

Idea in Practice

Three key principles underlie strategic positioning.

1. Strategy is the creation of a unique and valuable position, involving a different set of activities. Strategic position emerges from three distinct sources:

- serving few needs of many customers (Jiffy Lube provides only auto lubricants)
- serving broad needs of few customers (Bessemer Trust targets only very high-wealth clients)
- serving broad needs of many customers in a narrow market (Carmike Cinemas operates only in cities with a population under 200,000)

2. Strategy requires you to make trade-offs in competing—to choose what not to do. Some competitive activities are incompatible; thus, gains in one area can be achieved only at the expense of another area. For example, Neutrogena soap is positioned more as a medicinal product than as a cleansing agent. The company says “no” to sales based on deodorizing, gives up large volume, and sacrifices manufacturing efficiencies. By contrast, Maytag’s decision to extend its product line and acquire other brands

represented a failure to make difficult trade-offs: the boost in revenues came at the expense of return on sales.

3. Strategy involves creating “fit” among a company’s activities. Fit has to do with the ways a company’s activities interact and reinforce one another. For example, Vanguard Group aligns all of its activities with a low-cost strategy; it distributes funds directly to consumers and minimizes portfolio turnover. Fit drives both competitive advantage and sustainability: when activities mutually reinforce each other, competitors can’t easily imitate them. When Continental Lite tried to match a few of Southwest Airlines’ activities, but not the whole interlocking system, the results were disastrous.

Employees need guidance about how to deepen a strategic position rather than broaden or compromise it. About how to extend the company’s uniqueness while strengthening the fit among its activities. This work of deciding which target group of customers and needs to serve requires discipline, the ability to set limits, and forthright communication. Clearly, strategy and leadership are inextricably linked.