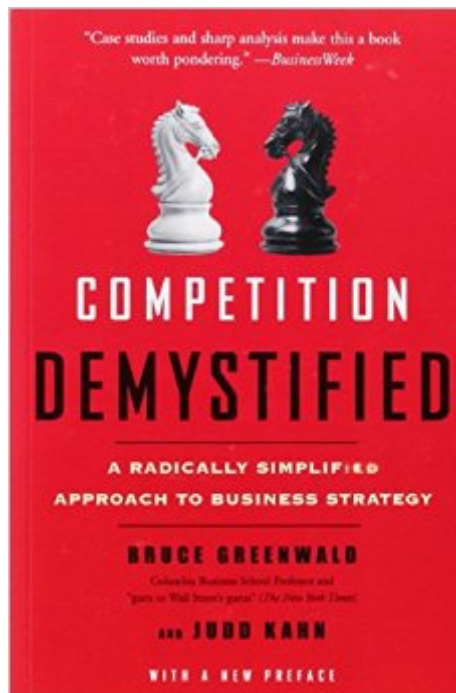


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Competition Demystified: A Radically Simplified Approach To Business Strategy



Synopsis

Bruce Greenwald, one of the nation's leading business professors, presents a new and simplified approach to strategy that cuts through much of the fog that has surrounded the subject. Based on his hugely popular course at Columbia Business School, Greenwald and his coauthor, Judd Kahn, offer an easy-to-follow method for understanding the competitive structure of your industry and developing an appropriate strategy for your specific position. Over the last two decades, the conventional approach to strategy has become frustratingly complex. It's easy to get lost in a sophisticated model of your competitors, suppliers, buyers, substitutes, and other players, while losing sight of the big question: Are there barriers to entry that allow you to do things that other firms cannot?

Book Information

Paperback: 416 pages

Publisher: Portfolio; 58808th edition (August 28, 2007)

Language: English

ISBN-10: 1591841801

ISBN-13: 978-1591841807

Product Dimensions: 5.5 x 0.9 x 8.4 inches

Shipping Weight: 12.8 ounces (View shipping rates and policies)

Average Customer Review: 4.2 out of 5 stars Â See all reviews Â (41 customer reviews)

Best Sellers Rank: #39,244 in Books (See Top 100 in Books) #61 in Â Books > Business & Money > Management & Leadership > Strategy & Competition #146 in Â Books > Business & Money > Processes & Infrastructure > Strategic Planning #172 in Â Books > Business & Money > Management & Leadership > Systems & Planning

Customer Reviews

This is an excellent text for investors wishing to develop their "circle of competence." Analysts often focus on the next earnings report but the most inefficient area of investing and hence the greatest rewards are what will be the value of a company in three to five to ten years. Throw out Beta and your Capital Asset Pricing Model and develop your valuation from a strategic perspective. Does the company (your potential investment) benefit from barriers to entry? If it does, then what is the source of those competitive advantages: proprietary technical advantage, customer captivity and/or economies of scale? Does your company operate in an industry with market share stability, and does it have high returns on capital to confirm a competitive advantage like Coke and Pepsi in the

Soft Drink Industry? If more than one company has a competitive advantage then how do they interact within their industry? If a company does not benefit from incumbent competitive advantages, then is management focused and running their business efficiently? My point is not to summarize the book but to show the systematic analytical approach used. The authors go through numerous case studies and examples from the perspective of game theory, local economies of scale, branding, M&A, cooperation amongst competitors, competitive interactions, entry strategies and incumbent responses. The key is that you learn a process and approach to understand an industry and the interaction of competitors within that industry. Hence, you will expand your ability to grasp whether a potential investment has sustainable competitive advantages. As Mr. Buffett has often said, "How deep and wide is the moat around your castle?" Don't invest before you can answer that question. If you can't, then walk on by.

Greenwald lays out what he calls a simplified theory of competitive strategy," followed by analyses of a number of real-life situations. While the theory usually makes sense, Greenwald's application is not always as compelling. "Competition Demystified" begins by observing that for at least the last half century, strategy has been a major focus of management concern. Sometimes enormous consequences flow from decisions not even thought to be strategic - eg. IBM's outsourcing creation of its PC operating system and CPU manufacturing. Regardless, effective strategy is central to business success. Greenwald says that the first issue is selecting the arena of competition, and the second involves management of external agents. Barriers to entry is the area one should focus on first, and primarily in these analyses. If there are no barriers many strategic concerns can be ignored - the only option is to focus on being as efficient and effective as possible. Greenwald believes that competitive advantages that lead to market dominance are much more likely to be found in a local arena (either geographic or product space). Further, there are only three kinds of genuine competitive advantage: supply (privileged access, proprietary technology protected by patents or experience), demand (eg. psychological or actual costs of switching - includes branding, loyalty programs, laborious setup and coordination issues), and scale economics. An elephant (vs. ants) with a competitive advantage has as its priority to sustain what it has, and must recognize the sources and limits of its competitive advantages. Alternatively, companies with a competitive advantage may have potent competitors (eg. Coke - Pepsi, Boeing - Airbus).

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