# Beyond Porter

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Beyond PorterContext MagazineSo many of today's strategic planners have been raised on Professor MichaelPorter's "Competitive Advantage" that the 1980 book feels as comfortable as Dr. Spock's guide to rearing children once did. But the world of commerce that Mr. Porter describes is disappearing rapidly. As important as the Porter methodology is, the time has come to move on. Mr. Porter himself has recently written that "developing a strategy in a newly emerging industry or in a business undergoing revolutionary technological change is a daunting proposition." He just doesn't happen to believe, as I do, that digital technologies have thrown nearly every industry into a new era of competition in which none of the old rules are valid. Competitive advantage, according to Mr. Porter, requires sustainable leverage over the "Five Forces"--buyers, suppliers, competitors, new entrants, and substitutes. The Porter view of a cost-cutter like Wal-Mart, for example, is that its scale forces suppliers to give up profit margin. Federal Express offers such valuable services (guaranteed next-day delivery, convenient pickups, package tracking, etc.) that buyers will pay a premium price. Achieving and keeping competitive advantage was hard enough. But now it's even harder. Mr. Porter's style of planning assumes predictable--or at least identifiable--competitors and business partners, including customers. He also assumes business environments that tend to stay in place while you experiment on them. But these assumptions are no longer viable. The problem is that three New Forces--digitalization, globalization, and deregulation--are overwhelming the traditional five. The New Forces, whose effect can be seen most visibly in the movement of business activities from the physical world to the world of global computer networks like the Internet, require a new strategic framework and a set of very different analytic and business design tools. Here's how the New Forces change everything: DIGITALIZATION: As computing power and communications bandwidth become cheap enough to treat as disposable, you'll soon have far more information about your competitors, suppliers, and customers. The rise of public networks will make that information more widely available, increasing the possibilities for collaborating and competing. The result of this information explosion won't just be more/better/ faster.Instead, the result will be vastly changed markets that involve unfamiliar, unpredictable competitors and partners that mutate even before you get comfortable with them. Shopping mall developers, for instance, have spent decades developing competitive advantage by managing real estate acquired based on the traditional criteria--location, location, and location. Now, out of the blue, comes the rapid digitalization of commerce. Electronic malls can offer a broader array of products than any physical mall and are open 24 hours a day, seven days a week.Nontraditional competitors--such as Barclay's Bank in the U.K., which has launched its Barclay Square Web site--now have malls that put them in the "real estate" business with little investment in infrastructure. Barclay's closely aligns its goals with those of its merchant customers by forgoing rent and charging just the regular transaction fee as their credit card agent. Physical malls even lose on location, because electronic malls are conveniently located wherever the customer (and his Internet device of choice) happens to be. Whether it's a bank or some other type of company that makes electronic commerce take off, those who use the Five Forces model and who base their thinking on today's industry structure will never see the change coming in time to maintain advantage. The disruption caused by digitalization is also already rippling through associated industries, such as advertising, construction, customer service, and distribution. GLOBALIZATION: The world is rapidly migrating to one very large network, whose attraction is irresistible. Improvements in distribution logistics and communications have allowed many local businesses to become global ones overnight--including discount distributors of everything from contact lenses to bathroom tiles. It is also now common for companies to draw on a global network of partners and suppliers. Customers, meanwhile, are happy to engage in border-less shopping for everything from entertainment to software to cars and electronics. So, competition has kicked into overdrive. Meanwhile, for time-sensitive processes, organizations in industries as varied as manufacturing and high finance take advantage of the rotation of the earth by passing work back and forth between Asia, Europe and the Americas, allowing for true 24-hour operations. Again, the result is disruption on a scale that the traditional approach to strategy just can't handle. DEREGULATION: The current mania for deregulation reflects a belief by governments and regulated industries alike that the disease (open, international competition) is better than the cure (laws to protect local economies). This shrinking of government can be seen in the airline, communications, utilities and banking industries in the U.S. and Europe; in the passage of GATT and NAFTA; in the development of the European Union; and in the dramatic collapse of the highly regulated economies of the former Soviet republics. The open market, which adopts information technology more quickly than did industries with a legacy of regulation, is becoming a viable alternative for many activities. The change is contributing to the radical shrinking, outsourcing, and restructuring of traditional enterprises. Impressive enough on their own, the New Forces feed off each other. Digital technologies make it easier to manage larger numbers of buyers and suppliers, thus speeding up globalization. As the economy become more global, countries find they need to roll back more regulations if they want to participate profitably. As deregulation takes hold, previously protected companies find they have to step up sharply their strategic use of digital technology. And the whole cycle starts over again. What results is a fundamental redefinition of markets--and the pace of change is accelerating. The international telephone market, for instance, was neatly segregated for decades among heavily regulated national carriers. But technological improvements led by leased data lines, satellites, and automated call back systems gave customers a way around the high monopoly prices they were being charged. Governments responded by deregulating. Companies then began expanding internationally, as evidenced by British Telecom's attempt to buy MCI. Now, with competition intensifying, telecommunications companies are investing more in technology. One telecommunications expert was quoted in the New York Times as saying that customers will save $1 trillion in phone costs over the next 10 to 12 years because of increased competition. While commercial banking isn't as far along, the pressure is building for a similar upheaval. Banks invested in technologies such as ATMs, telephone banking, and now Internet banking largely as means for cutting costs. As electronic banking improved, banks found that customers derived little value from in-person branch banking. So, two years ago, Security First Network Bank opened a bank that operates

only on the Internet--becoming the first virtual bank. While banks are ferociously merging to reduce the number of branches they operate, Security First doesn't have any. Deregulation will now pick up speed. Competition will spread throughout the U.S., then the world. Soon, your choice for basic checking may be the savings and loan down the street or your very own Swiss bank account. No doubt the foremost difference between strategy in the Porter world and in the world of the New Forces is in the role of information technology. In the old world, technology was a tool for implementing change. Planners decided how they wanted the business to change, then tossed requirements over the wall to the I/S department. This approach largely fails today; in the future, the problems will get worse. Executives in every department must learn that technology has become far more than an enabler of new business strategies. Technology has become the essential disrupter of markets and operating models. Technology, in other words, isn't the solution. It's the problem. Mr. Downes (ldownes@best.com) is co-author of "Unleashing the Killer App:Digital Strategies for Market Dominance", to be published in 1998 by Harvard Business School. Larry Downes - For Full Bio see:http://www.haas.berkeley.edu/faculty/pdf/larrydownes.pdf