiation is not hard to understand conceptually, especially not in hindsight (yes, Coca-Cola has it). But is much harder to see in real-time, and even more of a stretch to actually implement into an organization.

Porter's method, of course, is via what he calls the firm's "activities". This is the book's third major pillar, apart from low cost and product differentiation. Think of activities as the tool that makes strategy operational. Porter has later stated that this was a major breakthrough for him, insomuch as it provided a needed boost to the at-the-time popular SWOT-based analysis. For all its convenience and "checklist-appeal", SWOT did recognize that a firm is indeed multidimensional, but it failed to provide a link to profitability or explore the sources of competitive advantage in a systematic way. This is something that Porter's activities did, and was such a powerful tool to corporations that it morphed into accounting as well. "Activity-based cost accounting" is a familiar term to the profession today.

Porter's later research has also largely dealt with the concept of activities. What makes them so hard to imitate? How do they develop over time? Personally, this work is of great interest to me. Mainly because it is the most elusive, and thus hardest to copy. To a great extent it also overlaps with the concept of corporate culture. A great culture is nothing but a carefully crafted set of activities, developed over time within a firm. Of course, a brilliant book in its own right in this realm is Bruce Greenwald's *Competition Demystified* from 2005.

Henrik Andersson, May 20, 2012