THE SIX PRINCIPLES OF STRATEGIC POSITIONING

This tool is for leaders who want to understand the six principles of successful strategic positioning. It ensures that leaders are asking the right questions about the overall goals of the company, its business model, and the value that the company creates. Research has shown that companies that follow these six fundamental principles establish and maintain a distinctive strategic position.[1]

First principle:

The company must have the *right goal*, which is superior long-term return on investment. Only by grounding strategy in sustained profitability will real economic value be generated. Economic value is created when customers are willing to pay a price for a product or service that exceeds the cost of producing it. When goals are defined in terms of volume or market share leadership, with profits assumed to follow, poor strategies often result. The same is true when strategies are set to respond to the perceived desires of investors.

Second principle:

Second, a company's strategy must enable it to deliver a *value proposition*, or set of benefits, different from those that competitors offer. Strategy, then, is neither a quest for the universally best way of competing nor an effort to be all things to every customer. It defines a way of competing that delivers unique value in a particular set of uses or for a particular set of customers.

Third principle:

Third, strategy needs to be reflected in a *distinctive value chain*. To establish a sustainable competitive advantage, a company must perform different activities than rivals or perform similar activities in different ways. A company must configure the way it conducts manufacturing, logistics, service delivery, marketing, human resource management, and so on differently from rivals and tailored to its unique value proposition. If a company focuses on adopting best practices, it will end up performing most activities similarly to competitors, making it hard to gain an advantage.

Fourth principle:

Fourth, robust strategies involve *trade-offs*. A company must abandon or forgo some product features, services, or activities in order to be unique at others. Such trade-offs, in the product and in the value chain, are what make a company truly distinctive. When improvements in the product or in the value chain do not require trade-offs, they often become new best practices that are imitated because competitors can do so with no sacrifice to their existing ways of competing. Trying to be all things to all customers almost guarantees that a company will lack any advantage.

[1] Excerpted from "Strategy and the Internet," by Michael E. Porter; from Harvard Business Review, March 2001

Fifth principle:

Fifth, strategy defines how all the elements of what a company does *fit* together. A strategy involves making choices throughout the value chain that are interdependent; all a company's activities must be mutually reinforcing. A company's product design, for example, should reinforce its approach to the manufacturing process, and both should leverage the way it conducts after-sales service. Fit not only increases competitive advantage but also makes a strategy harder to imitate. Rivals can copy one activity or product feature fairly easily, but will have much more difficulty duplicating a whole system of competing. Without fit, discrete improvements in manufacturing, marketing, or distribution are quickly matched.

Sixth principle:

Finally, strategy involves *continuity* of direction. A company must define a distinctive value proposition that it will stand for, even if that means forgoing certain opportunities. Without continuity of direction, it is difficult for companies to develop unique skills and assets or build strong reputations with customers. Frequent corporate "reinvention," then, is usually a sign of poor strategic thinking and a route to mediocrity. Continuous improvement is a necessity, but it must always be guided by a strategic direction.