THE BOSTON CONSULTING GROUP ON STRATEGY
Contents

Foreword xiii
Preface xv
Acknowledgments xvii

PART ONE  The Nature of Business Strategy

Strategic and Natural Competition, Bruce D. Henderson, 1980 2

PART TWO  The Development of Business Strategy

Foundations 9

The Experience Curve Reviewed: History, Bruce D.
Henderson, 1973 12

The Experience Curve Reviewed: Why Does It Work?
Bruce D. Henderson, 1974 15

The Experience Curve Reviewed: Price Stability,
Bruce D. Henderson, 1974 18

The Pricing Paradox, Bruce D. Henderson, 1970 24

The Market-Share Paradox, Bruce D. Henderson, 1970 27

More Debt or None? Bruce D. Henderson, 1972 29

The Rule of Three and Four, Bruce D. Henderson, 1976 31

The Product Portfolio, Bruce D. Henderson, 1970 35

The Real Objectives, Bruce D. Henderson, 1976 38

Milestones 40

Life Cycle of the Industry Leader, Bruce D. Henderson, 1972 43

The Evils of Average Costing, Richard K. Lochridge, 1975 46

Specialization or the Full Product Line, Michael C. Goold, 1979 48

Stalemate: The Problem, John S. Clarkeson, 1984 51

Business Environments, Richard K. Lochridge, 1981 56
CONTENTS

Revolution on the Factory Floor, Thomas M. Hout and George Stalk Jr., 1982 59

Time—The Next Source of Competitive Advantage, George Stalk Jr., 1988 63

Competing on Capabilities: The New Rules of Corporate Strategy, George Stalk Jr., Philip B. Evans, and Lawrence E. Shulman, 1992 82

Strategy and the New Economics of Information, Philip B. Evans and Thomas S. Wurster, 1997 99

Collaboration Rules, Philip Evans and Bob Wolf, 2005 120

PART THREE The Practice of Business Strategy

The Customer: Segmentation and Value Creation 137

Segmentation and Strategy, Seymour Tilles, 1974 139

Strategic Sectors, Bruce D. Henderson, 1975 141

Specialization, Richard K. Lochridge, 1981 143

Specialization: Cost Reduction or Price Realization, Anthony J. Habgood, 1981 145

Segment-of-One® Marketing, Richard Winger and David Edelman, 1989 147

Discovering Your Customer, Michael J. Silverstein and Philip Siegel, 1991 151

Total Brand Management, David C. Edelman and Michael J. Silverstein, 1993 154

Pricing Myopia, Philippe Morel, George Stalk Jr., Peter Stanger, and Peter Wetenhall, 2003 157

Trading Up, Michael J. Silverstein and Neil Fiske, 2003 and 2005 162

Trading Down: Living Large on $150 a Day, Lucy Brady and Michael J. Silverstein, 2005 168

Innovation and Growth 173

From the Insight Out, Michael J. Silverstein, 1995 174

Capitalizing on Anomalies, Lawrence E. Shulman, 1997 176

Breaking Compromises, George Stalk Jr., David K. Pecaut, and Benjamin Burnett, 1997 179
Contents ix


Innovating for Cash, James P. Andrew and Harold L. Sirkin, 2003 186

Acquiring Your Future, Mark Blaxill and Kevin Rivette, 2004 189

Deconstruction of Value Chains 194

The New Vertical Integration, John R. Frantz and Thomas M. Hout, 1993 195

The Deconstruction of Value Chains, Carl W. Stern, 1998 198

How Deconstruction Drives De-Averaging, Philip B. Evans, 1998 201

Thinking Strategically about E-Commerce, Philip B. Evans and Thomas S. Wurster, 1999 205

From “Clicks and Mortar” to “Clicks and Bricks,” Philip B. Evans and Thomas S. Wurster, 2000 208

Thermidor: The Internet Revolution and After, Philip B. Evans, 2001 210

The Online Employee, Michael S. Deimler and Morten T. Hansen, 2001 214

Richer Sourcing, Philip B. Evans and Bob Wolf, 2004 218

The Real Contest between America and China, Thomas Hout and Jean Lebreton, 2003 223

Performance Measurement 227

Profit Center Ethics, Bruce D. Henderson, 1971 229

The Story of Joe (A Fable), Bruce D. Henderson, 1977 232

Controlling for Growth in a Multidivision Business, Patrick Conley, 1968 234

Making Performance Measurements Perform, Robert Malchione, 1991 237

Economic Value Added, Eric E. Olsen, 1996 240

New Directions in Value Management, Eric E. Olsen, 2002 244

Workonomics, Felix Barber, Jeff Kotzen, Eric Olsen, and Rainer Strack, 2002 248

Resource Allocation 254

Cash Traps, Bruce D. Henderson, 1972 255

The Star of the Portfolio, Bruce D. Henderson, 1976 258
Anatomy of the Cash Cow, Bruce D. Henderson, 1976 259
The Corporate Portfolio, Bruce D. Henderson, 1977 262
Renaissance of the Portfolio, Anthony W. Miles, 1986 265
Premium Conglomerates, Dieter Heuskel, 1996 268
The End of the Public Company—As We Know It,
Larry Shulman, 2000 271
Advantage, Returns, and Growth—In That Order,
Gerry Hansell, 2005 275

Organizational Design 281
Profit Centers and Decentralized Management,
Bruce D. Henderson, 1968 282
Unleash Intuition, Richard K. Lochridge, 1984 285
Network Organizations, Todd L. Hixon, 1989 289
The Myth of the Horizontal Organization, Philippe J. Amouyal
and Jill E. Black, 1994 292
The Activist Center, Dennis N. Rheault
and Simon P. Trussler, 1995 295
Shaping Up: The Delayed Look, Ron Nicol, 2004 298
A Survivor’s Guide to Organization Redesign, Felix Barber,
D. Grant Freeland, and David Brownell, 2002 302

Leadership and Change 309
Why Change Is So Difficult, Bruce D. Henderson, 1967 310
Leadership, Bruce D. Henderson, 1966 312
How to Recognize the Need for Change, Carl W. Stern, 1983 315
Sustained Success, Alan J. Zakon
and Richard K. Lochridge, 1984 318
Strategy and Learning, Seymour Tilles, 1985 323
Let Middle Managers Manage, Jeanie Daniel Duck, 1991 327
Jazz versus Symphony, John S. Clarkeson, 1990 330
The Change Curve, Jeanie Daniel Duck, 2001 333
Leadership in a Time of Uncertainty, Bolko von
Oetinger, 2002 342
Leading in Emotional Times, Jeanie Daniel Duck, 2002 345
The Forgotten Half of Change, Luc de Brabandere, 2005 347
PART FOUR Business Thinking

*Business Thinking*, Bruce D. Henderson, 1977 354
*Brinkmanship in Business*, Bruce D. Henderson, 1967 357
*Business Chess*, Rudyard L. Istvan, 1984 361
*Probing*, Jonathan L. Isaacs, 1985 366
*Creative Analysis*, Anthony W. Miles, 1987 369
*Make Decisions Like a Fighter Pilot*, Mark F. Blaxill and Thomas M. Hout, 1987 370
*The Seduction of Reductionist Thinking*, Jeanie Daniel Duck, 1992 373
*CHOICES, AGAIN*, Barry Jones and Larry Shulman, 2003 376
*The Hardball Manifesto*, George Stalk Jr. and Rob Lachenauer, 2004 377

PART FIVE Social Commentary

*Failure to Compete*, Bruce D. Henderson, 1973 383
*Inflation and Investment Return*, Bruce D. Henderson, 1974 384
*Conflicting Tax Objectives*, Bruce D. Henderson, 1975 385
*Dumping*, Bruce D. Henderson, 1978 387
*Adversaries or Partners?*, Bruce D. Henderson, 1983 389
*The Promise of Disease Management*, Joshua Gray and Peter Lawyer, 1995 393

Index 405
Looking back, it’s hard to imagine that a few short essays could have had so much impact on business thinking. Addressed to the chief executives of large enterprises, *Perspectives* developed a devoted following, even circulating in bootleg copies in some companies. *Perspectives* challenged executives to think about their businesses strategically rather than simply operationally. They combined economic insight with an understanding of how management decisions can be distorted by organizational compromise. Their radically simple logic was unsettling.

*Perspectives* helped many people understand for the first time that:

- Being number one or number two in a business is a *necessity*.
- The prevailing management practices in diversified companies had to be scrapped and replaced with real *portfolio* management.
- Japan’s competitive strength came from *strategic intent* as much as from macroeconomics or culture.
- Beating the *competition* is more important than beating the last quarter.
- *Cash flow* is pivotal in determining a business’s real rate of return.
- Regulation can have a *devastating* effect on market mechanisms.

Few if any of these insights were wholly original. They owed much to a wide assortment of executives, economists, thinkers, and academics in many fields, as well as BCG’s learning from work on real problems for farsighted corporations. But these notions had seldom been crafted into such coherent prescriptions, or argued as provocatively.

And they were prescient. Most of the forces driving the evolution of business strategy in the last several decades can be found in these
essays: technology’s declining costs and increasing power, the rise of Japan and then Asia in manufacturing, the restructuring of American industry to enhance shareholder value, and organizational learning and knowledge management, to name only a few.

In creating these Perspectives, Bruce Henderson, BCG’s founder, invented a demanding form. He said each took six to ten drafts, with relentless self-editing. The results forced the reader to think and rewarded repeated reading.

Although most Perspectives credited one or two authors, these writers were in fact the tip of a much larger iceberg: unconstrained give and take among members of the firm and its clients. In the early 1960s, when BCG was small, the entire firm gathered every Monday morning in the library (with its still empty shelves) to debate a current issue. Even the newest associate might be called on to defend a point of view. The goal was clear: to penetrate beneath the surface to the real determinants of competitive success. This drive to transcend the conventional carried over to our work for clients. Best practice is fine, but there is always something better.

The best ideas have many parents, and are but the forerunners of what’s to come. In this spirit, we publish this selection of Perspectives as both a memorial to Bruce Henderson and a tribute to the clients, employees, and friends, past and present, of The Boston Consulting Group.

JOHN S. CLARKESON
President and Chief Executive Officer, 1985–1997
Chairman of the Board, 1998–2003
Co-Chairman of the Board, 2004–Present
Bruce Henderson and Perspectives

“Few people have had as much impact on international business in the second half of the twentieth century as the founder of The Boston Consulting Group” is how the Financial Times characterized the legacy of Bruce Henderson just after his death on July 20, 1992. Bruce would have been pleased with the epitaph: Impact was what Bruce’s life was all about.

From his earliest days, Bruce was obsessed with making a difference, with leaving something behind. An engineer by training, he never tired of quoting Archimedes to aspiring staff: “Give me a lever and a place to stand, and I’ll move the world.”

Bruce was at once a relentless contrarian and a passionate proselytizer, a combination that can only be explained by his unique background. Born on a Tennessee farm on April 30, 1915, he began his business life early and auspiciously, as a Bible salesman for his father’s publishing company. He earned his undergraduate engineering degree from Vanderbilt University. He attended Harvard Business School, but opted to leave in 1941—ninety days before graduation—to join Westinghouse Corporation, where he became one of the youngest vice presidents in the company’s history. In 1953, President Eisenhower chose him to serve on a five-member team charged with evaluating the foreign aid program to Germany under the Marshall Plan. In 1959, Bruce left Westinghouse to head Arthur D. Little’s management services unit, and in 1963 he accepted the improbable challenge from the CEO of the Boston Safe Deposit and Trust Company to start a consulting arm of the bank. This was to become The Boston Consulting Group.

Bruce—and The Boston Consulting Group under his leadership—aspired to nothing less than changing the way the business world
thought about competition. The vehicle was strategy. Although some of the fundamental precepts had been well developed and well accepted in the military sphere, they were surprisingly absent from business thinking when Bruce founded BCG in 1963. Developing the discipline of business strategy secured a place of honor for Bruce in the business pantheon and propelled BCG from a one-man operation to the 5,000-professional, worldwide organization it is today.

Bruce was an intense, curious, argumentative man with a voracious appetite for experience and ideas. He had an astonishing ability to borrow from a wide range of disciplines, synthesize and integrate disparate concepts, and then explore their implications for business. He drew enormous energy and excitement from pushing ideas to their logical limits. He was fond of quoting Jay Forrester: “While most people understand first-order effects, few deal well with second- and third-order effects. Unfortunately, virtually everything interesting in business lies in fourth-order effects and beyond.”

His medium of choice was Perspectives: concise pieces designed to stimulate senior management thinking on a range of business issues. Bruce liked to refer to them as “a punch between the eyes.” In Henderson on Corporate Strategy (HarperBusiness, 1984), he described their stylistic intent as follows:

Statements that senior business managers would find believable are not supported. Only provocative material is argued. The subject matter is chosen to be deliberately provocative, significant in implication, and relevant to the policy decisions of corporate competition.

To date, over 400 Perspectives have been published. They have been translated into at least six languages and circulated to senior executives around the globe.

This book comprises 82 Perspectives, 4 Harvard Business Review articles, and 8 other pieces written by various members of The Boston Consulting Group between 1968 and 2005. It traces the evolution of BCG’s thinking on strategy and documents the many significant contributions BCG has made to the field. But more than just a historical record, this collection represents a reference for business concepts that stand on their own. It demonstrates how timeless truly insightful ideas are. A fitting tribute, we hope, to the memory of Bruce Henderson—a great thinker and an inspirational leader.

CARL W. STERN
MICHAEL S. DEIMLER
Our deepest debt is to the many clients of The Boston Consulting Group. Virtually every idea expressed in these pages had its genesis in client work. All of us at BCG are gratified that so many outstanding executives have found it fruitful to work through some of their toughest management issues with us, and we are honored by the abiding trust that these enduring relationships represent.

This book is a tribute to Bruce D. Henderson, founder of The Boston Consulting Group, and to all BCG authors, past and present. BCG has a highly self-critical culture. The healthy debate that greets and hones new ideas can occur only if a few intrepid individuals are willing to hang themselves out a bit, to hold their ideas—and inevitably themselves—up for scrutiny. We salute their intellectual curiosity and their courage.

It is also a tribute to the many generations of BCG staff and alumni. Behind every author is an engaged group of professionals who helped develop and burnish the ideas-in-process in the best Hendersonian tradition.

A few of our colleagues deserve specific acknowledgment. Bolko von Oetinger and George Stalk played central roles in motivating and initiating this project. Mark Voorhees, Ted Buswick, and Bill Matassoni provided invaluable writing, editorial guidance, and support. Hans-Paul Bürkner and John Clarkeson offered unstinting encouragement and backing. We also thank Richard Narramore for superbly guiding us through the editorial process.

Finally, we thank our families—for their love and for their forbearance.

C. W. S.
M. S. D.
WHAT IS STRATEGY? For one thing, it is probably the business world's most used and abused word. We have strategies for everything: from advertising to logistics to human resources to custodian engineering. This is a shame, for the concept of strategy is both profound and useful.

Bruce Henderson captured it classically: "All competitors who persist over time must maintain a unique advantage by differentiation over all others. Managing that differentiation is the essence of long-term business strategy."

Bruce never stopped searching for a grand, unified theory of strategy. His quest took him far afield—ultimately into the realm of modern biology and evolution. *Strategic and Natural Competition*, one of Bruce's last Perspectives, represents the culmination of his thinking on the nature of strategy. His reasoning from emerging empirical findings on evolution anticipated the interdisciplinary approaches so prevalent today. Note also Bruce's concluding challenge on the task that lay ahead "to both control and expand the potential of our own future?" And thereby to better society and our lives.
Strategic competition leads to time compression. Competitive shifts as a result of strategy can take place in a few short years. The same evolution by natural competition might require generations.

Strategic competition is a relatively new phenomenon in business. It may well have the same impact upon business productivity that the industrial revolution had upon individual productivity.

The basic elements of strategic competition are:

- The ability to understand competitive interaction as a complete dynamic system that includes the interaction of competitors, customers, money, people, and resources.
- The ability to use this understanding to predict the consequences of a given intervention in that system and how that intervention will result in new patterns of stable dynamic equilibrium.
- The availability of uncommitted resources that can be dedicated to different uses and purposes in the present even though the dedication is permanent and the benefits will be deferred.
- The ability to predict the risk and return with sufficient accuracy and confidence to justify the commitment of such resources.
- The willingness to deliberately act to make the commitment.

This description of strategy sounds like the basic requirements for making any ordinary investment. It is that. But it is far more. Strategy is all-encompassing in its commitment. Strategy by definition involves the commitment and dedication of the whole firm. Failure of any competitor to react and then deploy and commit his own resources against the strategic competition of another competitor can result in a complete inversion of the competitive relationships and a major shift in the equilibrium between them. That is why strategic competition leads to time compression. Natural competition has none of these characteristics.

Natural competition is wildly expedient in its moment-to-moment interaction. However, it is inherently extremely conservative in its change in characteristic behavior. By contrast, strategic competition is deliberate, carefully considered, and tightly reasoned in its commit-
ments, but the consequences may well be radical change in a relatively short time.

Natural competition is evolutionary.
Strategic competition is revolutionary.

Natural competition is really low-risk incremental trial and error. Small changes that seem to be beneficial are gradually adopted and maintained. Other small changes are tried and added. It is learning by trial and error without the need for either commitment or foresight. It is the adaptation now to the way that things are now. It is the basic pattern of evolution. It is Darwinian natural selection. It functions even if controlled by pure chance or pure expediency. For these very reasons it is inevitably very conservative, gradual, and produces nearly imperceptible change near term regardless of the ultimate consequences long term.

Strategic competition by its very commitments seeks to make a very large change in competitive relationships. Its revolutionary character is moderated only by two fundamental inhibitions. Strategic failure can be as sweeping in its consequences as strategic success. And characteristically an alert defense has a major competitive advantage over the attacker. Strategic success usually depends upon the culture, perceptions, attitudes, and characteristic behavior of competitors and their mutual awareness of each other.

This is why in geopolitics and in military strategy as well as in business strategy the pattern of competition contains long periods of natural competition punctuated by relatively sudden and major shifts in relationships as a result of strategy. It is the age-old pattern of war and peace even though competition continues during peace.

Currently, normal modern business behavior seems to fall between the extremes of these two modes. However, a shift toward strategic competition seems to be the secular trend. The successful use of strategic competition by the most aggressive direct competitor can make the same foresight and dedication of resources the prerequisite for survival of others. Eventually, the mastery of strategic competition will be a requirement for adapting to that kind of environment in which most of the change is the result of strategic commitments.

Natural competition should be respected. It is the process that produced the infinite and exquisite complexity, variety, and interaction of all the forms of life on planet Earth. This was accomplished by pure chance, with no plan, foresight, or objectives. The starting point was the equivalent of sterile chemical soup. However, it took millions of years of nearly infinitesimal changes and adaptations.
Natural competition must be completely understood. It is the foundation. It is the system and pattern of interaction upon which any form of strategic competition must build and modify. Understanding of natural competition is required in order to predict the effect on those relationships as the result of intervention in the feedback loops of that system.

Differences between competitors is the prerequisite for survival in natural competition. Those differences may not be obvious. But competitors who make their living in exactly the same way in the same place at the same time are highly unlikely to remain in a stable equilibrium. However, any differences may give one competitor or the other an advantage over all others in some part of the common competitive environment. The value of that difference becomes a measure of the survival prospects as well as the future prosperity of that competitor.

There is nearly an infinite number of combinations of competitive factors in an environment that has a large number of variables. It should not be surprising that the world is filled with a vast variety of competitors, all different, which seem to exist in a moving but stable equilibrium. The range of size, behavior, and characteristics is not accidental; it is inevitable. It is also stable even though ever changing in detail. Those differences are the a priori requirement for the survival of each and every one of them in their particular subsection of the environment. That is natural competition as it always has been.

Strategic competition is not new. The elements of it have been recognized and used in warfare since the human race became able to combine intelligence, imagination, accumulated resources, and deliberately coordinated behavior. The distilled wisdom of many centuries has been expressed in many maxims such as “concentrate strength against weakness.”

But most military strategy has been focused on the battle itself or the war rather than on the equilibrium of the relationship that continued through both peace and war. Geopolitics is this larger perspective of the continued competition of this dynamic equilibrium over time. Yet there is still a very limited general theory about geopolitical dynamic equilibrium.

The general theory of business competition is almost certainly in its infancy. But the elements of a general theory that integrates all of the elements seem to be developing. The integration itself is the critical development.

The classic economic theories of business competition seem to be so simplistic and sterile that they are obstacles to progress and under-
standing rather than contributions. They seem to be based on views of competition as a static equilibrium in a static economy rather than a dynamic equilibrium. They are based on theoretical concepts of cost behavior that have never been observed in reality and that directly contradict observable and quantifiable evidence. They make assumptions about competitive behavior that are neither observable nor useful in predicting competitive behavior. The frame of reference of “perfect competition” is a theoretical concept that has never existed and probably could not exist. Unfortunately, these classical theories have been used to develop public policy that is equally unrealistic.

Development of a general theory of business competition will permit the prediction of the consequences of any kind of business competition. It can be the base of both strategic competition and constructive public policy. The general public would benefit on both counts. The development of a general theory of business competition will require the testing and revision of many interlocking hypotheses.

We would now hypothesize that:

- Effective competition will result in a range of sizes of competitors from very large to very small. This spectrum of sizes will be stable over time.
- Competitors who survive and prosper will have unique advantages over any and all other competitors in specific combinations of time, place, products, and customers.
- For any given competitor, there will be different competitors who will provide the constraints for almost every combination of relevant factors. Therefore the frontiers or boundaries of competitive parity will be constantly changing as any one of the competitors changes, adapts, grows, or redeploy.
- Perpetual conflict will exist along those frontiers where competitive ability is at parity.
- Very little conflict will exist where clear superiority is visible. The military analogy of the battlefront is useful in visualizing this.
- Business competition inherently has multiple fronts with a different competitor on each front.
- Any redeployment of resources will change the balance of competitive parity on at least two fronts. If one is strengthened, others will be weakened.
Whenever a front or zone of competitive parity becomes stable or static, then “bourgeois” competition will develop. Such bourgeois competition exists when the defense always acts as a hawk and the offense always acts as a dove. This is a mutual recognition of mutually predictable behavior.

The fewer the number of competitive variables that are critical, the fewer will be the number of competitors. If only one factor is critical, then no more than two or three competitors are likely to coexist. Only one will survive if the available market shrinks. This is the “Rule of Three and Four.”

The greater the number of potentially important variables, the larger will be the number of coexisting competitors but the smaller will be their absolute size.

The more variable the environment, the fewer the number of surviving competitors. In this case, the ability to cope with the greater change in environment becomes the overriding and controlling factor.

The entry of a new competitor depends on the ability of that competitor to develop and identify a clear superiority compared to all existing competitors in some subsection of the total market. Sequence of entry is important.

These and other hypotheses are direct derivatives from the observable facts and generally accepted theories of evolution in the biological and ecological sense. They are the pattern of natural competition.

The earlier work of The Boston Consulting Group attempted to develop a general theory of competition based on the following:

- Observable patterns of cost behavior
- Considerations of the dynamics of sustainable growth and capital use
- The role of the capital markets in permitting these effects to be leveraged or discounted
- The relationship between these in a system of competition

We recognized early the inappropriateness of accounting theories developed for other purposes as a model of economic behavior. We then developed the concepts that can be summarized as “cash in and out is all that counts.”
From this start, the concepts of the experience curve, the growth share tradeoff, and the product portfolio were developed. This was further extended by analysis of shared experience, business risk versus financial risk tradeoffs, the cost of proliferation, and cultural and behavioral extrapolation for competitors.

Many of these ideas are now commonly accepted assumptions and part of the business language.

This conceptual framework of business competition is far from complete. The knowledge and insight into competitive systems is expanding at an exponential rate. It is parallel to the expansion of our knowledge and insight into the physical sciences in the last century.

We believe that insight into strategic competition has the promise of a quantum increase in our productivity and our ability to both control and expand the potential of our own future.
IN THE MID-1960s, Bruce Henderson and a team from his fledgling firm were retained by a leading semiconductor fabricator. Their brief: Find out what was driving the industry's chaotic pricing behavior. The team discovered that prices were not in fact behaving chaotically at all—they were paralleling costs in a systematic decline of 25 percent each time accumulated volume doubled. The experience curve was born, and the development of business strategy began.

It was not the experience curve itself that was noteworthy—an analogous phenomenon, learning curve reductions in direct labor costs, had been documented during World War II. It was the implications that were truly revolutionary. If total value-added costs fell predictably with accumulated experience—and relative accumulated experience was in most circumstances very close to relative market share—it meant that systematic cost differences, proportional to relative market share, should arise between competitors. At the time, neither business doctrine nor economic theory recognized such a possibility.

The ramifications were far-reaching. Competitive advantage mattered, and it could be gained and managed in a deliberate way. Market share was an extraordinarily valuable asset that should not be liquidated casually.
This notion put pricing and capacity decisions in a new light. Pricing to recover product development costs and optimizing capacity utilization in a growing business, both well-established business practices, amounted to selling off the future for a transitory gain. On the other hand, preemptive pricing and capacity addition could be used to buy market share, lowering relative costs while making a business seem less attractive to competitors.

The same was true of financial policies. Most thought of debt as a way to lever a given ROA up into a higher ROE—with attendant financial risk. Experience curve thinking turned that around, pointing out that, at a given ROE, debt would permit a lower ROA. Employed aggressively, debt could fund preemptive pricing and capacity additions, and thereby buy market share and ultimately lower business risk. Similarly, dividends were exposed as potentially costly in competitive terms, as they lower the sustainable growth rate and hence market-share gains.

But perhaps the most powerful implication of the value of market share was for resource allocation. Most large companies, then as now, comprised a portfolio of businesses that varied in competitive position and growth potential. Experience curve logic suggested that the common practice—for each business to fund its own growth—was suicidal. High-growth businesses were unable to generate enough cash to keep pace with the market and were forced to liquidate share, while mature businesses generated more than they could invest productively. Better to use the excess cash flow of these mature cash cows to fund a play for dominance by the “stars” and “question marks” while growth in their markets remained high. If these businesses could establish and hold leadership positions, they would become cash cows themselves when growth in their markets slowed. The growth-share matrix provided a framework for implementing such a virtuous cash-flow cycle.

Bruce Henderson wrote prolifically on the experience curve and its implications in the 1960s and 1970s. A selection of the best of these Perspectives follows. In assessing them, a question we must ask is: Their historical value aside, how do they hold up in today's more complex competitive world?

Clearly, accumulated experience is not the only route to cost advantage. Indeed, it seems irrelevant to the economics of many industries today (although, in its purest form, it has enjoyed something of a renaissance in recent years as a basis for advantage under time- and capability-based strategies). Further, cost differentials and relative market shares cannot be viewed as the sole source and measure of competitive advan-