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# Sound long-term strategy is key, particularly in a crisis

**With the current global economic downturn, there's been plenty of talk of doom and gloom. But Professor Michael Porter of Harvard University, a leading authority on competitive strategy, begs to differ. He believes this time of great economic upheaval to be the tipping point for companies – if only they know how to harness the right strategies.**

"It's times like these when tremendous competitive success can be achieved. It's times like these where companies can shift positions in the marketplace. It's times like these when leaders can become followers, and followers can become leaders, because we are in a period where everything is now going to open and unfreeze."

## Redefining strategy

And it is at times like these, Porter emphasises, that strategy is most important. With strategy generally being about earning a superior return over the longer run, its essence, he explains, is then about figuring out which set of needs you are going to meet in your company, which are different from the needs that you competitors are trying to meet.

"The worst mistake in strategy – and it's a particularly bad mistake in a slowed economic downturn – is to compete with your competitors on the same thing. You want to find a different kind of value that you can deliver to a different set of customers. Strategy is fundamentally about how you're going to deliver unique value."

And Porter believes there's no better time than now to heed this advice to differentiate yourself from the competition – and thrive. "In a time of economic downturn, you have to be clearer about your strategy than in normal times. When things are growing, lots of companies can be successful. In difficult times, the companies that win are the ones who are very clear about who they are and how they are trying to deliver value.

"In times of economic distress, clarity of strategy becomes even more important. In an economic downturn, figuring out what part of the industry that you want to serve becomes incredibly important."

He cautions, however, that businesses should not overreact to the unusual conditions of a downturn, and not change their entire strategy because of the particular set of customers who are not buying today. And a sound strategy, he adds, needs a few years to incubate in order for it to really bear fruit.

## Seeing the big picture

Another gaffe to avoid is what Porter calls the paradox of economic downturns. "Every bit of pressure is pulling companies to doing whatever is necessary to survive …What we've found over and over again is that to survive you actually have to have the capacity to integrate the short term and the long term, and think about the two together. And you can't take actions in the short term that seem expedient, if they ultimately undermine what's different or unique about the company. Companies that really overreact to the downturn I think get themselves into big trouble."

To cite an example, Porter explains that if a company that is strategically focused on providing excellent products with excellent service suddenly cuts back on service and activities to cater to price-sensitive customers, they risk undermining their longer-term success and become just like their competitors who are all cutting prices as well. "When you cut and shrink, don't do it across the board; cut to a strategy, don't just cut. Don't just take 10 per cent off every department – that's a disaster."

## Making good out of the bad

But there appears to be a silver lining this cloud. As companies are normally scrutinised every quarter on their profitability, the pressure is always on to keep the numbers healthy. But at times like this, Porter says that the stock price and quarterly results actually don't matter very much because nobody is going to look good. And trying to look a little better when everybody is bad doesn't really get you much.

He adds that it is ironic that during such trying times that companies have the greatest flexibility to make unprecedented moves and investments that they would otherwise not have been able to do in more normal periods when they're under more short-term scrutiny.

"At times like these, there's a possibility to make moves that you could never dream of making before …We've got to see this for what it is. We're going to have to understand that the rules of economics and competition are going to continue, and we've got to take advantage of this period to try to move our business forward."

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