COMPETITIVE ADVANTAGE

Creating and Sustaining Superior Performance

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Competitive Strategy: The Core Concepts

Competition is at the core of the success or failure of firms. Competition determines the appropriateness of a firm's activities that can contribute to its performance, such as innovations, a cohesive culture, or good implementation. Competitive strategy is the search for a favorable competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

Two central questions underlie the choice of competitive strategy. The first is the attractiveness of industries for long-term profitability and the factors that determine it. Not all industries offer equal opportunities for sustained profitability, and the inherent profitability of its industry is one essential ingredient in determining the profitability of a firm. The second central question in competitive strategy is the determinants of relative competitive position within an industry. In most industries, some firms are much more profitable than others, regardless of what the average profitability of the industry may be.

Neither question is sufficient by itself to guide the choice of competitive strategy. A firm in a very attractive industry may still not earn attractive profits if it has chosen a poor competitive position. Conversely, a firm in an excellent competitive position may be in such a poor industry that it is not very profitable, and further efforts to enhance its position will be of little benefit.[1] Both questions are dynamic; industry attractiveness and competitive position change. Industries become more or less attractive over time, and competitive position reflects an unending battle among competitors. Even long periods of stability can be abruptly ended by competitive moves.

Both industry attractiveness and competitive position can be shaped by a firm, and this is what makes the choice of competitive strategy both challenging and exciting. While industry attractiveness is partly a reflection of factors over which a firm has little influence, competitive strategy has considerable power to make an industry more or less attractive. At the same time, a firm can clearly improve or erode its position within an industry through its choice of strategy. Competitive strategy, then, not only responds to the environment but also attempts to shape that environment in a firm's favor.

These two central questions in competitive strategy have been at the core of my research. My book *Competitive Strategy: Techniques for Analyzing Industries and Competitors* presents an analytical framework for understanding industries and competitors, and formulating an overall competitive strategy. It describes the five competitive forces that determine the attractiveness of an industry and their underlying causes, as well as how these forces change over time and can be influenced through strategy. It identifies three broad generic strategies for achieving competitive advantage. It also shows how to analyze competitors and to predict and influence their behavior, and how to map competitors into strategic groups and assess the most attractive positions in an industry. It then goes on to apply the framework to a range of important types of industry environments that I term *structural settings,* including fragmented industries, emerging industries, industries undergoing a transition to maturity, declining industries,

[1]Many strategic planning concepts have ignored industry attractiveness and stressed the pursuit of market share, often a recipe for pyrrhic victories. The winner in a fight for share in an unattractive industry may not be profitable, and the fight itself may make industry structure worse or erode the winner's profitability. Other planning concepts associate stalemates, or inability to get ahead of competitors, with unattractive profits. In fact, stalemates can be quite profitable in attractive industries.

and global industries. Finally, the book examines the important strategic decisions that occur in the context of an industry, including vertical integration, capacity expansion, and entry.

This book takes the framework in *Competitive Strategy* as a starting point. The central theme of this book is how a firm can actually create and sustain a competitive advantage in its industry—how it can implement the broad generic strategies. My aim is to build a bridge between strategy and implementation, rather than treat these two subjects independently or consider implementation scarcely at all as has been characteristic of much previous research in the field.

Competitive advantage grows fundamentally out of value a firm is able to create for its buyers that exceeds the firm's cost of creating it. Value is what buyers are willing to pay, and superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price. There are two basic types of competitive advantage: cost leadership and differentiation. This book describes how a firm can gain a cost advantage or how it can differentiate itself. It describes how the choice of competitive scope, or the range of a firm's activities, can play a powerful role in determining competitive advantage. Finally, it translates these concepts, combined with those in my earlier book, into overall implications for offensive and defensive competitive strategy, including the role of uncertainty in influencing strategic choices. This book considers not only competitive strategy in an individual industry but also corporate strategy for the diversified firm. Competitive advantage in one industry can be strongly enhanced by interrelationships with business units competing in related industries, if these interrelationships can actually be achieved. Interrelationships among business units are the principal means by which a diversified firm creates value, and thus provide the underpinnings for corporate strategy. I will describe how interrelationships among business units can be identified and translated into a corporate strategy, as well as how interrelationships can be achieved in practice despite the organizational impediments to doing so that are present in many diversified firms.

Though the emphases of this book and my earlier book are different, they are strongly complementary. The emphasis of *Competitive Strategy* is on industry structure and competitor analysis in a variety of industry environments, though it contains many implications for competitive advantage. This book begins by assuming an understanding of industry structure and competitor behavior, and is preoccupied with how to translate that understanding into a competitive advantage.

Actions to create competitive advantage often have important consequences for industry structure and competitive reaction, however, and thus I will return to these subjects frequently.

This book can be read independently of *Competitive Strategy,* but its power to aid practitioners in formulating strategy is diminished if the reader is not familiar with the core concepts presented in the earlier book. In this chapter, I will describe and elaborate on some of those concepts. The discussion of the core concepts will also provide a good means of introducing the concepts and techniques in this book. In the process, I will address some of the most important questions that arise in applying the core concepts in practice. Thus even readers familiar with my earlier book may find the review of interest.

The Structural Analysis of Industries

The first fundamental determinant of a firm's profitability is industry attractiveness. Competitive strategy must grow out of a sophisticated understanding of the rules of competition that determine an industry's attractiveness. The ultimate aim of competitive strategy is to cope with and, ideally, to change those rules in the firm's favor. In any industry, whether it is domestic or international or produces a product or a service,[2] the rules of competition are embodied in five competitive forces: the entry of new competitors, the threat of substitutes, the bargaining power of buyers, the bargaining power of suppliers, and the rivalry among the existing competitors (see Figure 1–1).

The collective strength of these five competitive forces determines the ability of firms in an industry to earn, on average, rates of return on investment in excess of the cost of capital. The strength of the five forces varies from industry to industry, and can change as an industry evolves. The result is that all industries are not alike from the standpoint of inherent profitability. In industries where the five forces are favorable, such as pharmaceuticals, soft drinks, and data base publishing, many competitors earn attractive returns. But in industries where pressure from one or more of the forces is intense, such as rubber, steel, and video games, few firms command attractive

[2]These concepts apply equally to products and services. I will use the term "product" in the generic sense throughout this book to refer to both product and service industries.

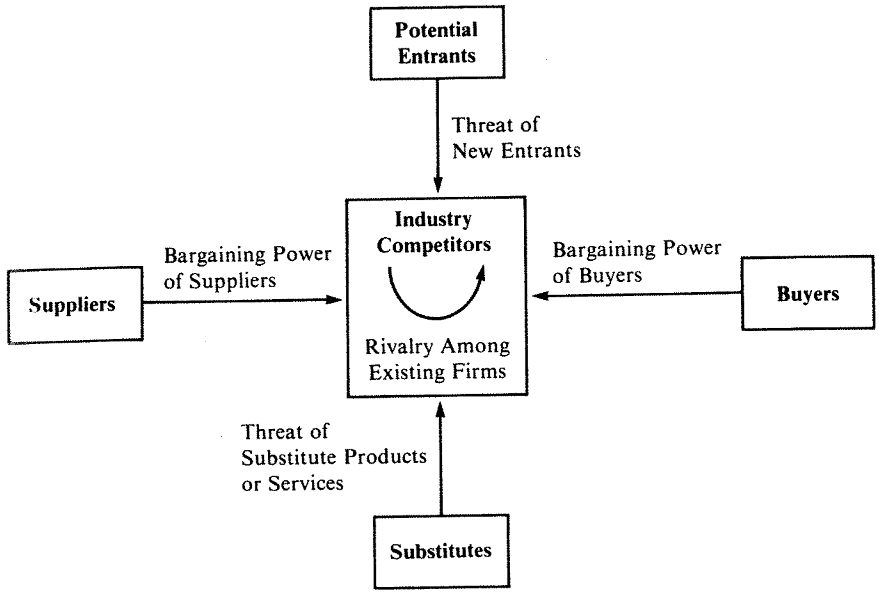

Figure 1–1. The Five Competitive Forces that Determine Industry Profitability

returns despite the best efforts of management. Industry profitability is not a function of what the product looks like or whether it embodies high or low technology, but of industry structure. Some very mundane industries such as postage meters and grain trading are extremely profitable, while some more glamorous, high-technology industries such as personal computers and cable television are not profitable for many participants.

The five forces determine industry profitability because they influence the prices, costs, and required investment of firms in an industry—the elements of return on investment. Buyer power influences the prices that firms can charge, for example, as does the threat of substitution. The power of buyers can also influence cost and investment, because powerful buyers demand costly service. The bargaining power of suppliers determines the costs of raw materials and other inputs. The intensity of rivalry influences prices as well as the costs of competing in areas such as plant, product development, advertising, and sales force. The threat of entry places a limit on prices, and shapes the investment required to deter entrants.

The strength of each of the five competitive forces is a function of *industry structure,* or the underlying economic and technical characteristics of an industry. Its important elements are shown in Figure

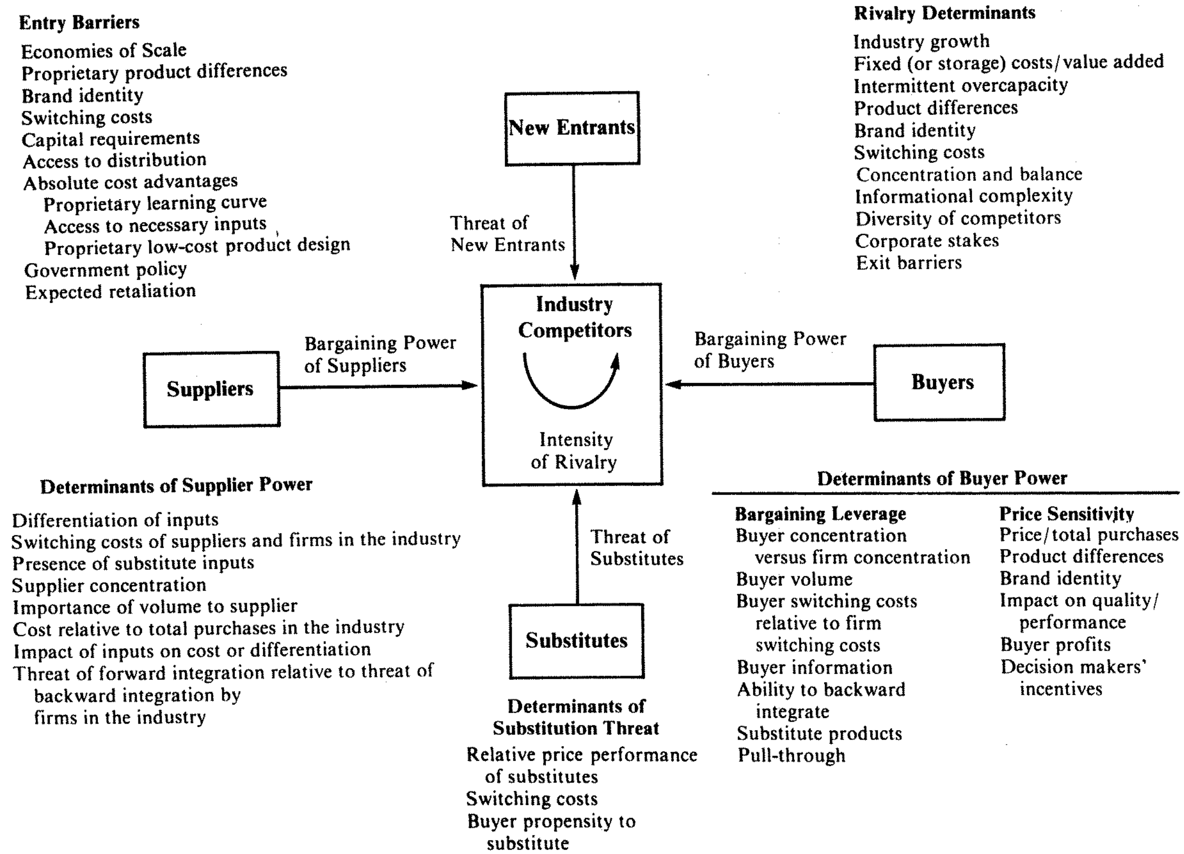

Figure 1–2. Elements of Industry Structure

1–2.[3] Industry structure is relatively stable, but can change over time as an industry evolves. Structural change shifts the overall and relative strength of the competitive forces, and can thus positively or negatively influence industry profitability. The industry trends that are the most important for strategy are those that affect industry structure.

If the five competitive forces and their structural determinants were solely a function of intrinsic industry characteristics, then competitive strategy would rest heavily on picking the right industry and understanding the five forces better than competitors. But while these are surely important tasks for any firm, and are the essence of competitive strategy in some industries, a firm is usually not a prisoner of its industry's structure. Firms, through their strategies, can influence the five forces. If a firm can shape structure, it can fundamentally change an industry's attractiveness for better or for worse. Many successful strategies have shifted the rules of competition in this way.

Figure 1–2 highlights all the elements of industry structure that may drive competition in an industry. In any particular industry, not all of the five forces will be equally important and the particular structural factors that are important will differ. Every industry is unique and has its own unique structure. The five-forces framework allows a firm to see through the complexity and pinpoint those factors that are critical to competition in its industry, as well as to identify those strategic innovations that would most improve the industry's—and its own—profitability. The five-forces framework does not eliminate the need for creativity in finding new ways of competing in an industry. Instead, it directs managers' creative energies toward those aspects of industry structure that are most important to long-run profitability. The framework aims, in the process, to raise the odds of discovering a desirable strategic innovation.

Strategies that change industry structure can be a double-edged sword, because a firm can destroy industry structure and profitability as readily as it can improve it. A new product design that undercuts entry barriers or increases the volatility of rivalry, for example, may undermine the long-run profitability of an industry, though the initiator may enjoy higher profits temporarily. Or a sustained period of price cutting can undermine differentiation. In the tobacco industry, for example, generic cigarettes are a potentially serious threat to industry structure. Generics may enhance the price sensitivity of buyers, trigger price competition, and erode the high advertising barriers that have kept out new entrants.[4] Joint ventures entered into by major aluminum

[3] Industry structure is discussed in detail in *Competitive Strategy*, Chapter 1.
[4] Generic products pose the same risks to many consumer good industries.

producers to spread risk and lower capital cost may have similarly undermined industry structure. The majors invited a number of potentially dangerous new competitors into the industry and helped them overcome the significant entry barriers to doing so. Joint ventures also can raise exit barriers because all the participants in a plant must agree before it can be closed down.

Often firms make strategic choices without considering the long-term consequences for industry structure. They see a gain in their competitive position if a move is successful, but they fail to anticipate the consequences of competitive reaction. If imitation of a move by major competitors has the effect of wrecking industry structure, then everyone is worse off. Such industry "destroyers" are usually second-tier firms that are searching for ways to overcome major competitive disadvantages, firms that have encountered serious problems and are desperately seeking solutions, or "dumb" competitors that do not know their costs or have unrealistic assumptions about the future. In the tobacco industry, for example, the Liggett Group (a distant follower) has encouraged the trend toward generics.

The ability of firms to shape industry structure places a particular burden on industry leaders. Leaders' actions can have a disproportionate impact on structure, because of their size and influence over buyers, suppliers, and other competitors. At the same time, leaders' large market shares guarantee that anything that changes overall industry structure will affect them as well. A leader, then, must constantly balance its own competitive position against the health of the industry as a whole. Often leaders are better off taking actions to improve or protect industry structure rather than seeking greater competitive advantage for themselves. Such industry leaders as Coca-Cola and Campbell's Soup appear to have followed this principle.

Industry Structure and Buyer Needs

It has often been said that satisfying buyer needs is at the core of success in business endeavor. How does this relate to the concept of industry structural analysis? Satisfying buyer needs is indeed a prerequisite to the viability of an industry and the firms within it. Buyers must be willing to pay a price for a product that exceeds its cost of production, or an industry will not survive in the long run. Chapter 4 will describe in detail how a firm can differentiate itself by satisfying buyer needs better than its competitors.

Satisfying buyer needs may be a prerequisite for industry profitability, but in itself is not sufficient. The crucial question in determining profitability is whether firms can capture the value they create for buyers, or whether this value is competed away to others. Industry structure determines who captures the value. The threat of entry determines the likelihood that new firms will enter an industry and compete away the value, either passing it on to buyers in the form of lower prices or dissipating it by raising the costs of competing. The power of buyers determines the extent to which they retain most of the value created for themselves, leaving firms in an industry only modest returns. The threat of substitutes determines the extent to which some other product can meet the same buyer needs, and thus places a ceiling on the amount a buyer is willing to pay for an industry's product. The power of suppliers determines the extent to which value created for buyers will be appropriated by suppliers rather than by firms in an industry. Finally, the intensity of rivalry acts similarly to the threat of entry. It determines the extent to which firms already in an industry will compete away the value they create for buyers among themselves, passing it on to buyers in lower prices or dissipating it in higher costs of competing.

Industry structure, then, determines who keeps what proportion of the value a product creates for buyers. If an industry's product does not create much value for its buyers, there is little value to be captured by firms regardless of the other elements of structure. If the product creates a lot of value, structure becomes crucial. In some industries such as automobiles and heavy trucks, firms create enormous value for their buyers but, on average, capture very little of it for themselves through profits. In other industries such as bond rating services, medical equipment, and oil field services and equipment, firms also create high value for their buyers but have historically captured a good proportion of it. In oil field services and equipment, for example, many products can significantly reduce the cost of drilling. Because industry structure has been favorable, many firms in the oil field service and equipment sector have been able to retain a share of these savings in the form of high returns. Recently, however, the structural attractiveness of many industries in the oil field services and equipment sector has eroded as a result of falling demand, new entrants, eroding product differentiation, and greater buyer price sensitivity. Despite the fact that products offered still create enormous value for the buyer, both firm and industry profits have fallen significantly.

Industry Structure and the Supply/Demand Balance

Another commonly held view about industry profitability is that profits are a function of the balance between supply and demand. If demand is greater than supply, this leads to high profitability. Yet, the long-term supply/demand balance is strongly influenced by industry structure, as are the consequences of a supply/demand imbalance for profitability. Hence, even though short-term fluctuations in supply and demand can affect short-term profitability, industry structure underlies long-term profitability.

Supply and demand change constantly, adjusting to each other. Industry structure determines how rapidly competitors add new supply. The height of entry barriers underpins the likelihood that new entrants will enter an industry and bid down prices. The intensity of rivalry plays a major role in determining whether existing firms will expand capacity aggressively or choose to maintain profitability. Industry structure also determines how rapidly competitors will retire excess supply. Exit barriers keep firms from leaving an industry when there is too much capacity, and prolong periods of excess capacity. In oil tanker shipping, for example, the exit barriers are very high because of the specialization of assets. This has translated into short peaks and long troughs of prices. Thus industry structure shapes the supply/demand balance and the duration of imbalances.

The consequences of an imbalance between supply and demand for industry profitability also differs widely depending on industry structure. In some industries, a small amount of excess capacity triggers price wars and low profitability. These are industries where there are structural pressures for intense rivalry or powerful buyers. In other industries, periods of excess capacity have relatively little impact on profitability because of favorable structure. In oil tools, ball valves, and many other oil field equipment products, for example, there has been intense price cutting during the recent sharp downturn. In drill bits, however, there has been relatively little discounting. Hughes Tool, Smith International, and Baker International are good competitors (see Chapter 6) operating in a favorable industry structure. Industry structure also determines the profitability of excess demand. In a boom, for example, favorable structure allows firms to reap extraordinary profits, while a poor structure restricts the ability to capitalize on it. The presence of powerful suppliers or the presence of substitutes, for example, can mean that the fruits of a boom pass to others. Thus industry structure is fundamental to both the speed of adjustment of supply to demand and the relationship between capacity utilization and profitability.

Generic Competitive Strategies

The second central question in competitive strategy is a firm's relative position within its industry. Positioning determines whether a firm's profitability is above or below the industry average. A firm that can position itself well may earn high rates of return even though industry structure is unfavorable and the average profitability of the industry is therefore modest.

The fundamental basis of above-average performance in the long run is *sustainable competitive advantage.*[5] Though a firm can have a myriad of strengths and weaknesses vis-à-vis its competitors, there are two basic types of competitive advantage a firm can possess: low cost or differentiation. The significance of any strength or weakness a firm possesses is ultimately a function of its impact on relative cost or differentiation. Cost advantage and differentiation in turn stem from industry structure. They result from a firm's ability to cope with the five forces better than its rivals.

The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them lead to three *generic strategies* for achieving above-average performance in an industry: cost leadership, differentiation, and focus. The focus strategy has two variants, cost focus and differentiation focus. The generic strategies are shown in Figure 1–3.

Each of the generic strategies involves a fundamentally different route to competitive advantage, combining a choice about the type of competitive advantage sought with the scope of the strategic target in which competitive advantage is to be achieved. The cost leadership and differentiation strategies seek competitive advantage in a broad range of industry segments, while focus strategies aim at cost advantage (cost focus) or differentiation (differentiation focus) in a narrow segment. The specific actions required to implement each generic strategy vary widely from industry to industry, as do the feasible generic strategies in a particular industry. While selecting and implementing a generic strategy is far from simple, however, they are the logical routes to competitive advantage that must be probed in any industry.

[5]Without a sustainable competitive advantage, above-average performance is usually a sign of harvesting.

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	**1. Cost Leadership**	**2. Differentiation**
	Narrow Target	**3A. Cost Focus**	**3B. Differentiation Focus**

Figure 1–3. Three Generic Strategies

The notion underlying the concept of generic strategies is that competitive advantage is at the heart of any strategy, and achieving competitive advantage requires a firm to make a choice—if a firm is to attain a competitive advantage, it must make a choice about the type of competitive advantage it seeks to attain and the scope within which it will attain it. Being "all things to all people" is a recipe for strategic mediocrity and below-average performance, because it often means that a firm has no competitive advantage at all.

Cost Leadership

Cost leadership is perhaps the clearest of the three generic strategies. In it, a firm sets out to become *the* low-cost producer in its industry. The firm has a broad scope and serves many industry segments, and may even operate in related industries—the firm's breadth is often important to its cost advantage. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials, and other factors I will describe in detail in Chapter 3. In TV sets, for example, cost leadership requires efficient size picture tube facilities, a low-cost design, automated assembly, and global scale over which to amortize R&D. In security guard services, cost advantage requires extremely low overhead, a plentiful source of low-cost labor, and efficient training procedures because of high turnover. Low-cost producer status involves more than just going down the learning curve. A low-cost producer must find and exploit all sources of cost advantage. Low-cost producers typically sell a standard, or no-frills, product and place considerable emphasis on reaping scale or absolute cost advantages from all sources.

If a firm can achieve and sustain overall cost leadership, then it will be an above-average performer in its industry provided it can command prices at or near the industry average. At equivalent or lower prices than its rivals, a cost leader's low-cost position translates into higher returns. A cost leader, however, cannot ignore the bases of differentiation. If its product is not perceived as comparable or acceptable by buyers, a cost leader will be forced to discount prices well below competitors' to gain sales. This may nullify the benefits of its favorable cost position. Texas Instruments (in watches) and Northwest Airlines (in air transportation) are two low-cost firms that fell into this trap. Texas Instruments could not overcome its disadvantage in differentiation and exited the watch industry. Northwest Airlines recognized its problem in time, and has instituted efforts to improve marketing, passenger service, and service to travel agents to make its product more comparable to those of its competitors.

A cost leader must achieve *parity* or *proximity* in the bases of differentiation relative to its competitors to be an above-average performer, even though it relies on cost leadership for its competitive advantage. Parity in the bases of differentiation allows a cost leader to translate its cost advantage directly into higher profits than competitors'.[6] Proximity in differentiation means that the price discount necessary to achieve an acceptable market share does not offset a cost leader's cost advantage and hence the cost leader earns above-average returns.

The strategic logic of cost leadership usually requires that a firm be *the* cost leader, not one of several firms vying for this position.[7] Many firms have made serious strategic errors by failing to recognize this. When there is more than one aspiring cost leader, rivalry among them is usually fierce because every point of market share is viewed as crucial. Unless one firm can gain a cost lead and "persuade" others to abandon their strategies, the consequences for profitability

[6] Parity implies either an identical product offering to competitors, or a different combination of product attributes that is equally preferred by buyers.

[7] While the cost leader will be the most profitable, it is not necessary to be the cost leader to sustain above-average returns in commodity industries where there are limited opportunities to build efficient capacity. A firm that is in the lowest quartile of costs though not the cost leader will usually still be an above-average performer. Such a situation exists in the aluminum industry, where the ability to add low-cost capacity is limited by access to low-cost power, bauxite, and infrastructure.

(and long-run industry structure) can be disastrous, as has been the case in a number of petrochemical industries. Thus cost leadership is a strategy particularly dependent on preemption, unless major technological change allows a firm to radically change its cost position.

Differentiation

The second generic strategy is differentiation. In a differentiation strategy, a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price.

The means for differentiation are peculiar to each industry. Differentiation can be based on the product itself, the delivery system by which it is sold, the marketing approach, and a broad range of other factors. In construction equipment, for example, Caterpillar Tractor's differentiation is based on product durability, service, spare parts availability, and an excellent dealer network. In cosmetics, differentiation tends to be based more on product image and the positioning of counters in the stores. I will describe how a firm can create sustainable differentiation in Chapter 4.

A firm that can achieve and sustain differentiation will be an above-average performer in its industry if its price premium exceeds the extra costs incurred in being unique. A differentiator, therefore, must always seek ways of differentiating that lead to a price premium greater than the cost of differentiating. A differentiator cannot ignore its cost position, because its premium prices will be nullified by a markedly inferior cost position. A differentiator thus aims at cost *parity* or *proximity* relative to its competitors, by reducing cost in all areas that do not affect differentiation.

The logic of the differentiation strategy requires that a firm choose attributes in which to differentiate itself that are *different* from its rivals'. A firm must truly be unique at something or be perceived as unique if it is to expect a premium price. In contrast to cost leadership, however, there can be more than one successful differentiation strategy in an industry if there are a number of attributes that are widely valued by buyers.

Focus

The third generic strategy is focus. This strategy is quite different from the others because it rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. By optimizing its strategy for the target segments, the focuser seeks to achieve a competitive advantage in its target segments even though it does not possess a competitive advantage overall.

The focus strategy has two variants. In *cost focus* a firm seeks a cost advantage in its target segment, while in *differentiation focus* a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on *differences* between a focuser's target segments and other segments in the industry. The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. Such differences imply that the segments are poorly served by broadly-targeted competitors who serve them at the same time as they serve others. The focuser can thus achieve competitive advantage by dedicating itself to the segments exclusively. Breadth of target is clearly a matter of degree, but the essence of focus is the exploitation of a narrow target's differences from the balance of the industry.[8] Narrow focus in and of itself is not sufficient for above-average performance.

A good example of a focuser who has exploited differences in the production process that best serves different segments is Hammermill Paper. Hammermill has increasingly been moving toward relatively low-volume, high-quality specialty papers, where the larger paper companies with higher volume machines face a stiff cost penalty for short production runs. Hammermill's equipment is more suited to shorter runs with frequent setups.

A focuser takes advantage of suboptimization in either direction by broadly-targeted competitors. Competitors may be *underperforming*

[8] Overall differentiation and differentiation focus are perhaps the most often confused strategies in practice. The difference is that the overall differentiator bases its strategy on widely valued attributes (e.g., IBM in computers), while the differentiation focuser looks for segments with special needs and meets them better (e.g., Cray Research in computers).

in meeting the needs of a particular segment, which opens the possibility for differentiation focus. Broadly-targeted competitors may also be *overperforming* in meeting the needs of a segment, which means that they are bearing higher than necessary cost in serving it. An opportunity for cost focus may be present in just meeting the needs of such a segment and no more.

If a focuser's target segment is not different from other segments, then the focus strategy will not succeed. In soft drinks, for example, Royal Crown has focused on cola drinks, while Coca-Cola and Pepsi have broad product lines with many flavored drinks. Royal Crown's segment, however, can be well served by Coke and Pepsi at the same time they are serving other segments. Hence Coke and Pepsi enjoy competitive advantages over Royal Crown in the cola segment due to the economies of having a broader line.[9]

If a firm can achieve sustainable cost leadership (cost focus) or differentiation (differentiation focus) in its segment and the segment is structurally attractive, then the focuser will be an above-average performer in its industry. Segment structural attractiveness is a necessary condition because some segments in an industry are much less profitable than others. There is often room for several sustainable focus strategies in an industry, provided that focusers choose different target segments. Most industries have a variety of segments, and each one that involves a different buyer need or a different optimal production or delivery system is a candidate for a focus strategy. How to define segments and choose a sustainable focus strategy is described in detail in Chapter 7.

Stuck in the Middle

A firm that engages in each generic strategy but fails to achieve any of them is "stuck in the middle." It possesses no competitive advantage. This strategic position is usually a recipe for below-average performance. A firm that is stuck in the middle will compete at a disadvantage because the cost leader, differentiators, or focusers will be better positioned to compete in any segment. If a firm that is stuck in the middle is lucky enough to discover a profitable product or buyer, competitors with a sustainable competitive advantage will quickly eliminate the spoils. In most industries, quite a few competitors are stuck in the middle.

[9]This example is discussed in more detail in Chapter 7.

A firm that is stuck in the middle will earn attractive profits only if the structure of its industry is highly favorable, or if the firm is fortunate enough to have competitors that are also stuck in the middle. Usually, however, such a firm will be much less profitable than rivals achieving one of the generic strategies. Industry maturity tends to widen the performance differences between firms with a generic strategy and those that are stuck in the middle, because it exposes ill-conceived strategies that have been carried along by rapid growth.

Becoming stuck in the middle is often a manifestation of a firm's unwillingness to make *choices* about how to compete. It tries for competitive advantage through every means and achieves none, because achieving different types of competitive advantage usually requires inconsistent actions. Becoming stuck in the middle also afflicts successful firms, who compromise their generic strategy for the sake of growth or prestige. A classic example is Laker Airways, which began with a clear cost focus strategy based on no-frills operation in the North Atlantic market, aimed at a particular segment of the traveling public that was extremely price-sensitive. Over time, however, Laker began adding frills, new services, and new routes. It blurred its image, and suboptimized its service and delivery system. The consequences were disastrous, and Laker eventually went bankrupt.

The temptation to blur a generic strategy, and therefore become stuck in the middle, is particularly great for a focuser once it has dominated its target segments. Focus involves deliberately limiting potential sales volume. Success can lead a focuser to lose sight of the reasons for its success and compromise its focus strategy for growth's sake. Rather than compromise its generic strategy, a firm is usually better off finding new industries in which to grow where it can use its generic strategy again or exploit interrelationships.

Pursuit of More Than One Generic Strategy

Each generic strategy is a fundamentally different approach to creating and sustaining a competitive advantage, combining the type of competitive advantage a firm seeks and the scope of its strategic target. Usually a firm must make a choice among them, or it will become stuck in the middle. The benefits of optimizing the firm's strategy for a particular target segment (focus) cannot be gained if a firm is simultaneously serving a broad range of segments (cost leadership or differentiation). Sometimes a firm may be able to create two largely separate business units within the same corporate entity, each with a different generic strategy. A good example is the British hotel firm Trusthouse Forte, which operates five separate hotel chains each targeted at a different segment. However, unless a firm strictly separates the units pursuing different generic strategies, it may compromise the ability of any of them to achieve its competitive advantage. A suboptimized approach to competing, made likely by the spillover among units of corporate policies and culture, will lead to becoming stuck in the middle.

Achieving cost leadership and differentiation are also usually inconsistent, because differentiation is usually costly. To be unique and command a price premium, a differentiator deliberately elevates costs, as Caterpillar has done in construction equipment. Conversely, cost leadership often requires a firm to forego some differentiation by standardizing its product, reducing marketing overhead, and the like.

Reducing cost does not always involve a sacrifice in differentiation. Many firms have discovered ways to reduce cost not only without hurting their differentiation but while actually raising it, by using practices that are both more efficient and effective or employing a different technology. Sometimes dramatic cost savings can be achieved with no impact on differentiation at all if a firm has not concentrated on cost reduction previously. However, cost reduction is not the same as achieving a cost advantage. When faced with capable competitors also striving for cost leadership, a firm will ultimately reach the point where further cost reduction requires a sacrifice in differentiation. It is at this point that the generic strategies become inconsistent and a firm must make a choice.

If a firm can achieve cost leadership and differentiation simultaneously, the rewards are great because the benefits are additive—differentiation leads to premium prices at the same time that cost leadership implies lower costs. An example of a firm that has achieved both a cost advantage and differentiation in its segments is Crown Cork and Seal in the metal container industry. Crown has targeted the so-called "hard to hold" uses of cans in the beer, soft drink, and aerosol industries. It manufactures only steel cans rather than both steel and aluminum. In its target segments, Crown has differentiated itself based on service, technological assistance, and offering a full line of steel cans, crowns, and canning machinery. Differentiation of this type would be much more difficult to achieve in other industry segments which have different needs. At the same time, Crown has dedicated its facilities to producing only the types of cans demanded by buyers in its chosen segments and has aggressively invested in modern two-piece steel canning technology. As a result, Crown has probably also achieved low-cost producer status in its segments.

There are three conditions under which a firm can simultaneously achieve both cost leadership and differentiation:

Competitors are stuck in the middle. Where competitors are stuck in the middle, none is well enough positioned to force a firm to the point where cost and differentiation become inconsistent. This was the case with Crown Cork. Its major competitors were not investing in low-cost steel can production technology, so Crown achieved cost leadership without having to sacrifice differentiation in the process. Were its competitors pursuing an aggressive cost leadership strategy, however, an attempt by Crown to be both low-cost and differentiated might have doomed it to becoming stuck in the middle. Cost reduction opportunities that did not sacrifice differentiation would have already been adopted by Crown's competitors.

While stuck-in-the-middle competitors can allow a firm to achieve both differentiation and low cost, this state of affairs is often temporary. Eventually a competitor will choose a generic strategy and begin to implement it well, exposing the tradeoffs between cost and differentiation. Thus a firm must choose the type of competitive advantage it intends to preserve in the long run. The danger in facing weak competitors is that a firm will begin to compromise its cost position or differentiation to achieve both and leave itself vulnerable to the emergence of a capable competitor.

Cost is strongly affected by share or interrelationships. Cost leadership and differentiation may also be achieved simultaneously where cost position is heavily determined by market share, rather than by product design, level of technology, service provided, or other factors. If one firm can open up a big market share advantage, the cost advantages of share in some activities allow the firm to incur added costs elsewhere and still maintain net cost leadership, or share reduces the cost of differentiating relative to competitors (see Chapter 4). In a related situation, cost leadership and differentiation can be achieved at the same time when there are important interrelationships between industries that one competitor can exploit and others cannot (see Chapter 9). Unmatched interrelationships can lower the cost of differentiation or offset the higher cost of differentiation. Nonetheless, simultaneous pursuit of cost leadership and differentiation is always vulnerable to capable competitors who make a choice and invest aggressively to implement it, matching the share or interrelationship.

A firm pioneers a major innovation. Introducing a significant technological innovation can allow a firm to lower cost and enhance differentiation at the same time, and perhaps achieve both strategies. Introducing new automated manufacturing technologies can have this effect, as can the introduction of new information system technology to manage logistics or design products on the computer. Innovative new practices unconnected to technology can also have this effect. Forging cooperative relations with suppliers can lower input costs and improve input quality, for example, as described in Chapter 3.

The ability to be both low cost and differentiated is a function of being the *only* firm with the new innovation, however. Once competitors also introduce the innovation, the firm is again in the position of having to make a tradeoff. Will its information system be designed to emphasize cost or differentiation, for example, compared to the competitor's information system? The pioneer may be at a disadvantage if, in the pursuit of both low cost and differentiation, its innovation has not recognized the possibility of imitation. It may then be neither low cost nor differentiated once the innovation is matched by competitors who pick one generic strategy.

A firm should always aggressively pursue all cost reduction opportunities that do not sacrifice differentiation. A firm should also pursue all differentiation opportunities that are not costly. Beyond this point, however, a firm should be prepared to choose what its ultimate competitive advantage will be and resolve the tradeoffs accordingly.

Sustainability

A generic strategy does not lead to above-average performance unless it is sustainable vis-à-vis competitors, though actions that improve industry structure may improve industrywide profitability even if they are imitated. The sustainability of the three generic strategies demands that a firm's competitive advantage resists erosion by competitor behavior or industry evolution. Each generic strategy involves different risks which are shown in Table 1–1.

The sustainability of a generic strategy requires that a firm possess some barriers that make imitation of the strategy difficult. Since barriers to imitation are never insurmountable, however, it is usually necessary for a firm to offer a moving target to its competitors by investing in order to continually improve its position. Each generic strategy is also a potential threat to the others—as Table 1–1 shows, for example, focusers must worry about broadly-targeted competitors and vice versa.

TABLE 1–1 Risks of the Generic Strategies

RISKS OF COST LEADERSHIP	RISKS OF DIFFERENTIATION	RISKS OF FOCUS
Cost leadership is not sustained • competitors imitate • technology changes • other bases for cost leadership erode	Differentiation is not sustained • competitors imitate • bases for differentiation become less important to buyers	The focus strategy is imitated The target segment becomes structurally unattractive • structure erodes • demand disappears
Proximity in differentiation is lost	Cost proximity is lost	Broadly-targeted competitors overwhelm the segment • the segment's differences from other segments narrow • the advantages of a broad line increase
Cost focusers achieve even lower cost in segments	Differentiation focusers achieve even greater differentiation in segments	New focusers sub-segment the industry

The factors that lead to sustainability of each of the generic strategies will be discussed extensively in Chapters 3, 4, and 7.

Table 1–1 can be used to analyze how to attack a competitor that employs any of the generic strategies. A firm pursuing overall differentiation, for example, can be attacked by firms who open up a large cost gap, narrow the extent of differentiation, shift the differentiation desired by buyers to other dimensions, or focus. Each generic strategy is vulnerable to different types of attacks, as discussed in more detail in Chapter 15.

In some industries, industry structure or the strategies of competitors eliminate the possibility of achieving one or more of the generic strategies. Occasionally no feasible way for one firm to gain a significant cost advantage exists, for example, because several firms are equally placed with respect to scale economies, access to raw materials, or other cost drivers. Similarly, an industry with few segments or only minor differences among segments, such as low-density polyethylene, may offer few opportunities for focus. Thus the mix of generic strategies will vary from industry to industry.

In many industries, however, the three generic strategies can profitably coexist as long as firms pursue different ones or select different bases for differentiation or focus. Industries in which several strong firms are pursuing differentiation strategies based on different sources of buyer value are often particulary profitable. This tends to improve industry structure and lead to stable industry competition. If two or more firms choose to pursue the same generic strategy on the same basis, however, the result can be a protracted and unprofitable battle. The worst situation is where several firms are vying for overall cost leadership. The past and present choice of generic strategies by competitors, then, has an impact on the choices available to a firm and the cost of changing its position.

The concept of generic strategies is based on the premise that there are a number of ways in which competitive advantage can be achieved, depending on industry structure. If all firms in an industry followed the principles of competitive strategy, each would pick different bases for competitive advantage. While not all would succeed, the generic strategies provide alternate routes to superior performance. Some strategic planning concepts have been narrowly based on only one route to competitive advantage, most notably cost. Such concepts not only fail to explain the success of many firms, but they can also lead all firms in an industry to pursue the same type of competitive advantage in the same way—with predictably disastrous results.

Generic Strategies and Industry Evolution

Changes in industry structure can affect the bases on which generic strategies are built and thus alter the balance among them. For example, the advent of electronic controls and new image developing systems has greatly eroded the importance of service as a basis for differentiation in copiers. Structural change creates many of the risks shown in Table 1–1.[10]

Structural change can shift the relative balance among the generic strategies in an industry, since it can alter the sustainability of a generic strategy or the size of the competitive advantage that results from it. The automobile industry provides a good example. Early in its history, leading automobile firms followed differentiation strategies in the production of expensive touring cars. Technological and market changes created the potential for Henry Ford to change the rules of competition by adopting a classic overall cost leadership strategy, based on low-cost production of a standard model sold at low prices. Ford rapidly dominated the industry worldwide. By the late 1920s, however, economic growth, growing familiarity with the automobile, and techno-

[10] *Competitive Strategy,* Chapter 8, describes the processes that drive industry structural change.

logical change had created the potential for General Motors to change the rules once more—it employed a differentiation strategy based on a wide line, features, and premium prices. Throughout this evolution, focused competitors also continued to succeed.

Another long-term battle among generic strategies has occurred in general merchandising. K Mart and other discounters entered with cost leadership strategies against Sears and conventional department stores, featuring low overhead and nationally branded merchandise. K Mart, however, now faces competition from more differentiated discounters who sell fashion-oriented merchandise, such as Wal-Mart. At the same time, focused discounters have entered and are selling such products as sporting goods (Herman's), health and beauty aids (CVS), and books (Barnes and Noble). Catalog showrooms have also focused on appliances and jewelry, employing low-cost strategies in those segments. Thus the bases for K Mart's competitive advantage have been compromised and it is having difficulty outperforming the industry average.

Another more recent example of the jockeying among generic strategies has occurred in vodka. Smirnoff has long been the differentiated producer in the industry, based on early positioning as a high-class brand and heavy supporting advertising. As growth has slowed and the industry has become more competitive, however, private label vodkas and low price brands are undermining Smirnoff's position. At the same time, PepsiCo's Stolichnaya vodka has established an even more differentiated position than Smirnoff through focus. Smirnoff is caught in a squeeze that is threatening its long-standing superior performance. In response, it has introduced several new brands, including a premium brand positioned against Stolichnaya.

Generic Strategies and Organizational Structure

Each generic strategy implies different skills and requirements for success, which commonly translate into differences in organizational structure and culture. Cost leadership usually implies tight control systems, overhead minimization, pursuit of scale economies, and dedication to the learning curve; these could be counterproductive for a firm attempting to differentiate itself through a constant stream of creative new products.[11]

[11] A more detailed review of the differing skills required by each generic strategy is given in *Competitive Strategy,* Chapter 2, pp. 40–41.

The organizational differences commonly implied by each generic strategy carry a number of implications. Just as there are often economic inconsistencies in achieving more than one generic strategy, a firm does not want its organizational structure to be suboptimal because it combines inconsistent practices. It has become fashionable to tie executive selection and motivation to the "mission" of a business unit, usually expressed in terms of building, holding, or harvesting market share. It is equally—if not more—important to match executive selection and motivation to the generic strategy being followed.

The concept of generic strategies also has implications for the role of culture in competitive success. Culture, that difficult to define set of norms and attitudes that help shape an organization, has come to be viewed as an important element of a successful firm. However, different cultures are implied by different generic strategies. Differentiation may be facilitated by a culture encouraging innovation, individuality, and risk-taking (Hewlett-Packard), while cost leadership may be facilitated by frugality, discipline, and attention to detail (Emerson Electric). Culture can powerfully reinforce the competitive advantage a generic strategy seeks to achieve, if the culture is an appropriate one. There is no such thing as a good or bad culture per se. Culture is a means of achieving competitive advantage, not an end in itself.

The link between generic strategy and organization also has implications for the diversified firm. There is a tendency for diversified firms to pursue the same generic strategy in many of their business units, because skills and confidence are developed for pursuing a particular approach to competitive advantage. Moreover, senior management often gains experience in overseeing a particular type of strategy. Emerson Electric is well known for its pursuit of cost leadership in many of its business units, for example, as is H. J. Heinz.

Competing with the same generic strategy in many business units is one way in which a diversified firm can add value to those units, a subject I will discuss in Chapter 9 when I examine interrelationships among business units. However, employing a common generic strategy entails some risks that should be highlighted. One obvious risk is that a diversified firm will impose a particular generic strategy on a business unit whose industry (or initial position) will not support it. Another, more subtle risk is that a business unit will be misunderstood because of circumstances in its industry that are *not* consistent with the prevailing generic strategy. Worse yet, such business units may have their strategies undermined by senior management. Since each generic strategy often implies a different pattern of investments and different types of executives and cultures, there is a risk that a business unit that is "odd man out" will be forced to live with inappropriate corporate policies and targets. For example, an across-the-board cost reduction goal or firmwide personnel policies can be disadvantageous to a business unit attempting to differentiate itself on quality and service, just as policies toward overhead appropriate for differentiation can undermine a business unit attempting to be the low-cost producer.

Generic Strategies and the Strategic Planning Process

Given the pivotal role of competitive advantage in superior performance, the centerpiece of a firm's strategic plan should be its generic strategy. The generic strategy specifies the fundamental approach to competitive advantage a firm is pursuing, and provides the context for the actions to be taken in each functional area. In practice, however, many strategic plans are lists of action steps without a clear articulation of what competitive advantage the firm has or seeks to achieve and how. Such plans are likely to have overlooked the fundamental purpose of competitive strategy in the process of going through the mechanics of planning. Similarly, many plans are built on projections of future prices and costs that are almost invariably wrong, rather than on a fundamental understanding of industry structure and competitive advantage that will determine profitability no matter what the actual prices and costs turn out to be.

As part of their strategic planning processes, many diversified firms categorize business units by using a system such as build, hold, or harvest. These categorizations are often used to describe or summarize the strategy of business units. While such categorizations may be useful in thinking about resource allocation in a diversified firm, it is very misleading to mistake them for strategies. A business unit's strategy is the route to competitive advantage that will determine its performance. Build, hold, and harvest are the results of a generic strategy, or recognition of the inability to achieve any generic strategy and hence of the need to harvest. Similarly, acquisition and vertical integration are not strategies but means of achieving them.

Another common practice in strategic planning is to use market share to describe a business unit's competitive position. Some firms go so far as to set the goal that all their business units should be leaders (number one or number two) in their industries. This approach to strategy is as dangerous as it is deceptively clear. While market share is certainly relevant to competitive position (due to scale economies, for example), industry leadership is *not a cause but an effect of competitive advantage.* Market share per se is not important competitively; competitive advantage is. The strategic mandate to business units should be to achieve competitive advantage. Pursuit of leadership for its own sake may guarantee that a firm never achieves a competitive advantage or that it loses the one it has. A goal of leadership per se also embroils managers in endless debates over how an industry should be defined to calculate shares, obscuring once more the search for competitive advantage that is the heart of strategy.

In some industries, market leaders do not enjoy the best performance because industry structure does not reward leadership. A recent example is Continental Illinois Bank, which adopted the explicit goal of market leadership in wholesale lending. It succeeded in achieving this goal, but leadership did not translate into competitive advantage. Instead, the drive for leadership led to making loans that other banks would not, and to escalating costs. Leadership also meant that Continental Illinois had to deal with large corporations that are extremely powerful and price-sensitive buyers of loans. Continental Illinois will be paying the price of leadership for some years. In many other firms, such as Burlington Industries in fabrics and Texas Instruments in electronics, the pursuit of leadership for its own sake seems to have sometimes diverted attention from achieving and maintaining competitive advantage.

Overview of This Book

Competitive Advantage describes the way a firm can choose and implement a generic strategy to achieve and sustain competitive advantage. It addresses the interplay between the types of competitive advantage—cost and differentiation—and the scope of a firm's activities. The basic tool for diagnosing competitive advantage and finding ways to enhance it is the *value chain,* which divides a firm into the discrete activities it performs in designing, producing, marketing, and distributing its product. The scope of a firm's activities, which I term *competitive scope,* can have a powerful role in competitive advantage through its influence on the value chain. I describe how narrow scope (focus) can create competitive advantage through tailoring the value chain, and how broader scope can enhance competitive advantage through the exploitation of interrelationships among the value chains that serve different segments, industries or geographic areas. While this book addresses competitive advantage, it also sharpens the ability of the practitioner to analyze industries and competitors and hence supplements my earlier book.

This book is organized into four parts. Part I describes the types of competitive advantage and how a firm can achieve them. Part II discusses competitive scope within an industry and its affect on competitive advantage. Part III addresses competitive scope in related industries, or how corporate strategy can contribute to the competitive advantage of business units. Part IV develops overall implications for competitive strategy, including ways of coping with uncertainty and to improve or defend position.

Chapter 2 presents the concept of the value chain, and shows how it can be used as the fundamental tool in diagnosing competitive advantage. The chapter describes how to disaggregate the firm into the activities that underlie competitive advantage, and identify the linkages among activities that are central to competitive advantage. It also shows the role of competitive scope in affecting the value chain, and how coalitions with other firms can substitute for performing activities in the chain internally. The chapter also briefly considers the use of the value chain in designing organizational structure.

Chapter 3 describes how a firm can gain a sustainable cost advantage. It shows how to use the value chain to understand the behavior of costs and the implications for strategy. Understanding cost behavior is necessary not only for improving a firm's relative cost position but also for exposing the cost of differentiation.

Chapter 4 describes how a firm can differentiate itself from its competitors. The value chain provides a way to identify a firm's sources of differentiation, and the fundamental factors that drive it. The buyer's value chain is the key to understanding the underlying basis of differentiation—creating value for the buyer through lowering the buyer's cost or improving buyer performance. Differentiation results from both actual uniqueness in creating buyer value and from the ability to signal that value so that buyers perceive it.

Chapter 5 explores the relationship between technology and competitive advantage. Technology is pervasive in the value chain and plays a powerful role in determining competitive advantage, in both cost and differentiation. The chapter shows how technological change can influence competitive advantage as well as industry structure. It also describes the variables that shape the path of technological change in an industry. The chapter then describes how a firm can choose a technology strategy to enhance its competitive advantage, encompassing the choice of whether to be a technological leader and the strategic use of technology licensing. The idea of *first-mover advantages and disadvantages* is developed to highlight the potential risks and rewards of pioneering any change in the way a firm competes.

Chapter 6 discusses competitor selection, or the role of competitors in enhancing competitive advantage and industry structure. The chapter shows why the presence of the right competitors can be beneficial to a firm's competitive position. It describes how to identify "good" competitors and how to influence the array of competitors faced. It also describes how a firm can decide what market share it should hold, an important issue since a very large share is rarely optimal.

Chapter 7 begins Part II of the book and examines how industries can be segmented. It draws on Chapters 3 and 4, since segments stem from intraindustry differences in buyer needs and cost behavior. Segmentation is clearly pivotal to the choice of focus strategies, as well as to assessing the risks borne by broadly-targeted firms. The chapter describes how profitable and defensible focus strategies can be identified.

Chapter 8 discusses the determinants of substitution, and how a firm can substitute its product for another or defend against a substitution threat. Substitution, one of the five competitive forces, is driven by the interplay of the relative value of a substitute compared to its cost, switching costs, and the way individual buyers evaluate the economic benefits of substitution. The analysis of substitution is of central importance in finding ways to widen industry boundaries, exposing industry segments that face a lower substitution risk than others, and developing strategies to promote substitution or defend against a substitution threat. Hence understanding substitution is important both to broadening and to narrowing scope. The analysis of substitution draws on Chapters 3 through 7.

Chapter 9 begins Part III of the book, and is the first of four chapters about corporate strategy for the diversified firm. The central concern of corporate strategy is the way in which interrelationships among business units can be used to create a competitive advantage. Chapter 9 explains the strategic logic of interrelationships. It describes the three types of interrelationships among industries, and why they have grown in importance over time. It then shows how the significance of interrelationships for competitive advantage can be assessed.

Chapter 10 addresses the implications of interrelationships for *horizontal strategy,* or strategy that encompasses multiple distinct business units. A firm with multiple business units in related industries must formulate strategies at the group, sector, and corporate levels that coordinate the strategies of individual units. The chapter describes the principles for doing so, as well as the implications of interrelationships for diversification into new industries.

Chapter 11 describes how interrelationships among business units can actually be achieved. Many organizational impediments stand in the way, ranging from the protection of turf to faulty incentives. The chapter identifies these impediments in detail, and shows how they can be overcome through what I call *horizontal organization.* Firms competing in related industries must have a horizontal organization that links business units together, that supplements but does not replace the hierarchical organization to manage and control them.

Chapter 12 treats a special but important case of interrelationships, where an industry's product is used or purchased with complementary products. The chapter describes the circumstances in which a firm must control complementary products rather than let other firms supply them. It also examines the strategy of *bundling,* or selling separate products together as a single package, and the circumstances in which such a strategy is appropriate. Finally, the chapter examines cross-subsidization, or pricing complementary products to reflect the relationship among them rather than setting each price separately.

Part IV of the book draws on the concepts in this book and *Competitive Strategy* to develop broad principles for offensive and defensive strategy. Chapter 13 discusses the problem of formulating competitive strategy in the face of significant uncertainty. It describes the concept of industry scenarios, and shows how scenarios can be constructed to illuminate the range of future industry structures that might occur. The chapter then outlines the alternative ways in which a firm can cope with uncertainty in its choice of strategy. Competitive strategy is more effective if there is explicit consideration of the range of industry scenarios that might occur, and recognition of the extent to which strategies for dealing with different scenarios are consistent or inconsistent.

Competitive Advantage concludes with a treatment of defensive and offensive strategy. Chapters 14 and 15 serve to pull together many of the other chapters. Chapter 14, on defensive strategy, describes the process by which a firm's position is challenged and the defensive tactics available to deter or block a competitor. The chapter then develops the implications of these ideas for a defensive strategy. Chapter 15 shows how to attack an industry leader. It lays out the conditions a firm must meet to challenge a leader, and the approaches to changing the rules of competition in order to do so successfully. The same principles involved in attacking a leader can be used in offensive strategy against any competitor.