from a Sears clone to a more upscale, fashion-oriented, soft-goods retailer. A second and far more common type of imitation is straddling. The straddler seeks to match the benefits of a successful position while maintaining its existing position. It grafts new features, services, or technologies onto the activities it already performs.

For those who argue that competitors can copy any market position, the airline industry is a perfect test case. It would seem that nearly any competitor could imitate any other airline's activities. Any airline can buy the same planes, lease the gates, and match the menus and ticketing and baggage handling services offered by other airlines.

Continental Airlines saw how well Southwest was doing and decided to straddle. While maintaining its position as a full-service airline, Continental also set out to match Southwest on a number of point-to-point routes. The airline dubbed the new service Continental Lite. It eliminated meals and first-class service, increased departure frequency, lowered fares, and shortened turnaround time at the gate. Because Continental remained a full-service airline on other routes, it continued to use travel agents and its mixed fleet of planes and to provide baggage checking and seat assignments.

ora quasi tutti
BA, LH, AF

The essence of strategy is choosing to perform activities differently than rivals do.

But a strategic position is not sustainable unless there are trade-offs with other positions. Trade-offs occur when activities are incompatible. Simply put, a trade-off means that more of one thing necessitates less of another. An airline can choose to serve meals—adding cost and slowing turnaround time at the gate—or it can choose not to, but it cannot do both without bearing major inefficiencies.

TRADE-OFFS =
EXCHANGE made
as a compromise

Trade-offs create the need for choice and protect against repositioners and straddlers. Consider Neutrogena soap. Neutrogena Corporation's variety-based positioning is built on a "kind to the skin," residue-free soap formulated for pH balance. With a large detail force calling on dermatologists, Neutrogena's marketing strategy looks more like a drug company's than a soap maker's. It advertises in medical journals, sends direct mail to doctors, attends medical conferences, and performs research at its own Skincare Institute. To reinforce its positioning, Neutrogena originally focused its distribution on drugstores and avoided price promotions. Neutrogena uses a slow, more expensive manufacturing process to mold its fragile soap.

In choosing this position, Neutrogena said no to the deodorants and skin softeners that many customers desire in their soap. It gave up the large-volume potential of selling through supermarkets and using price promotions. It sacrificed manufacturing efficiencies to achieve the soap's desired attributes. In its original positioning, Neutrogena made a whole raft of trade-offs like those, trade-offs that protected the company from imitators.

Trade-offs arise for three reasons. The first is inconsistencies in image or reputation. A company known for delivering one kind of value may lack credibility and confuse customers—or even undermine its reputation—if it delivers another kind of value or attempts to deliver two inconsistent things at the same time. For example, Ivory soap, with its position as a basic, inexpensive everyday soap, would have a hard time reshaping its image to match Neutrogena's premium "medical" reputation. Efforts to create a new image typically cost tens or even hundreds of millions of dollars in a major industry—a powerful barrier to imitation.

Second, and more important, trade-offs arise from activities themselves. Different positions (with their tailored activities) require different product configurations, different equipment, different employee behavior, different skills, and different management systems. Many trade-offs reflect inflexibilities in machinery, people, or systems. The more Ikea has configured its activities to lower costs by having its customers do their own assembly and delivery, the less able it is to satisfy customers who require higher levels of service.

However, trade-offs can be even more basic. In general, value is destroyed if an activity is overdesigned or underdesigned for its use. For example, even if a given salesperson were capable of providing a high level of assistance to one customer and none to another, the salesperson's talent (and some of his or her cost) would be wasted on the second customer. Moreover, productivity can improve when variation of an activity is limited. By providing a high level of assistance all the time, the salesperson and the entire sales activity can often achieve efficiencies of learning and scale.

Finally, trade-offs arise from limits on internal coordination and control. By clearly choosing to compete in one way and not another, *Strategic positions can be based on customers' needs, customers' accessibility, or the variety of a company's products or services.*

senior management makes organizational priorities clear. Companies that try to be all things to all customers, in contrast, risk confusion in the trenches as employees attempt to make day-to-day operating decisions without a clear framework.

Positioning trade-offs are pervasive in competition and essential to strategy. They create the need for choice and purposefully limit what a company offers. They deter straddling or repositioning, because competitors that engage in those approaches undermine their strategies and degrade the value of their existing activities.

Trade-offs ultimately grounded Continental Lite. The airline lost hundreds of millions of dollars, and the CEO lost his job. Its planes were delayed leaving congested hub cities or slowed at the gate by baggage transfers. Late flights and cancellations generated a thousand complaints a day. Continental Lite could not afford to compete on price and still pay standard travel-agent commissions, but neither could it do without agents for its full-service business. The airline compromised by cutting commissions for all Continental flights across the board. Similarly, it could not afford to offer the same frequent-flier benefits to travelers paying the much lower ticket prices for Lite service. It compromised again by lowering the rewards of Continental's entire frequent-flier program. The results: angry travel agents and full-service customers.

Continental tried to compete in two ways at once. In trying to be low cost on some routes and full service on others, Continental paid an enormous straddling penalty. If there were no trade-offs between the two positions, Continental could have succeeded. But the absence of trade-offs is a dangerous half-truth that managers must unlearn. Quality is not always free. Southwest's convenience, one kind of high quality, happens to be consistent with low costs because its frequent departures are facilitated by a number of low-cost practices—fast gate turnarounds and automated ticketing, for example. However, other dimensions of airline quality—an assigned seat, a meal, or baggage transfer—require costs to provide.

In general, false trade-offs between cost and quality occur primarily when there is redundant or wasted effort, poor control or accuracy, or weak coordination. Simultaneous improvement of cost and differentiation is possible only when a company begins far behind the productivity frontier or when the frontier shifts outward. At the frontier, where companies have achieved current best practice, the trade-off between cost and differentiation is very real indeed.

After a decade of enjoying productivity advantages, Honda Motor Company and Toyota Motor Corporation recently bumped up against the frontier. In 1995, faced with increasing customer resistance to higher automobile prices, Honda found that the only way to produce a less-expensive car was to skimp on features. In the United States, it replaced the rear disk brakes on the Civic with lower-cost drum brakes and used cheaper fabric for the back seat, hoping customers would not notice. Toyota tried to sell a version of its best-selling Corolla in Japan with unpainted bumpers and cheaper seats. In Toyota's case, customers rebelled, and the company quickly dropped the new model.

For the past decade, as managers have improved operational effectiveness greatly, they have internalized the idea that eliminating trade-offs is a good thing. But if there are no trade-offs companies will never achieve a sustainable advantage. They will have to run faster and faster just to stay in place.

As we return to the question, What is strategy? we see that trade-offs add a new dimension to the answer. Strategy is making trade-offs in competing. The essence of strategy is choosing what *not* to do. Without trade-offs, there would be no need for choice and thus no need for strategy. Any good idea could and would be quickly imitated. Again, performance would once again depend wholly on operational effectiveness.

IV. Fit Drives Both Competitive Advantage and Sustainability

Positioning choices determine not only which activities a company will perform and how it will configure individual activities but also how activities relate to one another. While operational effectiveness is about achieving excellence in individual activities, or functions, strategy is about *combining* activities.

Southwest's rapid gate turnaround, which allows frequent departures and greater use of aircraft, is essential to its high-convenience, low-cost positioning. But how does Southwest achieve it? Part of the answer lies in the company's well-paid gate and ground crews, whose productivity in turnarounds is enhanced by flexible union rules. But the bigger part of the answer lies in how Southwest performs other activities. With no meals, no seat assignment, and no interline baggage transfers, Southwest avoids having to perform activities that slow down other airlines. It selects airports and routes to avoid congestion that introduces delays. Southwest's strict limits on the type and length of routes make standardized aircraft possible: every aircraft Southwest turns is a Boeing 737.

What is Southwest's core competence? Its key success factors? The correct answer is that everything matters. Southwest's strategy involves a whole system of activities, not a collection of parts. Its competitive advantage comes from the way its activities fit and reinforce one another.

Fit locks out imitators by creating a chain that is as strong as its *strongest* link. As in most companies with good strategies, Southwest's activities complement one another in ways that create real economic value. One activity's cost, for example, is lowered because of the way other activities are performed. Similarly, one activity's value to customers can be enhanced by a company's other activities. That is the way strategic fit creates competitive advantage and superior profitability.

Trade-offs are essential to strategy. They create the need for choice and purposefully limit what a company offers.

Types of Fit. The importance of fit among functional policies is one of the oldest ideas in strategy. Gradually, however, it has been supplanted on the management agenda. Rather than seeing the company as a whole, managers have turned to "core" competencies, "critical" resources, and "key" success factors. In fact, fit is a far more central component of competitive advantage than most realize.

Fit is important because discrete activities often affect one another. A sophisticated sales force, for example, confers a greater advantage when the company's product embodies premium technology and its marketing approach emphasizes customer assistance and support. A production line with high levels of model variety is more valuable when combined with an inventory and order processing system that minimizes the need for stocking finished goods, a sales process equipped to explain and encourage customization, and an advertising theme that stresses the benefits of product variations that meet a customer's special needs. Such complementarities are pervasive in strategy. Although some fit among activities is generic and applies to many companies, the most valuable fit is strategy-specific because it enhances a position's uniqueness and amplifies trade-offs.[2]

There are three types of fit, although they are not mutually exclusive. First-order fit is *simple consistency* between each activity (function) and the overall strategy. Vanguard, for example, aligns all activities with its low-cost strategy. It minimizes portfolio turnover and does not need highly compensated money managers. The company distributes its funds directly, avoiding commissions to brokers. It also limits advertising, relying instead on public relations and word-of-mouth recommendations. Vanguard ties its employees' bonuses to cost savings.

Consistency ensures that the competitive advantages of activities cumulate and do not erode or cancel themselves out. It makes the strategy easier to communicate to customers, employees, and shareholders, and improves implementation through single-mindedness in the corporation.

Second-order fit occurs when *activities are reinforcing*. Neutrogena, for example, markets to upscale hotels eager to offer their guests a soap recommended by dermatologists. Hotels grant Neutrogena the privilege of using its customary packaging while requiring other soaps to feature the hotel's name. Once guests have tried Neutrogena in a luxury hotel, they are more likely to purchase it at the drugstore or ask their doctor about it. Thus Neutrogena's medical and hotel marketing activities reinforce one another, lowering total marketing costs.

In another example, Bic Corporation sells a narrow line of standard, low-priced pens to virtually all major customer markets (retail, commercial, promotional, and giveaway) through virtually all available channels. As with any variety-based positioning serving a broad group of customers, Bic emphasizes a common need (low price for an acceptable pen) and uses marketing approaches with a broad reach (a large sales force and heavy television advertising). Bic gains the benefits of consistency across nearly all activities, including product design that emphasizes ease of manufacturing, plants configured for low cost, aggressive purchasing to minimize material costs, and in-house parts production whenever the economics dictate.

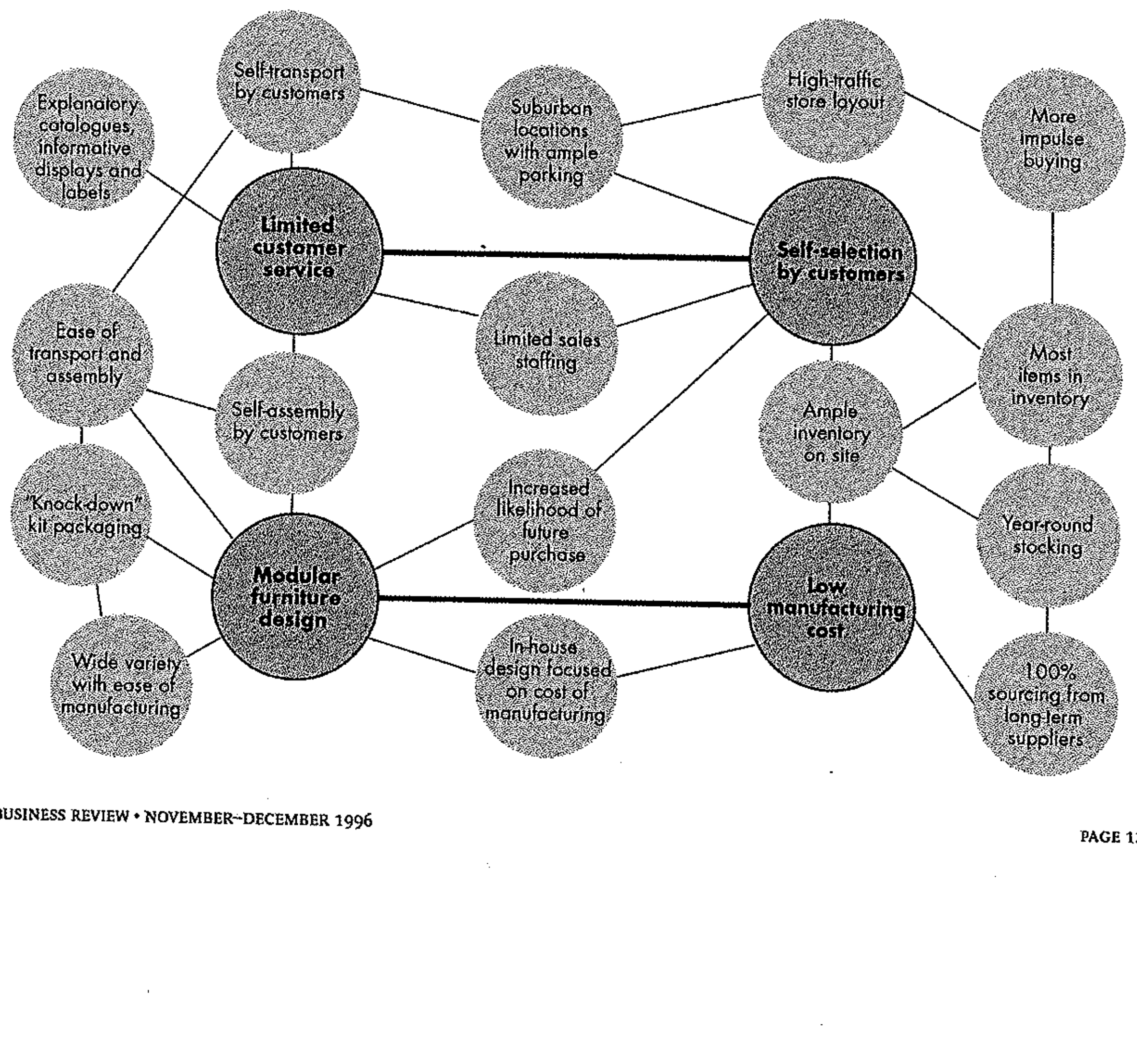
Yet Bic goes beyond simple consistency because its activities are reinforcing. For example, the company uses point-of-sale displays and frequent packaging changes to stimulate impulse buying. To handle point-of-sale tasks, a company needs a large sales force. Bic's is the largest in its industry, and it handles point-of-sale activities better than its rivals do. Moreover, the combination of point-of-sale activity, heavy television advertising, and packaging changes yields far more impulse buying than any activity in isolation could.

Third-order fit goes beyond activity reinforcement to what I call *optimization of effort.* The Gap, a retailer of casual clothes, considers product availability in its stores a critical element of its strategy. The Gap could keep products either by holding store inventory or by restocking from warehouses. The Gap has optimized its effort across these activities by restocking its selection of basic clothing almost daily out of three warehouses, thereby minimizing the need to carry large in-store inventories. The emphasis is on restocking because the Gap's merchandising strategy sticks to basic items in relatively few colors. While comparable retailers achieve turns of three to four times per year, the Gap turns its inventory seven and a half times per year. Rapid restocking, moreover, reduces the cost of implementing the Gap's short model cycle, which is six to eight weeks long.[3]

Coordination and information exchange across activities to eliminate redundancy and minimize wasted effort are the most basic types of effort optimization. But there are

Mapping Activity Systems

Activity-system maps, such as this one for Ikea, show how a company's strategic position is contained in a set of tailored activities designed to deliver it. In companies with a clear strategic position, a number of higher-order strategic themes (in dark grey) can be identified and implemented through clusters of tightly linked activities (in light grey).



higher levels as well. Product design choices, for example, can eliminate the need for after-sale service or make it possible for customers to perform service activities themselves. Similarly, coordination with suppliers or distribution channels can eliminate the need for some in-house activities, such as end-user training.

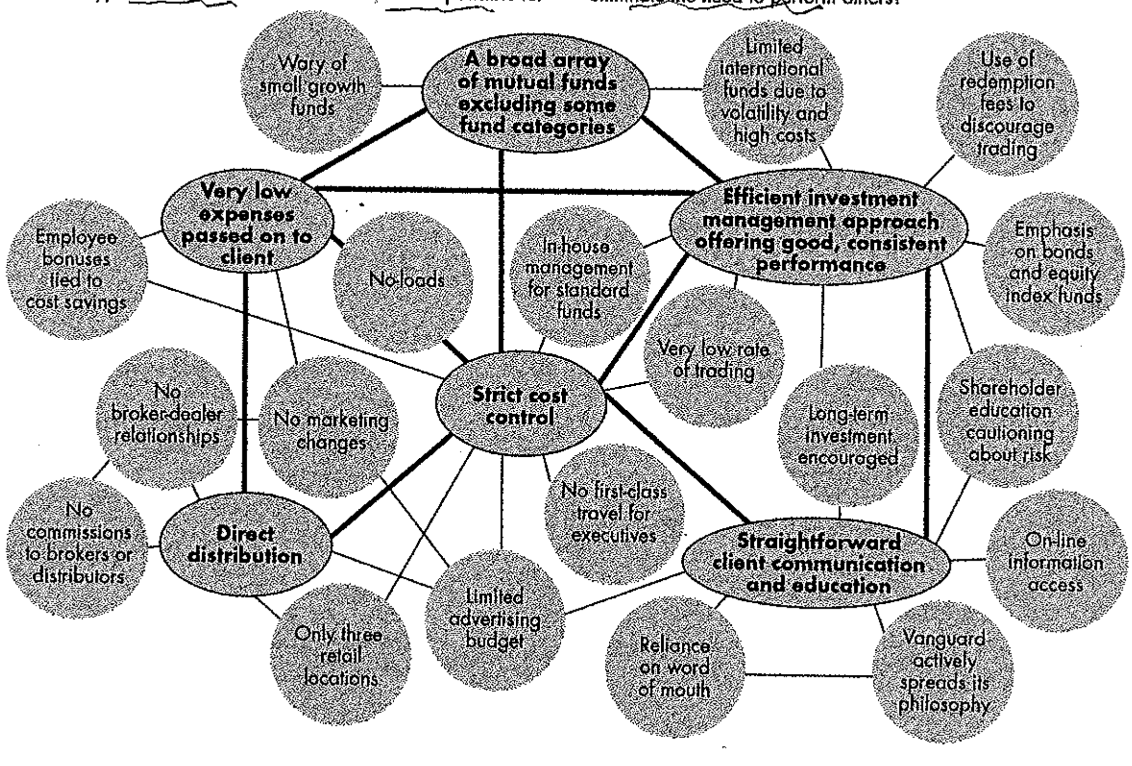
In all three types of fit, the whole matters more than any individual part. Competitive advantage grows out of the *entire system* of activities. The fit among activities substantially reduces cost or increases differentiation. Beyond that, the competitive value of individual activities—or the associated skills, competencies, or resources—cannot be decoupled from the system or the strategy. Thus in competitive companies it can be misleading to explain success by specifying individual strengths, core competencies, or critical resources. The list of strengths cuts across many functions, and one strength blends into others. It is more useful to think in terms of themes that pervade many activities, such as low cost, a particular notion of customer service, or a particular conception of the value delivered. These themes are embodied in nests of tightly linked activities.

Fit and sustainability. Strategic fit among many activities is fundamental not only to competitive advantage but also to the sustainability of that advantage. It is harder for a rival to match an array of interlocked activities than it is merely to imitate a particular sales-force approach, match a process technology, or replicate a set of product features. Positions built on systems of activities are far more sustainable than those built on individual activities. Gupo 1982

Consider this simple exercise. The probabil-

Vanguard's Activity System

Activity-system maps can be useful for examining and strengthening strategic fit. A set of basic questions should guide the process. First, is each activity consistent with the overall positioning – the varieties produced, the needs served, and the type of customers accessed? Ask those responsible for each activity to identify how other activities within the company improve or detract from their performance. Second, are there ways to strengthen how activities and groups of activities reinforce one another? Finally, could changes in one activity eliminate the need to perform others?



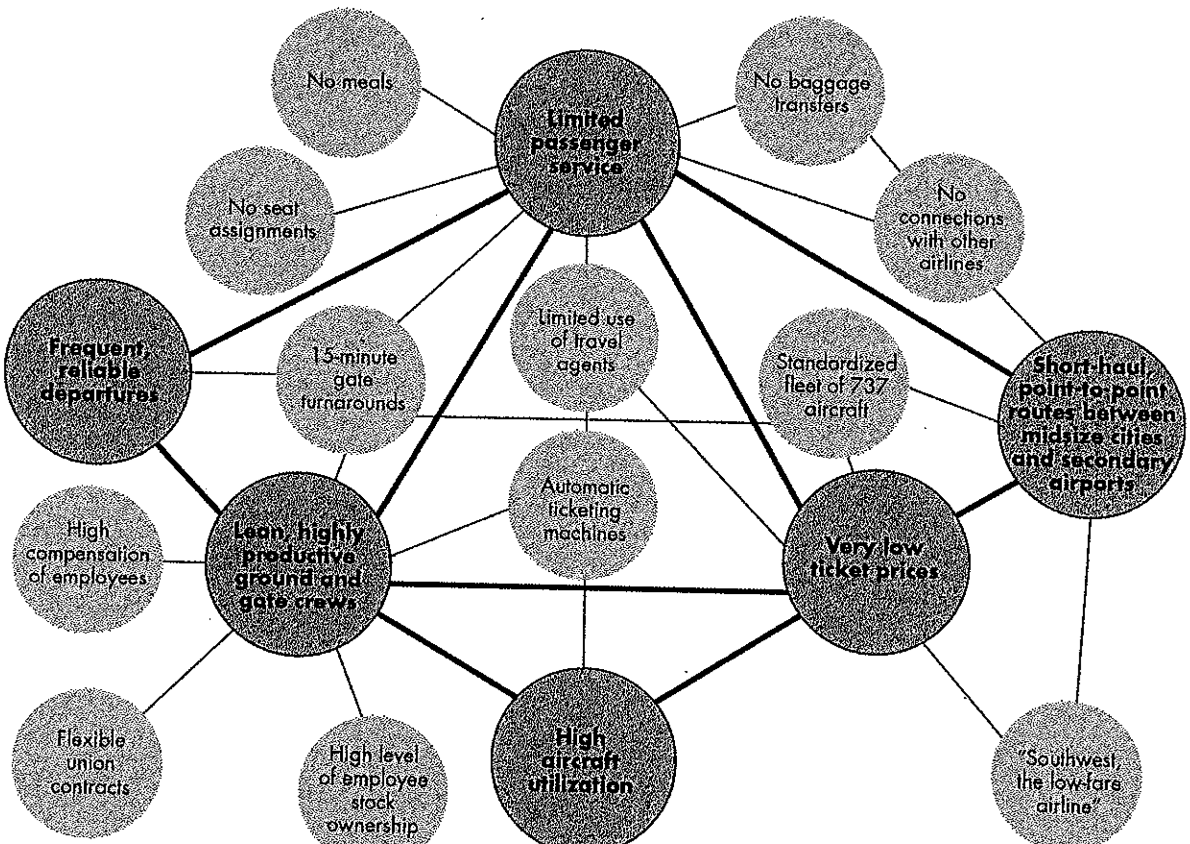
ity that competitors can match any activity is often less than one. The probabilities then quickly compound to make matching the entire system highly unlikely (.9 x .9 = .81; .9 x .9 x .9 x .9 = .66, and so on). Existing companies that try to reposition or straddle will be forced to reconfigure many activities. And even new entrants, though they do not confront the trade-offs facing established rivals, still face formidable barriers to imitation.

The more a company's positioning rests on activity systems with second- and third-order fit, the more sustainable its advantage will be. Such systems, by their very nature, are usually difficult to untangle from outside the company and therefore hard to imitate. And even if rivals can identify the relevant interconnections, they will have difficulty replicating them. Achieving fit is difficult because it requires the integration of decisions and actions across many independent subunits.

A competitor seeking to match an activity system gains little by imitating only some activities and not matching the whole. Performance does not improve; it can decline. Recall Continental Lite's disastrous attempt to imitate Southwest.

Finally, fit among a company's activities creates pressures and incentives to improve operational effectiveness, which makes imitation even harder. Fit means that poor performance in one activity will degrade the performance in others, so that weaknesses are exposed and more prone to get attention. Conversely, improvements in one activity will pay dividends in others. Companies with strong fit among their activities are rarely inviting targets. Their superiority in strategy and in execution only

Southwest Airlines' Activity System



compounds their advantages and raises the hurdle for imitators.

When activities complement one another, rivals will get little benefit from imitation unless they successfully match the whole system. Such situations tend to promote winner-take-all competition. The company that builds the best activity system—Toys R Us, for instance—wins, while rivals with similar strategies—Child World and Lionel Leisure—fall behind. Thus finding a new strategic position is often preferable to being the second or third imitator of an occupied position.

The most viable positions are those whose activity systems are incompatible because of tradeoffs. Strategic positioning sets the trade-off rules that define how individual activities will be configured and integrated. Seeing strategy in terms of activity systems only makes it clearer why organizational structure, systems, and processes need to be strategy-specific. Tailoring organization to strategy, in turn, makes complementarities more achievable and contributes to sustainability.

One implication is that strategic positions should have a horizon of a decade or more, not of a single planning cycle. Continuity fosters improvements in individual activities and the fit across activities, allowing an organization to build unique capabilities and skills tailored to its strategy. Continuity also reinforces a company's identity.

Conversely, frequent shifts in positioning are costly. Not only must a company reconfigure individual activities, but it must also realign entire systems. Some activities may never catch up to the vacillating strategy. The inevitable result of frequent shifts in strategy, or of failure to choose a distinct position in the first place, is "me-too" or hedged activity configurations, inconsistencies across functions, and organizational dissonance.

What is strategy? We can now complete the answer to this question. Strategy is creating fit among a company's activities. The success of a strategy depends on doing many things well—not just a few—and integrating among them. If there is no fit among activities, there is no distinctive strategy and little sustainability. Management reverts to the simpler task of overseeing independent functions, and operational effectiveness determines an organization's relative performance.

V. Rediscovering Strategy

The Failure to Choose. Why do so many companies fail to have a strategy? Why do managers avoid making strategic choices? Or, having made them in the past, why do managers so often let strategies decay and blur?

Commonly, the threats to strategy are seen to emanate from outside a company because of changes in technology or the behavior of competitors. Although external changes can be the problem, the greater threat to strategy often comes from within. A sound strategy is undermined by a misguided view of competition, by organizational failures, and, especially, by the desire to grow.

Managers have become confused about the necessity of making choices. When many companies operate far from the productivity frontier, trade-offs appear unnecessary. It can seem that a well-run company should be able to beat its ineffective rivals on all dimensions simultaneously. Taught by popular management thinkers that they do not have to make trade-offs, managers have acquired a macho sense that to do so is a sign of weakness.

Unnerved by forecasts of hypercompetition, managers increase its likelihood by imitating everything about their competitors. Exhorted to think in terms of revolution, managers chase every new technology for its own sake.

The pursuit of operational effectiveness is seductive because it is concrete and actionable. Over the past decade, managers have been under increasing pressure to deliver tangible, measurable performance improvements. Programs in operational effectiveness produce re-

Alternative Views of Strategy

The Implicit Strategy Model of the Past Decade

- One ideal competitive position in the industry
- Benchmarking of all activities and achieving best practice
- Aggressive outsourcing and partnering to gain efficiencies
- Advantages rest on a few key success factors, critical resources, core competencies
- Flexibility and rapid responses to all competitive and market changes

Sustainable Competitive Advantage

- Unique competitive position for the company
- Activities tailored to strategy
- Clear trade-offs and choices vis-à-vis competitors
- Competitive advantage arises from fit across activities
- Sustainability comes from the activity system, not the parts
- Operational effectiveness a given

assuring progress, although superior profitability may remain elusive. Business publications and consultants flood the market with information about what other companies are doing, reinforcing the best-practice mentality. Caught up in the race for operational effectiveness, many managers simply do not understand the need to have a strategy.

Companies avoid or blur strategic choices for other reasons as well. Conventional wisdom within an industry is often strong, homogenizing competition. Some managers mistake "customer focus" to mean they must serve all customer needs or respond to every request from distribution channels. Others cite the desire to preserve flexibility.

Organizational realities also work against strategy. Trade-offs are frightening, and making no choice is sometimes preferred to risking blame for a bad choice. Companies imitate one another in a type of herd behavior, each assuming rivals know something they do not. Newly empowered employees, who are urged to seek every possible source of improvement, often lack a vision of the whole and the perspective to recognize trade-offs. The failure to choose sometimes comes down to the reluctance to disappoint valued managers or employees.

The Growth Trap. Among all other influences, the desire to grow has perhaps the most perverse effect on strategy. Trade-offs and limits appear to constrain growth. Serving one group of customers and excluding others, for instance, places a real or imagined limit on revenue growth. Broadly targeted strategies emphasizing low price result in lost sales with customers sensitive to features or service. Differentiators lose sales to price-sensitive customers.

Managers are constantly tempted to take incremental steps that surpass those limits but blur a company's strategic position. Eventually, pressures to grow or apparent saturation of the target market lead managers to broaden the position by extending product lines, adding new features, imitating competitors' popular services, matching processes, and even making acquisitions. For years, Maytag Corporation's success was based on its focus on reliable, durable washers and dryers, later extended to include dishwashers. However, conventional wisdom emerging within the industry supported the notion of selling a full line of products. Con-

Reconnecting with Strategy

Most companies owe their initial success to a unique strategic position involving clear trade-offs. Activities once were aligned with that position. The passage of time and the pressures of growth, however, led to compromises that were, at first, almost imperceptible. Through a succession of incremental changes that each seemed sensible at the time, many established companies have compromised their way to homogeneity with their rivals.

The issue here is not with the companies whose historical position is no longer viable; their challenge is to start over, just as a new entrant would. At issue is a far more common phenomenon: the established company achieving mediocre returns and lacking a clear strategy. Through incremental additions of product varieties, incremental efforts to serve new customer groups, and emulation of rivals' activities, the existing company loses its clear competitive position. Typically, the company has matched many of its competitors' offerings and practices and attempts to sell to most customer groups.

A number of approaches can help a company reconnect with strategy. The first is a careful look at what it already does. Within most well-established companies is a core of uniqueness. It is identified by answering questions such as the following:

- Which of our product or service varieties are the most distinctive?
- Which of our product or service varieties are the most profitable?
- Which of our customers are the most satisfied?
- Which customers, channels, or purchase occasions are the most profitable?
- Which of the activities in our value chain are the most different and effective?

Around this core of uniqueness are encrustations added incrementally over time. Like barnacles, they must be removed to reveal the underlying strategic positioning. A small percentage of varieties or customers may well account for most of a company's sales and especially its profits. The challenge, then, is to refocus on the unique core and realign the company's activities with it. Customers and product varieties at the periphery can be sold or allowed through inattention or price increases to fade away.

A company's history can also be instructive. What was the vision of the founder? What were the products and customers that made the company? Looking backward, one can reexamine the original strategy to see if it is still valid. Can the historical positioning be implemented in a modern way, one consistent with today's technologies and practices? This sort of thinking may lead to a commitment to renew the strategy and may challenge the organization to recover its distinctiveness. Such a challenge can be galvanizing and can instill the confidence to make the needed trade-offs.

cerned with slow industry growth and competition from broad-line appliance makers, Maytag was pressured by dealers and encouraged by customers to extend its line. Maytag expanded into refrigerators and cooking products under the Maytag brand and acquired other brands—Jenn-Air, Hardwick Stove, Hoover, Admiral, and Magic Chef—with disparate positions. Maytag has grown substantially from $684 million in 1985 to a peak of $3.4 billion in 1994, but return on sales has declined from 8% to 12% in the 1970s and 1980s to an average of less than 1% between 1989 and 1995. Cost cutting will improve this performance, but laundry and dishwasher products still anchor Maytag's profitability.

Neutrogena may have fallen into the same trap. In the early 1990s, its U.S. distribution broadened to include mass merchandisers such as Wal-Mart Stores. Under the Neutrogena name, the company expanded into a wide variety of products—eye-makeup remover and shampoo, for example—in which it was not unique and which diluted its image, and it began turning to price promotions.

Compromises and inconsistencies in the pursuit of growth will erode the competitive advantage a company had with its original varieties or target customers. Attempts to compete in several ways at once create confusion and undermine organizational motivation and focus. Profits fall, but more revenue is seen as the answer. Managers are unable to make choices, so the company embarks on a new round of broadening and compromises. Often, rivals continue to match each other until desperation breaks the cycle, resulting in a merger or downsizing to the original positioning.

Profitable Growth. Many companies, after a decade of restructuring and cost-cutting, are turning their attention to growth. Too often, efforts to grow blur uniqueness, create compromises, reduce fit, and ultimately undermine competitive advantage. In fact, the growth imperative is hazardous to strategy.

What approaches to growth preserve and reinforce strategy? Broadly, the prescription is to concentrate on deepening a strategic position rather than broadening and compromising it. One approach is to look for extensions of the strategy that leverage the existing activity system by offering features or services that rivals would find impossible or costly to match on a stand-alone basis. In other words, managers can ask themselves which activities, features, or forms of competition are feasible or less costly to them because of complementary activities that their company performs.

Deepening a position involves making the company's activities more distinctive, strengthening fit, and communicating the strategy better to those customers who should value it. But many companies succumb to the temptation to chase "easy" growth by adding hot features, products, or services without screening them or adapting them to their strategy. Or they target new customers or markets in which the company has little special to offer. A company can often grow faster—and far more profitably—by better penetrating needs and varieties where it is distinctive than by slugging it out in potentially higher growth arenas in which the company lacks uniqueness. Carmike, now the largest theater chain in the United States, owes its rapid growth to its disciplined concentration on small markets. The company quickly sells any big-city theaters that come to it as part of an acquisition.

Emerging Industries and Technologies

Developing a strategy in a newly emerging industry or in a business undergoing revolutionary technological changes is a daunting proposition. In such cases, managers face a high level of uncertainty about the needs of customers, the products and services that will prove to be the most desired, and the best configuration of activities and technologies to deliver them. Because of all this uncertainty, imitation and hedging are rampant: unable to risk being wrong or left behind, companies match all features, offer all new services, and explore all technologies.

During such periods in an industry's development, its basic productivity frontier is being established or reestablished. Explosive growth can make such times profitable for many companies, but profits will be temporary because imitation and strategic convergence will ultimately destroy industry profitability. The companies that are enduringly successful will be those that begin as early as possible to define and embody in their activities a unique competitive position. A period of imitation may be inevitable in emerging industries, but that period reflects the level of uncertainty rather than a desired state of affairs.

In high-tech industries, this imitation phase often continues much longer than it should. Enraptured by technological change itself, companies pack more features—most of which are never used—into their products while slashing prices across the board. Rarely are trade-offs even considered. The drive for growth to satisfy market pressures leads companies into every product area. Although a few companies with fundamental advantages prosper, the majority are doomed to a rat race no one can win.

Ironically, the popular business press, focused on hot, emerging industries, is prone to presenting these special cases as proof that we have entered a new era of competition in which none of the old rules are valid. In fact, the opposite is true.

CTP

Globalization often allows growth that is consistent with strategy, opening up larger markets for a focused strategy. Unlike broadening domestically, expanding globally is likely to leverage and reinforce a company's unique position and identity.

Companies seeking growth through broadening within their industry can best contain the risks to strategy by creating stand-alone units, each with its own brand name and tailored activities. Maytag has clearly struggled with this issue. On the one hand, it has organized its premium and value brands into separate units with different strategic positions. On the other, it has created an umbrella appliance company for all its brands to gain critical mass. With shared design, manufacturing, distribution, and customer service, it will be hard to avoid homogenization. If a given business unit attempts to compete with different positions for different products or customers, avoiding compromise is nearly impossible.

The Role of Leadership. The challenge of developing or reestablishing a clear strategy is often primarily an organizational one and depends on leadership. With so many forces at work against making choices and tradeoffs in organizations, a clear intellectual framework to guide strategy is a necessary counterweight. Moreover, strong leaders willing to make choices are essential.

In many companies, leadership has degenerated into orchestrating operational improvements and making deals. But the leader's role is broader and far more important. General management is more than the stewardship of individual functions. Its core is strategy: defining and communicating the company's unique position, making trade-offs, and forging fit among activities. The leader must provide the discipline to decide which industry changes and customer needs the company will respond to, while avoiding organizational distractions and maintaining the company's distinctiveness. Managers at lower levels lack the perspective and the confidence to maintain a strategy. There will be constant pressures to compromise, relax trade-offs, and emulate rivals. One of the leader's jobs is to teach others in the organization about strategy—and to say no.

Strategy renders choices about what not to do as important as choices about what to do. Indeed, setting limits is another function of leadership. Deciding which target group of customers, varieties, and needs the company should serve is fundamental to developing a strategy. But so is deciding not to serve other customers or needs and not to offer certain features or services. Thus strategy requires constant discipline and clear communication. Indeed, one of the most important functions of an explicit, communicated strategy is to guide employees in making choices that arise because of trade-offs in their individual activities and in day-to-day decisions.

Improving operational effectiveness is a necessary part of management, but it is *not* strategy. In confusing the two, managers have unintentionally backed into a way of thinking about competition that is driving many industries toward competitive convergence, which is in no one's best interest and is not inevitable.

Managers must clearly distinguish operational effectiveness from strategy. Both are essential, but the two agendas are different.

The operational agenda involves continual improvement everywhere there are no trade-offs. Failure to do this creates vulnerability even for companies with a good strategy. The operational agenda is the proper place for constant change, flexibility, and relentless efforts to achieve best practice. In contrast, the strategic agenda is the right place for defining a unique position, making clear trade-offs, and tightening fit. It involves the continual search for ways to reinforce and extend the company's position. The strategic agenda demands discipline and continuity; its enemies are distraction and compromise.

Strategic continuity does not imply a static view of competition. A company must continually improve its operational effectiveness and actively try to shift the productivity frontier; at the same time, there needs to be ongoing effort to extend its uniqueness while strengthening the fit among its activities. Strategic continuity, in fact, should make an organization's continual improvement more effective.

A company may have to change its strategy if there are major structural changes in its industry. In fact, new strategic positions often arise because of industry changes, and new entrants unencumbered by history often can exploit them more easily. However, a company's choice of a new position must be driven by the ability to find new trade-offs and leverage a new system of complementary activities into a sustainable advantage.

1. *I first described the concept of activities and its use in understanding competitive advantage in* Competitive Advantage *(New York: The Free Press, 1985). The ideas in this article build on and extend that thinking.*

2. *Paul Milgrom and John Roberts have begun to explore the economics of systems of complementary functions, activities, and functions. Their focus is on the emergence of "modern manufacturing" as a new set of complementary activities, on the tendency of companies to react to external changes with coherent bundles of internal responses, and on the need for central coordination—a strategy—to align functional managers. In the latter case, they model what has long been a bedrock principle of strategy. See Paul Milgrom and John Roberts, "The Economics of Modern Manufacturing: Technology, Strategy, and Organization,"* American Economic Review *80 (1990): 511–528; Paul Milgrom, Yingyi Qian, and John Roberts, "Complementarities, Momentum, and Evolution of Modern Manufacturing,"* American Economic Review *81 (1991) 84–88; and Paul Milgrom and John Roberts, "Complementarities and Fit: Strategy, Structure, and Organizational Changes in Manufacturing,"* Journal of Accounting and Economics, *vol. 19 (March–May 1995): 179–208.*

3. *Material on retail strategies is drawn in part from Jan Rivkin, "The Rise of Retail Category Killers," unpublished working paper, January 1995. Nicolaj Siggelkow prepared the case study on the Gap.*

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