

Map Structural Sources of Profit

How to diagnose industry forces and make explicit positioning trade-offs instead of pursuing undifferentiated attractiveness.

Theory session

Advanced

Running case: Forgewell Robotics



Where this session sits

Module 1 establishes where profit structurally sits before asking how to defend it

MODULE 1

Foundations of Defensible Position

MODULE 2

Defensibility Through
Market Architecture

MODULE 3

Strategic Advantage
Under Rivalry

SESSIONS IN THIS MODULE

1.1

Map Structural Sources of Profit

Industry forces and explicit positioning trade-offs

YOU ARE HERE

1.2

Build Advantage That Resists Imitation

Which resources are defensible, and what delays copying

1.3

Design a Coherent Advantage System

Activities that reinforce each other, tested for leakage

What this session explains

Diagnosing where profit is available, and what a position costs

01

Industry structure bounds profitability

The forces acting on a market set the range within which any firm's return can sit.

02

Firm choice matters more than industry

The empirical work is clear: business-unit effects dominate industry effects.

03

A position is a set of sacrifices

If a choice forecloses nothing, it is not a position — it is a preference.

04

Fit is with structure, not with ambition

DENSO chose the technology the environment could actually support.

Where industry profit is competed away

Five forces, read as a diagnosis of who captures the surplus

RIVALRY

How many, how similar, how much fixed cost pushes them to fill capacity on price.

NEW ENTRANTS

What actually deters entry — capital, regulation, scale, or nothing at all.

BUYER POWER

Concentration, switching cost, and whether your input is visible in their cost base.

SUPPLIER POWER

Concentration, substitutes, and whether they could integrate forwards.

SUBSTITUTES

Different means to the same job. The force most often scoped too narrowly.

WHAT THE MODEL IS FOR

Explaining, not scoring

The output is an account of where the surplus goes — not a five-point rating to average.

THE COMMON ERROR

Defining the industry too tightly

Substitutes and entrants sit outside the boundary you drew, which is exactly why they surprise you.

FOR A NEW VENTURE

Structure can be changed

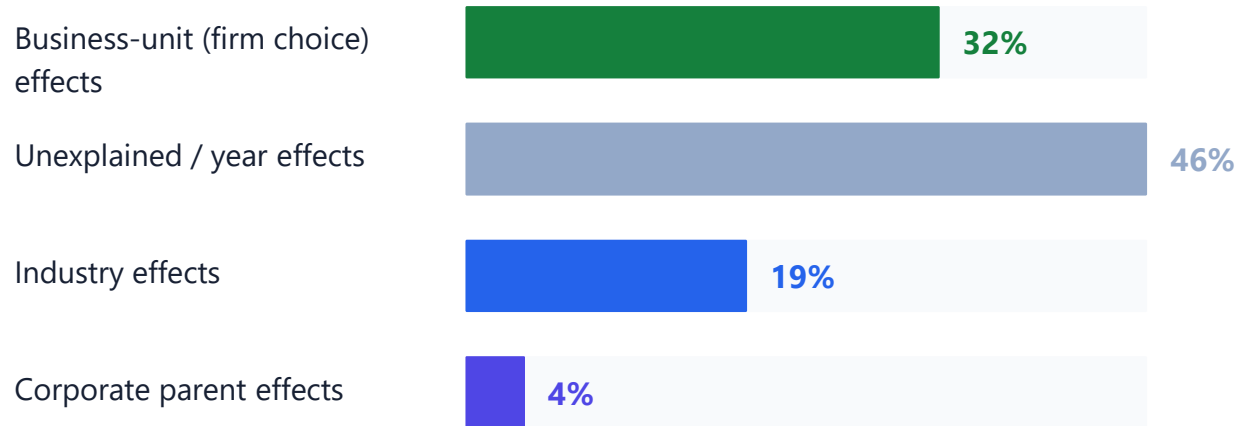
An entrant is not only subject to the forces. Part of strategy is altering one of them.

Porter, M. (1979). How competitive forces shape strategy. Harvard Business Review, 57(2), 137–145; and Porter (2008), HBR 86(1).

How much does industry actually explain?

Decades of variance decomposition give a consistent answer

APPROXIMATE SHARE OF VARIANCE IN BUSINESS-UNIT PROFITABILITY



Figures approximate McGahan & Porter (1997) and related decompositions; exact shares vary by sample and method.

Rumelt, R. (1991). How much does industry matter? *Strategic Management Journal*, 12(3). · McGahan, A. & Porter, M. (1997). *SMJ*, 18(S1).

THE FINDING

Choice beats inheritance

Which industry you are in matters. What you do inside it matters more — consistently, across samples.

WHY BOTH STILL MATTER

Structure sets the range

Industry effects bound the distribution; firm effects determine where in it you land.

THE IMPLICATION

Do not wait for a good industry

Attractive industries attract entrants. The returns are in defensible positions, not pleasant neighbourhoods.

What a strategic position is

Defined by what it gives up, not by what it pursues

WORKING DEFINITION

A strategic position is a deliberate choice to perform different activities from rivals, or the same activities differently — accepting that this forecloses other customers, features and ways of operating.

1

Variety-based

A subset of products or services, served to anyone who wants them. The bet is on activity specialisation.

2

Needs-based

Most or all needs of a particular group. The bet is on knowing one customer deeply.

3

Access-based

Customers reachable in a particular way — geography, scale, channel. The bet is on a distinctive route.

Porter, M. (1996). What is strategy? Harvard Business Review, 74(6), 61–78.

Why a position must exclude something

Without a trade-off, the position is copyable by anyone who simply adds it

NO TRADE-OFF Everything for everyone. Any rival can match it by adding, so no advantage survives contact.	GENUINE TRADE-OFF Serving this position well makes another one worse. Imitators must give up their own base to follow.	OVER-CONSTRAINED So narrow that the addressable profit pool cannot support the fixed cost of the position.
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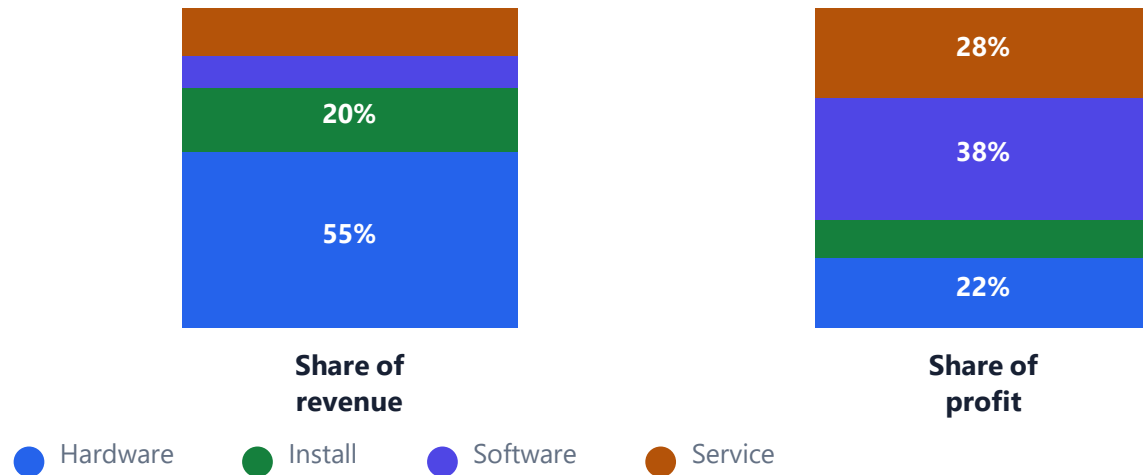
THREE SOURCES OF A REAL TRADE-OFF

Source	Why it prevents straddling
Inconsistency in image or reputation	A firm known for one promise cannot credibly make the opposite one.
Activities themselves differ	The equipment, people and processes required are not the same, and cannot be shared.
Limits on coordination and control	Two positions need different decision rights; running both degrades each.

Profit is not distributed evenly along a value chain

Position means choosing where in the chain to stand

ILLUSTRATIVE REVENUE AND PROFIT SHARE BY STAGE



The largest revenue stage is frequently the smallest profit stage. Competing for volume in the wrong pool is a common and expensive error.

Gadiesh, O. & Gilbert, J. (1998). Profit pools: a fresh look at strategy. Harvard Business Review, 76(3).

THE DIAGNOSTIC

Map both, separately

Revenue share tells you where activity is. Profit share tells you where power is.

WHAT MOVES THE POOL

Bargaining position

Profit accumulates where the forces are weakest — scarce inputs, high switching cost, or a standard someone controls.

THE STRATEGIC MOVE

Reposition along the chain

Many durable strategies are a decision to stop competing in the volume stage.

Structure-position fit, read through DENSO

The technology question was settled by a property of the environment

THE REJECTED OPTION

Fixed-path AGVs

WHAT IT ASSUMES

A stable layout, where routes can be embedded in infrastructure.

WHY IT WAS WRONG HERE

The floor was dynamic; embedding routes locks in an assumption that keeps breaking.

THE GENERAL LESSON

Infrastructure-heavy choices are commitments. They need structural stability to pay off.

THE CHOSEN OPTION

Autonomous mobile robots

WHAT IT ASSUMES

Change is normal, so the system must map quickly and re-plan.

WHY IT FITTED

The property the environment rewarded was adaptation, not throughput on a fixed path.

WHAT CAME WITH IT

A short setup, a week of testing, and associates rehearsing the new workflow.

WHY THIS IS A STRATEGY CASE, NOT A ROBOTICS ONE

Fit is not a claim that one technology is better. It is a claim that this structure rewards this property — which is the same logic as choosing a strategic position.

A positioning statement that can be argued with

Five lines that force the sacrifice into the open

Line	What it must contain	Forgewell example
We serve	One defined group, not a market.	Mid-size third-party logistics operators with changing layouts.
By doing	The activities we perform differently.	Deploying in days on unmodified floors, with no fixed infrastructure.
We deliberately do not	The customers and features foreclosed.	High-throughput fixed-path installations, and any site requiring structural modification.
Which means we give up	The named cost of the choice.	The largest, most stable warehouses — the highest-volume segment.
This holds while	The structural condition it depends on.	Layout churn remains common and labour remains scarce.

THE LINE THAT MAKES IT REAL

The fourth line is the test. A positioning statement with nothing in it describes an aspiration that every competitor could also claim.

Three positions that cannot be defended

Each is comfortable to hold and impossible to protect

Operational effectiveness as strategy

Looks like Best practice adopted everywhere, benchmarks met.

Why it fails Everyone converges on the same frontier and competes it away on price.

Fix Choose activities that differ, not activities performed better.

Straddling

Looks like Adding the rival's advantage without dropping your own.

Why it fails The activities conflict, so both positions are degraded and neither is credible.

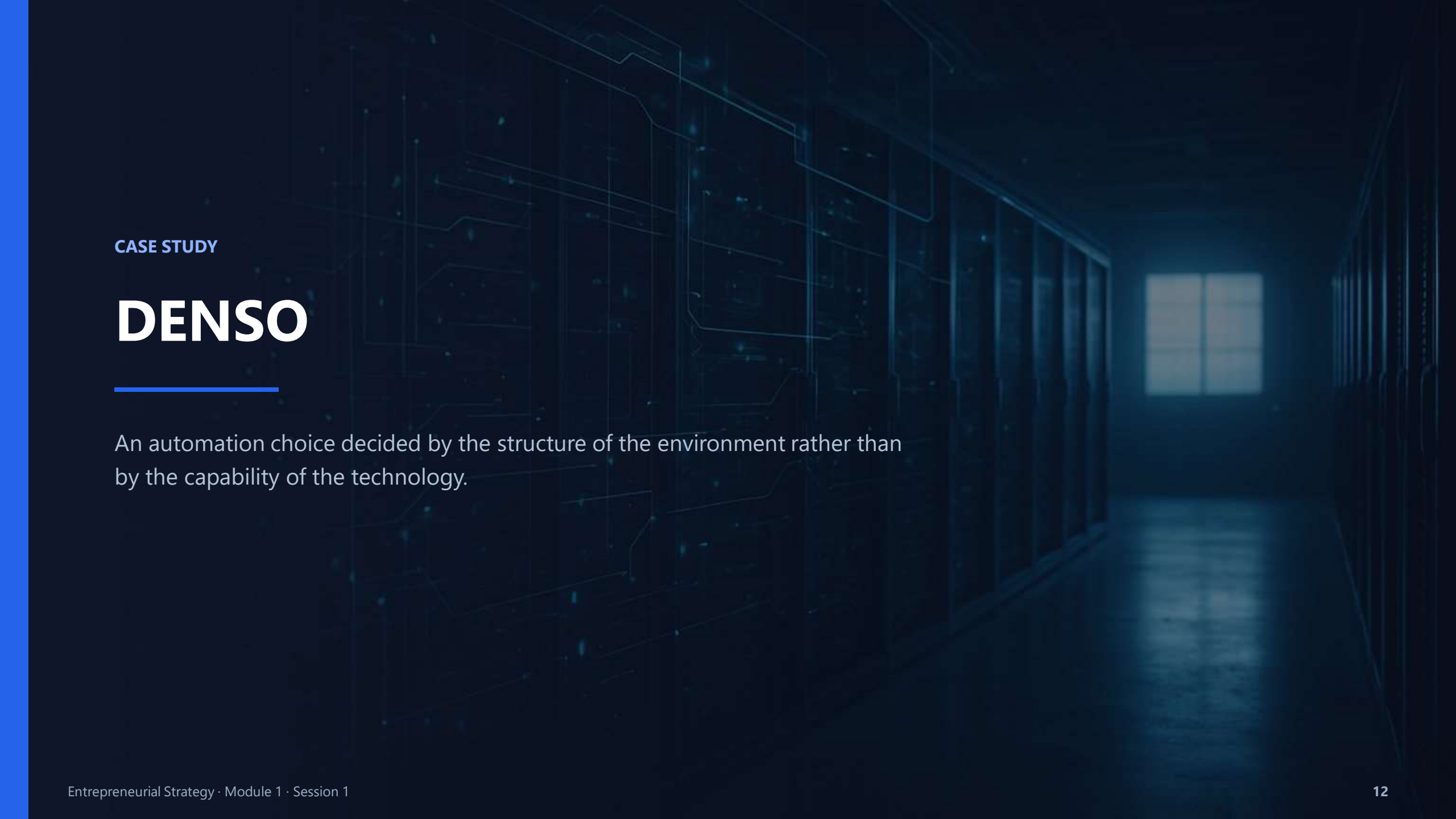
Fix Accept the trade-off, or build it separately.

Attractiveness without fit

Looks like Entering a high-margin adjacent market.

Why it fails Margins are high because something protects the incumbents — usually something you do not have.

Fix Ask what specifically would protect **you** there.



CASE STUDY

DENSO

An automation choice decided by the structure of the environment rather than by the capability of the technology.

A choice decided by structure

Technology, workflow and responsibility aligned to how the floor actually behaves

THE STRUCTURAL FACT

A dynamic floor

THE STARTING POSITION

Associates spent about 60% of their time pushing carts, walking up to twelve miles a day.

THE ENVIRONMENT

Conveyance happened in a factory whose layout and flows could change.

WHAT THAT RULED OUT

AGVs, which require fixed infrastructure, were too heavy a commitment for a floor that moves.

THE FITTED POSITION

Six AMRs, mapped fast

THE CHOICE

Six MiR250 autonomous mobile robots, deployed at Athens, Tennessee in February 2023.

WHY THEY FIT

Quick mapping and adaptation to a dynamic environment — the property the structure demanded.

WHAT CAME WITH IT

About a day of setup and a week of testing; associates simulated robot tasks before launch.

READING THE CASE

The strongest result came from aligning technology, workflow and responsibility — not from automating movement in isolation. Position is a claim about fit with structure.

Bringing the theory to Forgewell Robotics

A structural diagnosis that produces a defensible choice

Step	What you produce	Forgewell example
Draw the boundary	Include substitutes and plausible entrants.	Manual conveyance and outsourced labour are the real substitutes, not rival robot vendors.
Locate the profit pool	Revenue share and profit share separately.	Hardware carries revenue; fleet software and support carry margin.
Diagnose each force	Where the surplus currently goes.	Buyer power high in large accounts; low where deployment speed is decisive.
Choose the position	Variety, needs or access based.	Access-based: sites that cannot be modified or taken offline.
Name the sacrifice	Explicitly, in the plan.	No fixed-path installations, and no bids for the largest stable sites.
State the condition	What must remain true.	Layout churn and labour scarcity both persist.

WHAT COMES NEXT

Session 1.2 asks what would stop a competitor simply copying this position.

What to carry out of this session

1 Structure sets the range; choice sets your place in it.
Business-unit effects dominate industry effects in every major decomposition.

2 A position is defined by what it forecloses.
If a choice sacrifices nothing, any rival can match it by addition.

3 Map profit pools separately from revenue pools.
The largest stage by revenue is frequently the smallest by profit.

4 Fit is with structure, not with ambition.
DENSO chose the property its environment rewarded, not the highest throughput.

5 Operational effectiveness is not strategy.
Converging on the same frontier competes the gains away.

Sources for this session

Primary references behind each concept

INDUSTRY STRUCTURE	Porter, M. (1979). How competitive forces shape strategy. <i>Harvard Business Review</i> , 57(2), 137–145.
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PROFIT POOLS	Gadiesh, O. & Gilbert, J. (1998). Profit pools. <i>Harvard Business Review</i> , 76(3), 139–147.
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BOUNDARIES	Brandenburger, A. & Nalebuff, B. (1996). <i>Co-opetition</i> . New York: Doubleday.