CHAPTER 4

4.1 Modern Strategies:

Under this chapter, we shall discuss the works of the following experts:

a. Peter F Drucker
b. Michael Porter
c. Jack Trout
d. Jack Welch
e. Out of the above four, the first three are consultants who have analysed the businesses across the spectrum and time periods and the Jack Welch had been a business head and practitioner of strategy.

4.2 Peter F Drucker

Peter F Drucker is regarded as the father of modern management and he defined various business mantras during his life span. His books, articles deal with ease the subjects that are complex and he had provided a detailed study of the strategy in two time periods. Peter Drucker is one of the management consultants who had the opportunity of a long life span and his consulting career spread across seventy years.

4.2.1 In the 1960's

'Whatever a company’s programme - :

a. It must decide what opportunities it wants to pursue and what risks it is willing and able to accept.

b. It must decide on its’ scope and structure and especially on the right balance between specialization, diversification and integration.

c. It must decide between time and money, between building its own ‘buying’ – i.e. using sale of a business, merger, acquisition and joint venture – to attain its goals.

d. It must decide on an organization structure appropriate to its economic realities, its opportunities and its programme for performance.'

Business risks are to be considered carefully and at the same time right opportunities and according to Drucker, ‘there are three kinds of opportunities:
<table>
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<th>Additive</th>
<th>More fully exploits already existing resources. It does not change the character of the business. It is an extension of the existing product line into a new and growing market.</th>
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<td>Complementary</td>
<td>Will change the structure of the business. It offers something new which, when combined with the present business, results in a new total larger than the sum of its parts. “the opportunity of establishing a paper company in the plastics field, through acquisition of a number of packaging converters who use both paper and plastics, is a complementary opportunity.” This complementary opportunity carries higher risk since new knowledge resource would be essential to be successful. Unless taken care of with that kind of support this opportunity, instead adding wealth would create much erosion into the existing areas.</td>
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<td>Breakthrough</td>
<td>Changes the fundamental characteristics and capacity of the business. Here there are three restraints the company has to study and remove for this opportunity to provide best results: It requires great efforts especially human resources.</td>
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‘Risks too need to be classified. A risk is small or big according to its structure rather than according to its magnitude alone:

There are essentially four kinds of risks:

a. The risk one must accept, the risk that is built into the nature of the business.

b. The risk one can afford to take.

c. The risk one cannot afford to take.

d. The risk one cannot afford not to take.

In almost every industry there are genuine ‘risks that must be accepted’ to stay in the business. Often they are risks that in any other business would be considered intolerable. ‘In developing new system of drugs - such as a new antibiotic, tranquilizer, or vaccine – there is always the danger of bringing to the market a killer rather than a cure. The Thalidomide tragedy of 1960-62 with its terrible legacy of malformed infants is one example; the lethal inoculations ten years earlier of the first
batches of infantile paralysis vaccine are another example. In neither case could the tragedy have been prevented. We know far too little about the behaviour of the human body to know how to test systemic drugs for all possible effects. 'To have brought out a drug of this kind is near -- catastrophe for the manufacturer. It causes deep anguish and wounds his self -- respect and self -- confidence. For pharmaceutical manufacturers must believe in their mission to help cure or at least alleviate, if they are to be at all successful. Yet this risk has to be taken if one wants to be in today's pharmaceuticals industry.'

'The break-through opportunity is the risk one cannot afford not to take. A classic example cited is that of General Electric entering into atomic energy shortly after World War-II. The scientists and engineers have told that the chances are very low for production of electricity using atomic energy. The company went ahead with the investments. This kind of risk could be taken only if high rewards are assured in the long term. Therefore the companies in this category should focus on maximizing opportunities rather than minimizing risks.'

Peter Drucker says that 'every business needs a core -- an area where it leads and so should specialize and obtain the maximum out of specialization. It must diversify'. The Balance between these two determines the scope of the business.'

Peter Drucker shows the following examples:

"Parents Magazine Enterprises had for thirty-five years been a successful publisher of magazines and books on and for children. In the autumn of 1963 it acquired F.A.O.Schwarz, the best known American toy retail chain. This did not change its specialization at all. But it diversified the fields in which the company’s specialization is utilized."

"Unilever also exemplifies balance between specialization and diversification. With five hundred companies operating in more than sixty countries, Unilever is so complicated that few outsiders understand its structure. Its activities range from growing oil-bearing seeds and catching fish to selling all kinds of goods to the ultimate consumer. Yet it is at the same time a highly specialized business with a major concentration in marketing grocery products, from fish and processed foods to soaps and toiletries. Any business within Unilever, whether it is a chain of grocery
stores or a fleet of fishing vessels, can be understood in terms of the highly specialized knowledge and competence of a grocery-products business."

By contrast, specialization and diversification in isolation from each other are seldom productive. 7

'A company should either be diversified in products, market, and end-uses and highly concentrated in basic knowledge area; or it should be diversified in its knowledge areas and highly concentrated in its products, market, and end-uses. Anything in between is likely to be unsatisfactory.

"Cummins Engine Company exemplifies either balance -- and the complete shift from one to the other. For many years the company concentrated successfully on one knowledge area; diesel engines for heavy trucks. In its customers and markets, however, it was widely diversified, selling to truck manufacturers all over the world. But recently the number of independent truck manufacturers has been going down. In a complete reversal of its traditional policy, Cummins in the autumn of 1963, merged with the largest of the remaining independent US manufacturers, the white Motor Company, which also has a substantial business in other equipment using engines, such as light and medium weight trucks, earth moving equipment, and so on. Cummins thus shifted from concentration of one type of diesel engine to concentration on one customer, and from diversification in markets and customers to diversification in knowledge and product. The balance between specialization and diversification largely determines the productivity of a company's resources. In every case the solution is a change in which a business either diversifies into additional activities that feed off a common core of concentration and knowledge, or redefines the specialization needed. 8

Drucker discusses further examples in the underdeveloped economy. 'They were the business builders in Europe, the United States and Japan in the nineteenth century. They are the business builders in Brazil--where the Mattarazzo family, for instance, has elaborated the most diversified entrepreneurial empire --in India, and in many other developing parts of the world. Typically, these entrepreneurs start, control and manage a host of businesses, sugar mills, textile companies, banks, cement plants, small steel fabricating plants and so on.'

'They represent in the early stages of development at high degree of specialization in the very scarce knowledge of business development and management. But when an economy grows to maturity, this knowledge ceases to be
scarce. Specialized technical and marketing knowledge then becomes crucial. The single entrepreneur with his wide spread interest at first becomes unnecessary and then a burden. He gradually turns into an investor; eventually disappears.\textsuperscript{9}

'The scope of business also has to be redefined when there is a major change in knowledge. Any change, finally, in the idea of business and its excellence calls for a redesign of the balance of specialisation and integration. Integration can be both forward and backward.

"A paper company that acquired a number of packaging companies to convert the threat of plastics into an opportunity used integration towards the as a means to diversify without having to go into plastics technology. There are hundreds of similar examples."

"Backward integration – that is, integration from the market to manufacturing or from manufacturing into raw materials – is often a way to concentrate. Every major aluminium fabricator in the world has integrated backward into making the metal despite the high investment required for an aluminium smelter. The metal itself is usually available in adequate supply, except during war time shortages. Yet excellence in aluminium fabrication is apparently not enough foundation for a major business.\textsuperscript{10}

'The paper manufacturer, for instance, who acquires a chain of paper merchants aims at higher average profitability. A paper merchant needs little capital and turns it fast. In good years a dollar invested in paper manufacturing probably earns a good deal more than a dollar invested in a paper merchant. In poor years, however, the merchant is a better risk, if only because his break-even point is quite low.

"Every magazine publisher who integrated backward by building his own printing press has discovered this. Such a plant is a commitment to a printing process, a circulation figure, a frequency appearance, a page size and so on. As long as all these factors remain unchanged, the balance is highly advantageous. But they never stay unchanged for long. And then our efficient printing plant soon becomes a cost centre rather than a revenue centre."

Specialization, diversification and integration are strategies of high impact but also of high risk. They should be subject to the tests: the test of economic results and then test of economic risk. The configuration and scope chosen should make the business capable of so much greater performance as to change the characteristics of
the business altogether. Two plus two should give a configuration that equals at least five. And the risk incurred if anything changes in market knowledge, products or process, should be one the business can afford to take.

Drucker presents on the decisions of build or buy: “The main thrust of development in business comes from within – and therefore requires time. But up to a point, money can be substituted for time. A business can buy rather than build. And in a few cases where there is neither the time nor the knowledge to build, a business has to resort to finance: sale of a subsidiary business or product line, acquisition, merger, joint venture.

“The time clock business of IBM in the United States no longer fitted a company in which the centre of concentration had shifted from simple mechanical devices to the highly complex electronic technology of the computer. IBM sold the business after WORLD WAR II.”

The most common example of a business that should be sold is the one that has outgrown its management. Typically, this is a business that was founded by one able man and developed by him to respectable size. Its prospects are objectively good, but somehow are not going to be realized. The reason is always the same: the business has outgrown the philosophy, habits and practices of the founder or his family. Unless the people in charge can their visions and habits, the business will soon deteriorate.

“The growth business that suddenly slows down because its management is incapable of adjusting to growth was main reason for the New York Stock Exchange crash in the spring of 1962. Wall Street had become intoxicated with growth and searched out companies which had been rapidly expanding. In many cases, however, these companies lacked management to grow beyond small size. As a result they did not fulfil expectations – and stock prices collapsed.”

“Time is running out fast on such a business. If allowed to deteriorate for more than a short period, it will go under. The radical cure of sale is usually the only salvation for a business stunted by the incapacity of its management to grow up to the demands of success.”

‘Acquisition or mergers are indicated for the business that cannot grow to the right size of its own resources. There is an alternative where two or more businesses of small size coming together and form a new business of the right size.

A joint venture is recommended for two companies to combine as partners and form another new company when it comes to a new market or new opportunities.
Joint ventures are, for instance, normally the only way in which a western company can go into business in an alien culture, such as Japan. This requires knowledge of the Japanese market, of Japanese traditions — and above all of the Japanese language — which would take a western company many years to acquire. It requires also technology, product and process knowledge, and technological research which it would take the Japanese a good many years to develop. Each partner contributes something unique. The joint venture exploits a different market from that of either partner — different in culture from its western parent, different in technology and product line from its Japanese parent."

"Acquisition is sometimes the best way to change the balance between specialization and diversification. It is often the best way to bring new competence and new knowledge into the business. Merger may be the best way to convert an imbalance of resources into a source of strength. Sale may be the quickest way to put on 'milking status' an old business or an old product line."

"The financial tools are difficult and demanding. One has to pay a premium price in buying the time and unless the acquisition promises to add a great value the cost will not be justified."13

Drucker gives one more example: "Durant’s construction of General Motors entirely through financial acquisition. With the companies he bought Durant had an array of extraordinarily capable men. But only after Durant’s ouster, when Sloan built a company, defined the idea of the business, and developed a management team, did Durant’s financial creation become viable. Buying good businesses in a growth industry, each run by a first class man, by itself had only produced near disaster."14

Drucker further says: “Every company that has put its trust in financial manipulation as a substitute for purposeful management has eventually come to grief. Using financial tool makes greater demands than development from within on a management, its competence, and its willingness to face up to the hard decisions. Because the financial tools save time and telescope years of growth and development into one legal transaction, they also telescope years of problems and decisions into a very short time. Every merger creates as many problems, especially of people and their relationship, as would have been created by developing a new and larger business from within. There has never been an acquisition which really fitted, and which did not have to be reconstructed before it began to give the expected results."
And every joint venture, if successful, raised problems which force the respective parents to change their own habits and expectations.\textsuperscript{15}

Thus financial transactions are a tool to business policy and are not a substitute for it.

"Litton industries, the California based science company, is perhaps the outstanding post-war example of 'the company that stock deals built'. In ten years, from 1953 to 1963 it grew from nothing to half a billion dollars in sales – all through acquisitions. Yet Charles B. Thornton, the man who assembled Litton, was quoted as saying: 'we had to grow big and muscular in a hurry to survive the jolt of changing technology. But we have never acquired companies as such. We have bought time, market, a product line, a plant, a research team, a sales force.' (Time, October 4, 1963)

Only a management that truly subordinates the financial aspect of these transactions to business policy can ever use financial tools with success. Otherwise all it does is spend money without buying anything with it, least of all time.\textsuperscript{16}

\textbf{STRUCTURE AND STRATEGY:}

'Drucker refers to two books in this connection. Accordingly structure follows strategy. The right structure does not guarantee results; but the wrong structure aborts results and smothers even the best-directed efforts. Above all the structure has to be such that it highlights the results that are truly meaningful; that is results that are relevant to the idea of business, its excellence, its priorities and its opportunities.'\textsuperscript{17}


'That it spotlights business performance and business results is, of course, one of the main benefits of decentralization (the organization structure under which individual parts of a company are set up as distinct business entities). This however requires economic understanding of the business, and indeed continuing work on the economic tasks of each decentralized business and of the company as a whole, performed for the company's top management and at the central office. There is no point in setting up as 'businesses' activities which do not have a distinct product or service for a distinct market and are therefore not truly businesses. Where these two requirements are met, however, decentralization, as Professor Chandler's book shows,
is the structure that best serves business performance and growth. Yet no matter how well suited to the needs of today's business, organization must be reviewed as the business changes. Is division into different components still likely to advance the economic performance of the company as a whole? Or is it likely to make the component's results look good at the expense of the over-all company? Are the efforts in which excellence should be attained organized as distinct responsibilities or are they submerged in a general, unspecified gaggle of mediocrities? Such structural questions always need to be asked. They are actually more important in the small than large company - simply because the small company usually pays too little attention to structure. They are particularly pertinent in the company which has undergone a period of rapid growth. Indeed to think through its structure is the best way to prevent such a company from outgrowing its management to the point where only sale of business can save it.19

'One job that always needs to be organized as a distinct activity is the economic analysis of the business, its dimensions and tasks, and the programme for performance. It is distinct work. It is crucially important work. And it is great deal of work. Someone must therefore be assigned to it and must be responsible for it. And except in the smallest business he will have a full-time job on his hands.20

Drucker remarks: 'All I have tried to do in this chapter is to show that these big areas - opportunity and risk; scope of the business; financial strategies, or organization - should be considered and thought through by management in developing the programme for performance. For the strategic decisions, in these four areas will largely determine whether the means chosen by a business are adequate to its aims and ambitions.21

4.2.2 Drucker in 1999

'Every organization operates on a Theory of Business, that is, a set of assumptions as to what its business is, what its objectives are, how it defines results, who its customers are, what the customers value and pay for. Strategy converts this theory of business into performance. Its purpose is to enable an organization to achieve its desired results in an unpredictable environment. 'For strategy allows an organization to be purposefully opportunistic.22

'Strategy is also the test of the Theory of Business. Failure of the strategy to produce the expected results is usually the first serious indication that the Theory of Business needs to be thought through again. And unexpected successes are often also
the first indications that the Theory of Business needs to be rethought. Indeed, what is
an ‘opportunity’ can only be decided if there is a strategy. Otherwise, there is no way
to tell what genuinely advances the organization toward its desired results, and what is
diversion and splintering of resources.23

Drucker raises the following questions:

a. ‘What can strategy be based on in a period of rapid change and total
   uncertainty, such as the world’s facing at the turn of the 21st Century?
b. Are there any assumptions on which to base the strategies of an organization
   and especially of a business?
c. Are there any certainties?’

Drucker identifies at least five phenomena that can be considered as certainties.
They are however, different from anything present strategies consider. Above all, they
are not, essentially, economic. They are primarily social and political.

These five certainties are:

1. The collapsing Birth rate in the Developed World.
2. Shifts in the Distribution of Disposable income.
4. Global competitiveness.
5. The growing incongruence between economic Globalization and Political
   Splintering.24

‘The collapsing Birth rate:’

The most important single new certainty – if only because there is no
precedent for it in all of history – is the collapsing birth rate in the developed world.
In Western and Central Europe and in Japan, the birth rate has already fallen well
below the rate needed to reproduce the population. That is, below 2.1 live births for
women of reproductive age. In some of Italy’s richest regions, for example, in
Bologna, the birth rate by the year 1999 had fallen to 0.8; in Japan to 1.3. In fact,
Japan and all of Southern Europe – Portugal, Spain, Southern France, Italy, Greece –
are drifting toward collective national suicide by the end of the 21st century. By then
Italy’s population, for instance – now 60 million – might be down to 20 or 22 million;
Japan’s population – now 125 million – might be down to 50 or 55 million. But even
in Western and Northern Europe the birth rates are down to 1.5 and falling.
But in the United States, too, the birth rate is now below 2 and going down steadily.
And it is as high as it is only because of the large number of recent immigrants who
still, for the first generation, tend to retain the high birth rates of their country of origin, for example, Mexico.25

'In Japan and in Southern Europe, population is already peaking as it is in Germany. In the United States it will still grow for another twenty to twenty-five years, though the entire growth after the year 2015 will be in people fifty-five years and older.

Drucker says that, "the birth rate collapse has tremendous political and social implications that we cannot even guess today. But is surely will also have tremendous economic and business implications – and some of those can already explored, some of them can already be tested. Above all, any strategy, that is, to repeat, is what a strategy means – has to start out with demographics and, above all, with the collapsing birth rate in the developed world. Of all developments, it is the most spectacular, the most unexpected and one that has no precedence whatever."26

‘Shift in the Distribution of disposable income:

Shares in the disposable income are the foundation of all economic information. It is usually the most easily obtainable and most reliable foundation of strategy. ‘for as a rule, trends in the distribution of income that go to a certain product category or service category tend, once established, to persist for long periods of time. They are usually impervious even to the business cycle.’

And within the first decades of the 21st century there will be both changes in the trends and changes within the trend. Yet neither executives nor economists pay much attention to the distribution of the shares of disposable income. In fact, most are totally ignorant of them.

Practically all economists and the great majority of business executives believe, for instance, that the great economic expansion of the 20th century was driven by economic forces. It was not; on the contrary, the share of disposable income allocated to economic satisfaction has steadily dropped during this century in all developed countries.27

‘The four growth sectors during the 20th century were, respectively:

- Government
- Healthcare
- Education
- Leisure
With Leisure probably taking as much of the enormous expansion of economic productivity and output as the other three together. In 1900 the great majority of people in the developed countries still worked at least sixty hours a week, fifty-one weeks a year with about eight holidays a year – and six days a week. By the end of the century the great majority works fewer than forty hours a week – thirty-four or thirty-five in Germany – and at most (in the United States) forty-seven weeks a year (i.e., with about twelve holidays per year) and five days a week – a drop from more than 3,000 hours a year to fewer than 1,500 hours in Germany and to 1,850 hours in the hardest – working developed country, the United States.

Of these four 20th-century growth sectors, Government probably has the greatest impact on the distribution of disposable income. Not because it is a major buyer or user of products and services; except in wartime even the biggest government is only a marginal consumer. But the main economic function of government in a developed country is to redistribute between 30 and 50 percent of the country’s national income. Nothing else has therefore as great an impact on the distribution of shares of national income as changes in government policy.  

‘The other three – Health Care, Education, Leisure – are all major users of products and services, that is, of material goods. But none of them provides material, and that means “economic,” satisfactions.

And all four are not in the ‘Free Market,’ do not behave according to the economist’s rules of supply and demand, are not particularly “price sensitive” and altogether do not fit the economist’s model or behave according to the economist’s theories.  

And yet, together, they are well over half of a developed economy, even of the most “capitalist” one.

The trends of these four sectors are therefore the first thing strategy has to consider. And all four are certain to change greatly in the next decades.

Government in its traditional form, that is, as collector and redistributor of national income, is supposed to have stopped growing (though the figures so far, especially in the United States and the UK, do not support this belief). But governments in all developed countries – despite all “privatization” – are rapidly acquiring new and very powerful tools to influence – if not to control – the distribution of disposable income: new regulations that control and direct economic
resources to new goals, for example, the environment. Strategy, therefore, has to consider government the first concern in industry or company strategy.  

"Leisure, by contrast, is "mature" and may be "declining." In the developed countries we are probably at the end of the steady cutting of weekly hours. Indeed, these are signs that work hours are going up again -- especially in the United States and the UK. The leisure market -- next to armaments the 20th century's fastest growing market -- already shows the signs of a declining market: rapidly increasing competition for time, that is, for the leisure market's "purchasing power"; sharply declining profit margins; and less and less true product differentiation, for example, between going to the movies or looking at a VCR on one's own TV at home."

"Both health care and education should continue to be major "growth sectors" -- demographics make reasonably sure of this. But both are certain to undergo major shifts within the sector, for example, the shift, discussed earlier, from schooling the young to the continued education of highly schooled adult knowledge workers. And, probably, the shifts in health care ahead of us -- in every developed country -- are going to be even more radical and may happen even faster."

"The passenger -- automobile industry of the world, for instance, has been a declining industry for the last thirty or forty years. It was a growth industry until 1960 or perhaps 1970. By that time Europe and Japan had become fully motorized. Total sales of passenger cars the world over are still growing worldwide, though only slowly. But they are growing much less fact than either national income or population."

Similarly, since the First World War -- and probably since 1900 -- the share of disposable income in the developed countries, but altogether in the world economy, that is being spent on commodities of all kinds has been going down steadily at the rate of one -- half of one percent per annum compound -- wartimes excepted. This has held true for both food and industrial raw materials. This has meant that since 1900, the prices of all commodities have trended downward over any period of time.

And the trend is still downward. Mature or declining industries may turn around and again become growth industries.

This may be the case of industries that produce transportation materials, for example, locomotives or road -- building equipment. In the developed countries the existing transportation infrastructure has been grossly under maintained. In emerging and Third World countries it is decades behind the needs of the economy and of the
population – with China, Perhaps, the outstanding example. Will this lead to transportation boom such as fuelled the economic expansion of the mid – 19th century? There are few signs of this so far – but it is one of the trends to be watched.

For, to repeat, few things are as important for a strategy – both as threat and as opportunity – as a change in the trend of the shares of disposable income that such an upturn would represent.32

‘The world’s fastest – growing and most prosperous industry in the closing thirty years of the 20th century has not been Information. It has been Financial Services – but Financial Services the like of which did not exist at any earlier time, that is, retail services to provide an affluent, aging population in the developed countries with financial products to provide retirement income. And the demographic changes discussed earlier in this chapter largely underlie these new financial services.

Increasingly in the developed countries the newly affluent middle-class people, and especially those who do not work with their hands but work as service or knowledge workers, realize when they reach age forty-five or fifty that the existing retirement provisions are unlikely to be adequate should they survive into old age. And thus, beginning with age forty-five or fifty these people begin to look for investments that will promise them financial security thirty years hence.

This new growth industry is, however, quite different from the traditional financial industry such as the “corporate banker,” a J.P. Morgan for instance, a Citibank or a Goldman Sachs. The new investors are not primarily interested in “making money” or in “deals”. Their main concern is to maintain what little money they have a a cushion for their retirement years. The institutions that understand this – mutual funds, pension-fund managers and a few, mostly new, brokerage houses – have prospered mightily, first in the United States, then in the UK, and increasingly in Continental Europe and in the Japanese markets.33

‘Most of the traditional financial “giants” did not, however, understand that the very meaning of “financial services” has changed. They only saw that “finance” takes a larger – a much larger – share of the disposable income in the developed countries. They therefore rapidly expanded their traditional “corporate” services. But actually the share of these traditional financial services – major corporate loans or major public offerings of corporate securities – is not growing. In all likelihood it is shrinking, and quite fast. For this is primarily a market of big companies. The growth sector in every developed country – even Japan – in the last twenty years has,
however, been midsized businesses, with the share of big business going down steadily. And mid-sized businesses typically are not customers for traditional “corporate” financial services.

As a result the traditional financial giants have greatly over expanded worldwide. And as their legitimate corporate business became less and less profitable – in part because there was increasingly less of it, in part because competition for the pieces of the shrinking pie has become fiercer and fiercer, driving down profits to the vanishing point – these corporate-banking giants, American, British, Japanese, German, French, Swiss, have increasingly resorted to “trading for their own account,” that is, to out-right speculation, so as to support their swollen overheads. This, however, as centuries of financial history teach (beginning with the Medici in 15th-century Europe), has only one-but an absolutely certain-outcome: catastrophic losses. And it is these losses resulting from a misreading of the trend toward financial services as a major growth industry which in large measure triggered the financial crisis that began in Asia in the mid-nineties and is threatening to engulf the entire world economy.34

‘Industries, whether businesses or non-businesses, have to be managed differently depending on whether they are growth industries, mature industries or declining industries. A growth industry that can count on demand for its products or services growing faster than economy or population manages to create the future. It needs to take the lead in innovation and needs to be willing to take risks. A mature industry needs to be managed to have a leadership position in a few, a very few, but crucial areas, and especially in areas where the demand can be satisfied at substantially lower cost by advanced technology or advanced quality. And it needs to be managed for flexibility and rapid change. A mature industry shifts from one way of satisfying wants to another. A mature industry therefore needs to be managed for alliances, partnerships and joint ventures to adapt rapidly to such shifts.35

‘One example is the pharmaceutical industry. Until very recently – since the invention of the sulpha drugs and the antibiotics just before World War II – it was a leading growth industry. In the 1990s it became a mature industry. This means with high probability that there will be fast and sudden shifts to new ways of satisfying the old demands, for example, from chemical drugs to genetics, molecular biology, medical electronics, or even to “alternative medicine.”36
In a declining industry one has to manage, above all, for steady, systematic, purposeful cost reduction and for steady improvement in quality and service, that is, for strengthening the company’s position within the industry, rather than for growth in volume – which one can only take away from somebody else. For in a declining industry it is more and more difficult to establish meaningful product differentiation. Products in a declining industry tend to become “commodities” – as is rapidly happening with passenger automobiles (except so far for a few luxury cars).

In conclusion, institutions – businesses as well as non-businesses – will have to learn to base their strategy on their knowledge of, and adaptation to, the trends in the distribution of disposable income and, above all, to any shifts in this distribution. And they need both quantitative information and qualitative analysis.37

**Defining Performance**

Demographics have, within the last fifty years, shifted property in all developed countries. We now are beginning to see the resultant shifts in power. Two developments – the emergence of an affluent (though by no means rich) middle class of non-manual workers, and the extension of life expectancy – have led to the development of institutions such as the pension funds and the mutual funds. And these are now the legal “owners” of the key property in a modern, developed society, that is, of the publicly owned corporations.

The development began in the United States (it was first described in my 1975 book, The Unseen Revolution, reissued in 1993 as The Pension Fund Revolution). As a result, institutions representing the future pensioners now own at least 40 percent of all American publicly listed corporations, and probably more than 60 percent of the big ones. They similarly own British business. And they are beginning to be the owners of business in all other developed countries, Germany, France, Japan and so on. And with that shift in property, we are seeing a shift in power.

This underlies the present debate about the Governance of Corporations, which is basically a debate concerning for whose benefit businesses should be run. It underlies the dramatic shift to the predominance of the “shareholder interest.” And a similar debate is beginning to emerge in all other developed countries.38

“...The future economic security of more and more people – that is, of the people who can expect to live into old age – is increasingly dependent on their economic
investments — that is, on their income as owners. The emphasis on ‘performance’ as that which most benefits the shareholders will therefore not go away. Immediate gains, whether in earnings or in share price, are, however, not what they need. They need economic returns twenty or thirty years hence.

“All institutions will therefore have to think through what performance means. This used to be obvious and simple; it no longer is. And strategy increasingly will have to be based on new definitions of performance.”

Global Competitiveness:

‘Global competitiveness should be made a strategic goal as per Drucker. According to him, ‘no institution, whether a business, a university or a hospital, can hope to survive, let alone to succeed, unless it measures up to the standards set by the leaders in the field, anywhere in the world. It is no longer possible to base a business or a country’s economic development on cheap labor. However low its wages, a business — except for the smallest and most purely local one, for example, a local restaurant — is unlikely to survive, let alone to prosper, unless its workforce rapidly attains the productivity of the leaders of the industry any place in the world. This is true particularly in manufacturing. For in most manufacturing industries of the developed world the cost of manual labor is rapidly becoming a smaller and smaller factor — one-eighth of total costs or less. Low labor productivity endangers a company’s survival. But low labor costs no longer give enough of a cost advantage to offset low labor productivity.”

‘The best example is Mexico, which for fifty years from 1929 on had a deliberate policy of building its domestic economy independent of the outside world. It did this not only by building high walls of protectionism to keep foreign competition out. It did it — and this was uniquely Mexican in the 20th century world — by practically forbidding its own companies to export. This attempt to create a modern but purely Mexican economy failed dismally. Mexico actually became increasingly dependent on imports, both of food and of manufactured products, from the outside world. It was finally forced to open itself to the outside world, since it simply could no longer pay for the needed imports. And then Mexico found that a good deal of its industry could not survive.
Similarly, the Japanese tried to protect the bulk of their business and industry by keeping the foreigners out while creating a small but exceedingly competitive number of export industries — and then providing these industries with capital at very low or no cost, thus giving them a tremendous competitive advantage. That policy too has failed. The present (1999) crisis in Japan is in large part the result of the failure to make the bulk of Japanese business and industry (and especially its financial industries) globally competitive.

Strategy, therefore, has to accept a new fundamental. Any institution — and not just businesses — has to measure itself against the standards set by each industry’s leaders anytime in the world.\textsuperscript{41}

\textbf{The Growing Incongruence Between economic reality and political reality:}

The final fundamental on which to base strategy in the period of worldwide structural change and uncertainty is the growing incongruence between economic reality and political reality.

The world economy is increasingly becoming global. National boundaries are impediments and cost centers. As discussed in the first chapter of this book, business — and increasingly many other institutions as well — can no longer define their scope in terms of national economics and national boundaries. They have to define their scope in terms of industries and services worldwide.

But at the same time, political boundaries are not going to go away. In fact, it is doubtful that even the new regional economic units, the European Economic Community, the North American Free Trade Zone (NAFTA) or Mercosur, the proposed economic community in South America, will actually weaken political boundaries, let alone overcome them.\textsuperscript{42}

We have in fact three overlapping spheres. There is a true global economy of money and information. There are regional economics in which goods circulate freely and in which impediments to the movement of services and of people are being cut back, though by no means eliminated. And then increasingly there are national and local realities, which are both economic, but above all political. And all three are growing fast. And businesses — and other institutions, for example, universities — have no choice. They have to live and perform in all spheres, and at the same time. This is
the reality on which strategy has to be based. But no management any-place knows yet what this reality actually means. They are all still groping.\textsuperscript{43}

‘Many – perhaps most – large multinationals in manufacturing, in finance, in insurance have organized themselves into worldwide “business units” across national boundaries. The leasing business of a financial services company is, for example, run as one business, whether in Spain or in Hong Kong. And it is run separately from any other business of the same financial services company in Spain or in Hong Kong, for Example, the company’s foreign exchange business. But company after company has learned that for the local government or the local labor union-or any other local political agency – the “business unit” is a meaningless fiction. For them Spain or Hong Kong are the only meaningful reality and the Spanish or the Hong Kong businesses of the company are therefore the only units they perceive and accept and are willing to deal with. No company I know has yet been able to figure out in advance what decision and action of the “business Unit” and which will have to be handled as a “national” one – let alone how to work out in advance how to make an action or a decision fit both realities, the economic reality of the traditional business unit and the political reality of Spanish or Hong Kong “sovereignty”.\textsuperscript{44}

‘The final implication: All businesses will have to learn to manage their currency exposure. Every business, even a purely local one, is in the world economy today. As such, it is subject to currency fluctuations even if it does not sell outside its own country or does not buy outside it. Even the most provincial and most local Mexican company was severely hit by the sudden collapse of the Mexican Peso a few years ago. Even the most purely local Indonesian company was severely hit by the sudden collapse of the Indonesian currency in1998.

Strategy has to be based on the assumption that currencies will continue to be volatile and unstable. One implication of this is that every management will have to learn what so far few managements can do: manage their foreign exchange exposure.\textsuperscript{45}

4.3 Michael Porter:

‘Every firm competing in an industry has a competitive strategy, whether explicit or implicit. This strategy may have been developed explicitly through a planning process or it may have evolved implicitly through the activities of the various
functional departments of the firm. Left to its own devices, each functional
department will inevitably pursue approaches dictated by its professional orientation
and the incentives of those in charge. However, the sum of these departmental
approaches rarely equals the best strategy.

The emphasis being placed on strategic planning today in firms in the United
States and abroad reflects the proposition that there are significant benefits to gain
through an explicit process of formulating strategy, to ensure that at least the policies
(if not the actions) of functional departments are co-ordinated and directed at some
common set of goals. Increased attention to formal strategic planning has highlighted
questions that have long been of concern to managers: What is driving competition in
my industry or in industries I am thinking of entering? What actions are competitors
likely to take, and what is the best way to respond? How will my industry evolve?
How can the firm be best positioned to compete in the long run?

Yet most of the emphasis in formal strategic planning processes has been on
asking these questions in an organized and disciplined way rather than on answering
them. Those techniques that have been advanced for answering the questions, often by
consulting firms, either address the diversified company rather than the industry
perspective or consider only one aspect of industry structure, like the behaviour of
costs that cannot hope to capture the richness and complexity of industry
competition.46

The battle for markets, normally referred to as competitive strategy, is the kind of
competition that Michael Porter wrote about and with which many Indian managers
are by now familiar. It starts with a structural analysis of the industry, based on
detailed evaluation of the relative powers of suppliers and customers and of the
barriers to entry and substitution, to diagnose the dynamics of profitability and to
identify the different strategic segments. This analysis, together with an evaluation of
key success factors in each segment and the key strengths and intentions of
competitors, leads to a choice of both strategic positioning and competitive posture.
The key weapons in this competition for existing markets include market share, scale,
a sustainable low cost position, the ability to differentiate, pre-emption strategies and
so on. To achieve the overall competitive strategy, there is a need to co-align
functional strategies: a low cost strategy, for example, requires a very different
approach to manufacturing, marketing and financing than a strategy primarily focussed on differentiation.

Up to the mid-1980s, the Porter concept of competitive strategy dominated corporate thinking, particularly in the West. But soon thereafter, its limitations became apparent. Success could be explained on the grounds of cost leadership, but what became harder to explain was from where this cost leadership came. Why could their competitors not do what they did? A much more compelling argument was soon offered by C.K. Prahalad and Gary Hamel. Collectively, they made the case for a very different kind of competition for resources and capabilities.47

While porter’s view of competitive strategy focussed on the external world – of industry structure and the strategy of competitors – Prahalad and Hamel focussed on the internal world of a company’s strategic architecture consisting of all its resources and competencies. At the heart of this new view of strategy lay a profoundly different conceptualisation of what constituted a company. In Porter’s view of strategy, a company was a portfolio of products and businesses. Prahalad and Hamel saw a company as a portfolio of resources and competencies.

Strategy, then, was not just about finding the best market position. It was about a deep analysis of what a company’s competencies really were, and then a creative process of finding external opportunities into which those competencies could be parlayed into competitive advantage. In that process, a static view of competitive positioning also gave way to a more dynamic and evolutionary view of strategy based on two iterative processes. The first process was to continuously look for growth by identifying new market opportunities into which the company’s existing resources and competencies could be exploited. The second process was to continuously improve on the strategic architecture, both by strengthening existing competencies and also by developing or acquiring new ones.48

But this explanation too begs a question: where was the energy coming from? That question leads to the third stage of competition: the competition for dreams. This is where the power of corporate ambition and human will combine with a vision of future markets to create the exciting sense of purpose that energises the whole strategic process.
Some managers and strategy analysts make the mistake of thinking about the three stages of competition in either/or terms. The notion of core competencies and strategic architecture is seen as a replacement for the old and outdated concepts of competitive strategy. A far more appropriate approach is to think of them as the layers of an iceberg.

The concepts of competitive strategy remain as valid today as they were when Michael Porter wrote his famous book in 1980. Careful analysis of cost structures and of customer needs remain vital to arrive at cost leadership or differentiation to win in the market. But they form the visible tip of the iceberg. Competitive strategy is supported by the bulk of the strategic architecture that lies submerged under water—deeply embedded within the company, invisible to the outside observer. And, at the very base of the iceberg lies the vision, the ambition, the dream.49

4.4 Jack Trout

4.4.1 Waterloo 1815:

‘At Waterloo, Napoleon actually had a slight superiority in numbers: 74,000 men versus Wellington’s 67,000. But Napoleon was on the offense, and Wellington could afford to wait. Napoleon knew he had to attack before the Prussians arrived to reinforce Englishman and his allies.

Clausewitz’s second principle of warfare is the superiority of the defense. A well-established defensive position is extremely strong and very difficult to overcome. (So this year we predict that Chevrolet will be the largest-selling car, Crest will be the largest-selling toothpaste, and McDonald’s the biggest fast-food company—regardless of what the competition does and how much money it spends.)

At 7:30 p.m., in the gathering darkness of June 18, 1815, Napoleon, in a final act of daring, ordered a frontal assault against the British center by battalions of his Imperial Guards. “De l’audace et toujours de l’audace.” (Audacity, always audacity.)

“Bonaparte used his last reserve,” says Clausewitz, “in an effort to retrieve a battle which was past being retrieved. He spent his last farthing and then, as a beggar, abandoned both the battle-field and his crown.”

What does Napoleon at Waterloo suggest to American Motors in Detroit?

Should they get out of the passenger car business while they still have a profitable Jeep business to fall back on?
“Capitulation is not a disgrace,” says Clausewitz. “A general can no more entertain the idea of fighting to the last man than a good chess player would consider playing an obviously lost game.”

### 4.4.2 Marketing is War:

‘The best book on marketing was not written by Harvard professor. Nor by an alumnus of General Motors, General Electric, or even Procter & Gamble. We think the best book on marketing was written by a retired Prussian General, Karl von Clausewitz. Entitled ‘On War’ the 1832 book outlines the strategic principles behind all successful wars. Clausewitz was the great philosopher of war. His ideas and concepts have lasted more than 150 years. Today, On War is widely quoted at places like West Point, Sandhurst, and St.Cyr. War has changed dramatically since on war was first published. The tank, the airplane, the machine gun, and a host of new weapons have been introduced. Yet the ideas of Clausewitz are still as relevant today as they were in the nineteenth century. Weapons may change, but warfare itself, as Clausewitz was first to recognize, is based on two immutable characteristics:

‘Strategy and Tactics.’ His clear expositions of the strategic principles of war are likely to guide military commanders well into the twenty-first century.”

### ‘Marketing needs a new philosophy

The classic definition of marketing leads one to believe that marketing has to do with satisfying consumer needs and wants.

Marketing is “human activity directed at satisfying needs and wants through exchange processes,” says Philip Kotler of Northwestern University.

Marketing is “the performance of business activities that direct the flow of goods and services from producer to consumer,” says the American Marketing Association.

Marketing is “the performance of those activities which seek to accomplish on organization’s objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client,” says E. Jerome McCarthy of Michigan State University.

Perhaps the most complete explanation of the “needs and wants” theory is the definition provided by John A. Howard of Columbia University in 1973. Marketing, says Mr. Howard, is the process of: “(1) identifying customer needs, (2) conceptualizing those needs in terms of an organization’s capacity to produce, (3) communicating that conceptualization to the appropriate laws of power in the
organization, (4) conceptualizing the consequent output in terms of the customer needs earlier identified, and (5) communicating that conceptualization to the customer.”

Are those the five steps on the road to marketing success today? Would identifying, conceptualizing, and communicating help American Motors compete successfully with General Motors, Ford, and Chrysler? Let alone Toyota, Datsun, Honda, and the rest of the imports?

Let’s say American Motors develops a product strategy based on identifying customer needs. The result would be a line of products identical to those of General Motors, which spends millions of dollars researching the same marketplace to identify those same customer needs.

Is this what marketing is all about? The victory belongs to the side that does a better job of marketing research?

Clearly something is wrong. When American Motors ignores customer needs, the company is much more successful. The Jeep, a product borrowed from the military, is a winner. American Motors passenger cars are losers.

No focus group is likely to have conjured up the Jeep. Nor is identifying customer needs likely to help an also ran compete with a leader.52

'Becoming customer-oriented

Marketing people traditionally have been customer-oriented. Over and over again they have warned management to be customer-rather than production-oriented. Ever since World War II, King Customer has reigned supreme in the world of marketing. But it’s beginning to look King Customer is dead. And like marketing people have been selling a corpse to top management. Companies who have dutifully followed the directions of their marketing experts have seen millions of dollars disappear in valiant but disastrous customer-oriented efforts.

To see how we got into this predicament, you have to go back to the twenties when business was production-oriented. This was the heyday of Henry "You Can Have Any Color You Want As Long As It’s Black" Ford.

In the production era, business discovered advertising. "Mass advertising creates mass demand which makes mass production possible," said the advertising experts.
In the aftermath of World War II, the leading companies became customer-oriented. The marketing expert was in charge and the prime minister was marketing research.

But today every company is customer-oriented. Knowing what the customer wants isn’t too helpful if a dozen other companies are already serving the same customer’s wants. American Motors’s problem is not the customer. American Motors’s problem is not the customer. American Motors’s problem is General Motors, Ford, Chrysler, and the imports.53

'**Becoming competitor-oriented**

To be successful today, a company must become competitor-oriented. It must look for weak points in the positions of its competitors and then launch marketing attacks against those weak points. Many recent marketing success stories illustrate this.

For example, while others were losing millions in the computer business, Digital Equipment Corporation was making millions by exploiting IBM’s weakness in small computers.

Similarly, Savin established a successful beachhead in small, inexpensive copiers, a weak point in the Xerox lineup.

And Pepsi took advantage of its sweeter taste to challenge Coke in the hotly contested cola market. At the same time, Burger King was making progress against McDonald’s with its “broiling, not frying” attack.

There are those who would say that a well-thought-out marketing plan always includes a section on the competition. Indeed it does. Usually toward the back of the plan in a section entitled “Competitive Evaluation.” The major part of the plan usually spells out the marketplace, its various segments, and a myriad of customer research statistics carefully gleaned from endless focus groups, test panels and concept and market tests.54

'**The marketing plan of the future**

In the marketing plan of the future, many more pages will be dedicated to the competition. This plan will carefully dissect each participant in the marketplace. It will develop a list of competitive weaknesses and strengths as well as a plan of action to either exploit or defend against them.

There might even come a day when this plan will contain a dossier on each of the competitors’ key marketing people which will include their favourite tactics and
style of operation (not unlike the documents the Germans kept on Allied commanders in World War II).

What does all this portend for marketing people of the future?

It means they have to be prepared to wage marketing warfare. More and more, successful marketing campaigns will have to be planned like military campaigns.

Strategic planning will become more and more important. Companies will have to learn how to attack and to flank their competition, how to defend their positions, and how and when to wage guerrilla warfare. They will need better intelligence on how to anticipate competitive moves.

On the personal level, successful marketing people will have to exhibit many of the same virtues that make a great military general—courage, loyalty, and perseverance.\textsuperscript{55}

\textbf{Maybe Clausewitz is right}

Maybe marketing is war, where the competition is the enemy and the objective is to win the battle. Is this quibbling over details? Not really. Compare the game of football with the profession of marketing.

The football team that scores the most points wins the game. The marketing team that makes the most sales wins the marketing game. So far they're equivalent. But try to play football the way you would play a marketing game.

Let's insert a marketing manager into a football game and watch him or her identify the goal line as the place to score points, that is, make sales. Then watch as the marketing manager lines up the team and heads straight for the goal line with the ball.

You don't have to be a sports expert to know that the direct approach in football leads to certain disaster.

In football, you win by outwitting, outflanking, outplaying the other team. The points on the scoreboard are only a reflection of your ability to do these things.

In war, you win by outwitting, outflanking, and overpowering the enemy. The territory you take is only a reflection of your ability to do these things. Why should marketing be any different?

Why do the hundreds of definitions of the marketing concept almost never mention the word competition? Or suggest the essential nature of the conflict?

The true nature of marketing today involves the conflict between corporations, not the satisfying of human needs and wants.
If human needs and wants get satisfied in the process of business competition, then it is in the public interest to let the competition continue. But let us not forget the essential nature of what marketing is all about.\(^{56}\)

**In defence of marketing warfare**

You might object to the direct application of military principles to marketing. War is horrible enough in war time, people have told us, without extending it to peacetime.

And anyone who is opposed to the free enterprise system would probably also object to having the participants in the system practice 'the principles of marketing warfare. So be it. Even people who defend the free enterprise system might think that marketing warfare is going too far. If you are one of those people, we would urge you to consider the results of the warfare analogy rather than the analogy itself.

A study of American business history of the past decade or so suggests that many of the appalling financial losses registered by companies like RCA, Xerox, Western Union, and others might have been avoided by the application of the principles of war. The study of warfare is not just a study of how to win. *Equally as important is how not to lose.* The American economy has more to fear from unlimited and senseless corporate aggression than it has from the skilled competition of marketing gladiators in the art of war. Free enterprise is marketing warfare. If you want to play in the free enterprise game, it seems to make sense to learn the principles first.\(^{57}\)

**4.4.3. Strategy and tactics**

The way to develop strategy, some companies believe, is to assemble three or four of their best people and lock them up in a room until they come up with the answer. "The ivory-tower think-tank approach," it is often called.

Other companies are fond of taking their entire senior management team to a conference center (or preferably a Caribbean island) to formulate plans for the future. The "get-away-from-the-phones, get-away-from-it-all" approach.

Both approaches attempt to get long-term strategic thinking as far away as possible from day-to-day tactical decisions. Both approaches are wrong.
Strategy follows tactics

'As form should follow function, strategy should follow tactics. That is, the achievement of tactical results is the ultimate and only goal of a strategy. If a given strategy doesn't contribute to tactical results, then the given strategy is faulty, no matter how brilliantly conceived or eloquently presented. Strategy should be developed from the bottom up, not the top down.

Only a general with deep, intimate knowledge of what happens on the battlefield itself is in a position to develop an effective strategy.

Strategy should evolve out of the mud of the market place, not in the antiseptic environment of an ivory tower. (The armchair general out of touch with the battle has his counterpart in the conference-room CEO.)

The objective of a grand strategy is to make the operation work on a tactical level. It has no other purpose. In a military operation, the objective of the master plan, to put it bluntly, is to have two soldiers ready, willing, and able to fight at a place and moment in time where the enemy has only one. In other words, to facilitate the application of the principle of force on a tactical level.

A grand strategy may be awesome, inspirational, audacious, and bold, yet an utter failure if it doesn't put troops in the field in exactly the right place and at the right time to accomplish the job tactically.

There is no such thing as a bad strategy. Or a good one, for that matter. Strategies have no inherent merit in and of themselves. They are not like the plot of a novel or the outline of a movie, just waiting for someone to give them wings with the right words and music.

Unlike works of art which are often judged on their originality, creativity, and boldness of thought, marketing strategies should be judged for their effectiveness only at the point they come in contact with the customer and the competition.

In military warfare, the serious student of strategy begins with the study of the bayonet. It is no accident that perhaps the best military strategist the world has ever known began his career in the Prussian army at the ripe old age of 12. Karl von Clausewitz knew what war was like because he had experienced it in all its horror. He was at Jena where he was captured by the French. He was at Borodino, the site of the massive confrontation between the armies of Napoleon and the armies of the Czar. He was at the Berezina River, on eoz the blackest sights in all history, where
thousands of French were trampled under the horses of the Cossacks. He was at Waterloo.

His great strategic concepts were developed in the cauldron of practical experience. Clausewitz knew the importance of victory because he had tasted the bitterness of defeat so often in his career.

All the great military strategists have followed the same pattern. They learned strategy by first learning the tactics of warfare. Strategy follows tactics.58

'Strategy directs tactics

The general that neglects the study of the tactical situation in the development of strategy often turns around and becomes too sensitive to tactics once the battle is launched. If a strategy is soundly conceived from a tactical point of view, then the strategy ought to direct the tactics once the battle is started.

A good general has the ability to overlook tactical difficulties in order to press ahead to achieve the strategic objectives. At times it may be necessary to expend considerable resources in order to take key points that might be holding up the development of the overall strategy. You might, for example, have to operate a given business at a loss for a short period of time in order to achieve tactical objectives that allow a general strategy to succeed.

The reverse is also true. You might have to let business decline or eliminate profitable products if they are not consistent with your strategy. This can cause problems with a sales-oriented staff out for volume, whatever the consequences. Clausewitz consistently stresses the unity of strategy.

Clausewitz is quick to dismiss the idea that the taking of a certain geographic point or the occupation of an undefended province means anything unless it contributes to the operation as a whole. "Just as in commerce the merchant cannot set apart and place in security gains from one single transaction by itself," says Clausewitz, "so in war a single advantage cannot be separated from the result of the whole."

Twentieth century merchants like Coca-Cola sometimes forget a principle that nineteenth century merchants seem to have understood. They will introduce an easy product to sell like Diet Coke and then express surprise when their Tab business falls apart. To repeat: "A single advantage cannot be separated from the result of the whole."59
A decentralized approach to management is the most common reason for the lack of strategic direction of a company's tactics. Like line extension itself, in the short term decentralized management can produce results. But in the long term, the company is bound to suffer. A case in point is ITT, which is currently paying the price for years of decentralized management.

Getting decision making out in the field is the rationale most decentralized organizations use to justify their existence. Getting out in the field to study the tactical situation is an essential part of developing a good strategy. But it's only one part. Someone still needs to tie the elements together into an organized coherent strategy. 60

Attack and counterattack

To every action, states a law of physics, there is an equal and opposite reaction. Many marketing commanders draw up battle plans as if the enemy will make no response. Nothing is further from the truth.

The likelihood is just the opposite. Cut your price in half and your competitor is likely to do the same. To every action there is some reaction on the part of your competition, even if it doesn't exactly duplicate your initial move. Don't get blind-sided. A good marketing strategy is one that anticipates the competitor's counterattack. Many of the principles of marketing warfare recognize the danger of counterattack. Offensive principle No.2: Find a weakness inherent in the leader's strength and attack at that point. For leaders to block this kind of move, leaders would have to weaken their own strength, something they are going to be hesitant to do.

Another way to analyze the possibility of strong counterattacks is to look at predicted share of market changes. Some companies boldly predict they will take half of a leader's share, for example. Yet they fail to predict the clawing and scratching that will take place in the process. The wounded eagle response.

Except the counterattack. Your competitors will spend far more money and make more sacrifices to protect what they already own than they would in an offensive attack on your position. 61

Action is not independent of strategy

Whatever action a company takes or intends to take cannot be divorced from the strategy that the action implies. The action is the strategy.
Yet many marketing people think they can separate the two. Apple, for example, has announced that it's going to invade the Fortune 500. Apple can't then sit back and say, "Now, what's our strategy going to be?" Invading the Fortune 500 is Apple strategy. Whether the invasion succeeds or not will depend primarily on whether the strategy yields tactics appropriate for Apple, considering the strength of the defender IBM. Certainly Apple can increase its chances for success by following the principles of marketing warfare – launching the attack on a narrow front, for example. But these factors can only help to a degree. The more fundamental strategic question is: Can a small company with the resources of an Apple take on IBM on its home grounds?

Big successful companies get into trouble with the false notion that anything is possible if only the company has the will to succeed. They often decide what they want to accomplish and then assign a task force to develop the strategy to achieve their goals. No company is big enough to do this. Invariably there are objectives that are beyond their means.

Good marketing strategies live in the world of tactics and reality. They never let their egos get in the way of their judgement. They never attempt the impossible, nor do they push a campaign or line of attack beyond a reasonable goal. They focus their minds on what can be accomplished with the tactical tools available, not on grandiose schemes or impossible dreams.62

4.4.4 It's all about differentiation

"Differentiating yourself comes in three parts:

1. Having a simple idea that separates you from your competition.
2. Having the credentials or the product that makes this concept real and believable.
3. Building a program to make your customers and prospects aware of this difference.

It's that simple.63

"Many companies know what makes them different, but it's too obvious for them to see things clearly. It's almost too simple to recognize.

If you travel down to Buenos Aires, you'll quickly discover that Quilmes is the big beer in Argentina. It enjoys about 60 percent of the market. And it has been brewing beer there since 1890."
Its advertising features a lot of great-looking gals meeting great looking guys with the slogan “The taste of the meeting.” What the company should be promoting is a simple idea that makes it unique, “Since 1890 the beer of Argentina.” That’s what the company is.

If you travel out West, you’ll notice one of the great old brand names in America, Wells Fargo Bank. This organization goes back to 1852 when it featured the pony express and those galloping stagecoaches.

Today, those stagecoaches travel at the speed of light, thanks to computer network technology. But the essence of what makes Wells Fargo different is still the same. It could be expressed as “Fast then. Fast now.” That’s what it is. Pontiac is currently running an old differentiating idea that has been successfully brought back. The concept is “wide track,” and Pontiac is brilliantly dramatizing it with the simple idea that “Wider is better.”

The more things change, the more things stay the same. Powerful differentiating ideas are forever. They just need upgrading from time to time. What they don’t need is changing. (Coke never should have stopped using “The Real Thing.”) 64

‘Zane’s Cycles is the largest single-location bicycle dealer in Connecticut. How does 33-year-old Chris Zane keep sales growing 25 percent a year in a hotly competitive business?

He differentiates. He explains: “The strategy I’m best known for is my lifetime service guarantee. When a customer buys from me, if the bicycle ever fails or needs maintenance, we will do whatever it takes to get the customer back on the road. Free.”

His lifetime guarantee isn’t as expensive as it sounds. First, his mechanics know they’re going to service the bike free as long as the customer owns it. So they tend to properly assemble each new bike the first time.

Second, the lifetime guarantee keeps the best customers coming back (the biking enthusiasts who ride often enough to require periodic service). That helps business because each service visit is the chance to see new items and thus a new selling opportunity.

What does all this mean for those strategic plans that people produce? The problem we find in most plans is that they are long on “what to do” and short on the “how to do it.” There’s little value in someone producing a document about increasing
our share of this market or penetrating that market without that vital “How are we going to do it?” (If any plan lands on your desk without the “How,” send it back.)

‘And where they really fall down is telling a client something the client doesn’t want to hear about being different. Such was the case for a big ketchup brand in Venezuela called Pampero.

By the time we were called in, Del Monte and Heinz had nudged it from its number one position. Pamper was in a decline. What was needed was a differentiating quality idea beyond its current claims of “redder” or better.”

Why is it better? What do you do to your tomatoes? After some prodding, what emerged was the fact that Pampero removes the skin so as to enhance the flavour and color. It was something their big competitors did not do.

Now that’s an interesting idea, as many are aware that most recipes using whole tomatoes call for removing the skin. Pampero could exploit this “without the skins” perception of quality and taste.

When we told them that this was the best and only way to rebuild its brand’s perception, pamper became very upset. It seems the company was in the midst of changing to a money saving automated process that didn’t remove the skins (a la Del Monte and Heinz). Pampero didn’t want to hear about doing things the old-fashioned way.

Our recommendation was to stop the modernization plans, as “skins off” was the differentiating idea. Doing thing like your bigger competitors is how to get killed in the wars out there.

Many years ago, Rosser Reeves wrote a landmark book called Reality in Advertising. In it he coined the term “unique selling proposition,” or USP. This was something you looked for in your efforts to differentiate your product.

Today, many advertising people feel that these USPs rarely exist anymore. Products tend to be similar. So they present their clients with advertising strategy that entertains rather than differentiates. (Entertainment is good if you’re selling tickets, not products.)

‘What these ad people don’t realize is that differentiation comes in many forms. You can certainly do it in terms of product attributes. (Volvo: Drive safely.) Or you can do it by preference. (Tylenol: Pain reliever hospitals use the most.) Heritage is always good. 9Stolichnaya: The Russian vodka.) Reliability is a reliable way. (Maytag. The lonely repairman.) Being first is different. (Coke: The real thing.)
Convenience is always a winner. (Fresh express: Pre-packaged lettuce.) Being first in sales is the simplest, easiest and most direct way to say you’re better. (Toyota: The bestselling car in America.)

‘Even being different can be a difference. The National Aquarium in Baltimore was faced with the “been there, done that” problem. Their strategy was to reposition the Aquarium from perceptions of fish in tanks exhibit to that of a dynamic everchanging aquatic wonderland. Their very successful strategy was very simply expressed: There’s always something new at the Aquarium.

Where there’s a will, there’s a way to differentiate your company or product or aquarium.

4.5 JACK WELCH

4.5.1 The Welch Way

Jack Welch was the one of the successful Chief Executives of GE. ‘In 1981, 45 year old jack Welch became the eighth and youngest CEO in General Electric’s history. His goal was to make GE “the world’s most competitive enterprise.” Welch knew that it would take nothing less than a ‘revolution’ to transform that dream into a reality. Thus commences the book, “The Welch Way” by Jeffrey A. Krames:

The author was particular that this work is not about the specific growth strategies of ‘Welch Revolution’ but instead on the behavioural and cultural forces behind the strategies.

He says that: ‘History will reveal Welch to be exactly the right leader at exactly the right time. When he took over corporate America was in trouble. New global competition and poor economic conditions had changed the game, but few CEO’s recognized it. The model of business in corporate America in 1980 had not changed in decades. Workers worked, managers managed, and everyone knew their place. Forms and approvals and bureaucracy ruled the day.

During his first few years at the helm Welch faced difficult tasks; he fixed, closed or sold hundreds of businesses, eliminated layers of management, and transformed the company’s bureaucratic ways. GE was already considered one of world’s great manufacturers, so why fix something that wasn’t broken? But Welch saw a company drowning under the weight of its own structure. He saw businesses that were not growing quickly enough and the culture that encouraged few new ideas and little innovation. In the old GE, only those ideas that originated inside the halls of the company were deemed worthwhile (that was called NIH, for ‘NOT INVENTED
Welch eliminated NIH. He felt it was a "badge of honour" to learn from someone else, and encouraged all employees to soak up the best ideas regardless of their source. In the old GE, it was "stripes on one's shoulder" (meaning a person's rank) that was most important. Welch changed that. He felt that the quality of an idea was more important than who came up with it. He urged all employees to voice their ideas, feeling that no one person (including himself) had a monopoly of good ideas.71

In his book KRAMES provides a comparative look of the old GE and the Welch ways in the behavioural and cultural practices that helped the strategies to win: KRAMES has titled his book "THE WELCH WAY" 24 LESSONS FROM THE WORLD'S GREATEST CEO"

'In the title page it is mentioned that," A company that aspires to true greatness furnishes its people with big challenges which, when met, fill people with self-confidence that can only come from within and only from winning.72

The key aspects in each of the lessons are tabled below:

<table>
<thead>
<tr>
<th>No</th>
<th>OLD 'GE'</th>
<th>WELCH WAYS</th>
<th>Notes provided:</th>
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<tbody>
<tr>
<td>1</td>
<td>Manage</td>
<td>Lead:</td>
<td>&quot;what we are looking for...are leaders at every level who can energize, excite and inspire rather than enervate, depress and control.&quot;</td>
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<td></td>
<td></td>
<td>a. Articulate a vision, and spark others to execute it;</td>
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<td></td>
<td></td>
<td>b. Don't manage every excruciating detail;</td>
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<td></td>
<td></td>
<td>c. Involve everyone and welcome great ideas.</td>
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<td>2</td>
<td>Get more formal</td>
<td>Get Less Formal:</td>
<td>&quot;You must realize how important it is to maintain the kind of corporate informality that encourages a...training class to comfortably challenge the boss's pet ideas.&quot;</td>
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<td></td>
<td>a. Brainstorm with colleagues and bosses;</td>
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<td></td>
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<td>b. Hold more informal meetings;</td>
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<td>c. Consider a once-in-a-while informal get together.</td>
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<td>3</td>
<td>Tolerate</td>
<td>Blow up bureaucracy:</td>
<td>&quot;The way to harness the power of these people is not to protect them...but to turn them loose and get the management layers off their backs, the bureaucratic shackles off their feet and the functional barriers out of their way.&quot;</td>
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<td></td>
<td>bureaucracy</td>
<td>a. Drop unnecessary work</td>
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<td>b. Work with colleagues to streamline decision making;</td>
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<td></td>
<td></td>
<td>c. Make your workplace more informal</td>
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<td>4</td>
<td>Assume everything is fine</td>
<td>Face reality</td>
<td>&quot;How do you bring people into the change process? Start with reality...when everybody gets the same facts, they'll generally</td>
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<td></td>
<td></td>
<td>a. Look at things with a fresh eye.</td>
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<td>b. Don't fall into the &quot;false</td>
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<td>Step</td>
<td>Description</td>
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| 5    | Make things complex | Simplify:  
  a. Simplify the workplace  
  b. Make meetings simpler  
  c. Eliminate complicated memos and letter. | “You can’t believe how hard it is for people to be simple, how much they fear being simple...clear tough-minded people are the most simple.” |
| 6    | See change as a threat | See change as an opportunity:  
  a. Know that change is here to stay  
  b. Expect the least expected, but move quickly to stay a step ahead  
  c. Prepare those around you for the inevitable change that will affect their lives | “The game is going to change and change drastically.” |
| 7    | Manage by Authority | Lead by energising other:  
  a. Never lead by intimidation  
  b. Let others know exactly how their efforts are helping the organization  
  c. Send handwritten thank-you notes to colleagues and customers | “We now know where productivity - real and limitless productivity - comes from. It comes from challenged, empowered, excited, rewarded teams of people.” |
| 8    | Respect Tradition | Defy Tradition:  
  a. Hold a “why do we do it that way?” meeting  
  b. Invite colleagues from your department to contribute one idea on changing something important at the company  
  c. Don’t be afraid to buck conventional wisdom | “Shun the incremental and go for the leap.” |
| 9    | Let hierarchy rule | Make Intellect rule:  
  a. Spend an hour per week learning what competitors are doing  
  b. Offer a reward for the best idea  
  c. Work for organizations committed to training and learning | “…the desire, and the ability, of an organization to continuously learn from any source, anywhere- and to rapidly convert this learning into action — is its ultimate competitive advantage.” |
| 10   | Move Cautiously | Pounce Every day:  
  a. Live urgency | “Don’t sit still. Anybody sitting still, you can guarantee they’re...” |
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| 11 | Put Numbers first | Put Values First:  
  a. Don’t harp on the numbers  
  b. Lead by example  
  c. Let values rule | “Early in my career...there was way too much focus on the numbers... and a lot less on the softer values of building a team, sharing ideas, exciting others.” |
| 12 | Manage Everything | Manage Less:  
  a. Don’t get bogged down in meaningless details  
  b. Manage Less  
  c. Empower, delegate, get out of the way | “You can’t manage self-confidence into people.” |
| 13 | Involve key Players | Involve everyone:  
  a. Participate more  
  b. Make sure everyone feels free to speak out  
  c. Suggest an informal brainstorming session | “Business is “all about capturing intellect from every person... the more people you can capture it from, the better the intellect.” |
| 14 | Stick to your agenda | Rewrite your agenda:  
  a. Do not plan years ahead  
  b. Develop alternative plans and options  
  c. Expect the unexpected | “We want to be a company that is constantly renewing itself, shedding the past and adapting to change.” |
| 15 | Take your time | Live Speed:  
  a. Don’t “sit” on decisions  
  b. Communicate faster  
  c. Incorporate speed into every activity/process | “Speed is everything. It is the indispensable ingredient in competitiveness.” |
| 16 | Reduce Anxiety | Instill confidence:  
  a. Let people know that you value their ideas  
  b. Simplify the workplace  
  c. Focus on training | “Just as surely as speed flows from simplicity, simplicity is grounded in self—confidence.” |
| 17 | Set Modest goal | Set Stretch goals:  
  a. Reach for the unreachable  
  b. Forget decimal points  
  c. Don’t punish yourself—or anyone else — for falling short of a stretch goal | “...Self-confident people know that it is quality of their effort toward achieving the ‘impossible’ that is the ultimate measure.” |
| 18 | Respect the boundaries | Eliminate the boundaries:  
  a. Seek out new ideas from everyone  
  b. Be sure to look outside the company for good ideas  
  c. Never stop eliminating boundaries | “Boundary less behaviour evaluates ideas based on their merit, not on the rank of the person who came up with them.” |
| 19 | Layout a detailed plan | Articulate a vision:  
   a. Write down the vision  
   b. Avoid the minutiae  
   c. Hire and promote those most capable of turning visions into reality | “Leaders and you take anyone from Roosevelt to Churchill to Reagan – inspire people with clear versions of how things can be done better.” |
| 20 | Learn good ideas from inside the company | Get good ideas from everywhere:  
   a. Don’t think that you or your company have all the answers  
   b. Study competitors  
   c. Make sure everyone around you knows that you are interested in all ideas, regardless of where they come from | “It is a badge of honour to learn something here, no matter where it comes from.” |
| 21 | Outshine others | Spark others to perform:  
   a. Never bully or intimidate  
   b. Make sure to use all the intellect  
   c. Make sure everyone knows that the best idea wins | “Giving people self-confidence is by far the most important thing that I can do.” |
| 22 | Quality is management’s job | Quality is your job:  
   a. Take great pride in your work  
   b. Seek out quality training  
   c. Never think that quality is someone else’s job | “[Six Sigma] is the most important training thing we’ve ever had. It’s better than going to Harvard Business School.” |
| 23 | Change will end | Change never ends:  
   a. Face reality and know that change is here for good  
   b. Suggest an informal “change meeting”  
   c. Think short-term and long-term change | “The wisdom may lie in changing the institution while it is still winning – reinvigorating a business, in fact, while it’s making more money than anyone ever dreamed it could make.” |
| 24 | Be serious | Have Fun:  
   a. Make informality a way of life  
   b. Find a job that challenges you  
   c. Don’t stay in the same job forever | “Leading a big company... means never allowing a company to take itself too seriously, and reminding itself constantly... that yesterday’s press clippings often wrap today’s fish.” |

This table is made from the chapters of the book.
4.5.2 ‘Get Better or Get Beaten

“Igniting a revolution: Strategies for dealing with change, we shall take up the issues as presented:

It is mentioned, “from the files of Jack Welch, “The winners in this slow-growth environment will be those who search out and participate in the real growth industries and insist upon being number one or number two in every business they are in.””

‘Jack Welch wanted to pursue a strategy that called for every one of the company’s businesses to be number one or number two in its market. This strategy was called “Number One, Number Two” by him. To pursue the “Number One, Number Two” strategy took not only guts but discipline as well. Given the large, diversified portfolio of businesses that he presided over – 350 in all, clustered in 43 strategic business units – Welch felt he needed a breakaway strategy that would create a “survival of the fittest” mind-set throughout the company.

“Number One, Number Two” placed anew burden on business leaders, who now had to ask some very tough questions of themselves and of their businesses.”

Here there is reference to Peter F Drucker:

“Where we are not number one or number two, and don’t have or can’t see a route to a technological edge, we have got to ask ourselves[management theorist] Peter Drucker’s very tough question:

“If you weren’t already in the business, would you enter it today?”

And if the answer is NO, face into that second difficult question:

“What are you going to do about it?”

The managements and companies in the 80’s that don’t do this, that hang on to losers for whatever reason - tradition, sentiment, their own management weakness – won’t be around in 1990.”

Welch had to face tough questions as to ‘why was it necessary to be number one or two?’: ‘what was wrong with being a good number three or four?’ and ‘what if we discard a business that is not a leader now, but might emerge as one in another decade?’

To them Welch replied: “in many markets it was precisely the number three, four, five, or six business that suffered the most during a cyclical downturn.”

“Number one or Number two businesses would not lose market share: by having a
leadership position, they were able to employ more aggressive tactics, such as pricing. By being on top, they had the resources to develop new products.”

Welch made this strategy work across the businesses. His “Number One, Number Two” strategy became dominant globally in dozens of markets across the globe:

a. Number one in the world: Industrial motors, (manufacturers of electric motors), medical systems (imaging and diagnostic equipments), plastics (plastics of various sectors), financial services (credit, credit cards, leasing). Transport (locomotives and rail equipment), power generation (turbines for power stations), information services (company networks, electronic commerce, etc., ) aircraft engines (aircraft jet and other engines), and electric distribution equipment (control system for industry). NBC, which includes general interest programming and CNBC (business news), is ranked the number one American network.

b. Number two in the world: Lighting (makers of light bulbs and neon strips) and household appliances (stoves, refrigerators, washing machines etc.,)

c. The company though successful in this strategy, discovered that it contained flaw by the mid 1990s. By listening to the team mates and by his understanding Welch accepted that and agreed for change. This was an excellent example of Welch embracing change, of facing reality, of shaking things up, of forcing his leaders to look at their businesses all over again.

‘the big winners in the 21st century will be global’ it is mentioned that “the idea of a company being global is nonsense. Business are global, not companies....

‘In 1980 only two of GE’s strategic businesses – GE Plastics and GE – Aircraft Engines had been turned into global enterprises. The then GE Vice Chairman, Paolo Fresco, suggested that he had been pushing for globalisation for some time but he had understood that GE had to complete the “fix, sell, or close period” before it could focus on globalisation. “it is very difficult to jump into the world arena if you don’t have a solid base at home,” he said. “But once the sold base was created, we really took the jump.”

From 1985 to 1995 GE’s global revenues had increased from 20% of the Company’s total to 38%.

By 1999 international revenues had reached $45.7 billion, representing 41 percent of total revenues. In the coming decade the majority of GE’s revenues were expected to come from overseas business. In the fall of 2000, GE had 340,000

176
employees worldwide, with 200,000 living in the United States. While expanding globally, the company had managed to add 50,000 jobs in the United States in the 1990s.

In September 2000, GE opened a new research and development centre in Bangalore, India, named the John F Welch Center.\footnote{80}

\subsection*{4.5.3 Winning}

He transformed the organization totally and in the process, the world could learn lots of management lessons. Out of all the lessons, STRATEGY was the most important lesson. He had shared his experience and practical issues and solutions in his book, ‘WINNING’ and the key aspects in connection with the modern strategy is being shared:

“More than a few times over the past three years, I have been on a speaking program or at a business conference with one big strategy guru or another. And more than a few times, I have listened to their presentations in disbelief.

It’s not that I don’t understand their theories about competitive advantage, core competencies, virtual commerce, supply chain economics, disruptive innovation, and so on, it’s just that the way these experts tend to talk about strategy—as if it is some kind of high -brain scientific methodology—feels really off to me. I know that strategy is a living, breathing, totally dynamic game. It’s fun-and fast. And it’s alive.

Forget the arduous, intellectualized number crunching and data grinding that gurus say you have to go through to get strategy right. Forget the scenario planning, yearlong studies, and hundred-plus-page reports. They’re time-consuming and expensive, and you just don’t need them.

In real life, strategy is actually very straightforward. You pick a general direction and implement like hell.\footnote{81}

‘Yes, theories can be interesting, charts and graphs can be beautiful, and big, fat sacks of PowerPoint slides can make you feel like you’ve done your job. But you just should not make strategy too complex. The more you think about it, and the more you grind down into the data and details, the more you tie yourself in knots about what to do. That’s not strategy, that’s suffering. Now, I don’t want to write off strategy gurus. Some of their concepts have merit. But I do want to disagree with the scientific approach to strategy that they propagate. It is taught in many business
schools, peddled by countless consulting firms, and practiced in far too many corporate headquarters.

It's just so unproductive! If you want to win, when it comes to strategy, ponder less and do more. I'm certainly not alone in this view. In speaking with many thousands of businesspeople around the world, I can count the number of strategy questions on one hand. Virtually every other topic—managing a temperamental employee to the dollar's effect on trade—gets more interest by orders of magnitude.82

'Obviously, everyone cares about strategy. You have to. But most managers I know see strategy as I do—an approximate course of action that you frequently revisit and redefine, according to shifting market conditions. It is an iterative process and not nearly as theoretical or life—and-death as some would have you believe. Given this view, you may be wondering what I'm going to say in this chapter. The answer is nothing that's going to get me tenure!'83

'Instead, I'm going to describe how to do strategy in three steps. Over my career, this approach worked incredibly well across varied businesses and industries, in upturns and downturns, and in competitive situations from Mexico to Japan. Who knows—maybe its simplicity was part of its success. The steps are:

First, come up with a big aha for your business—a smart, realistic, relatively fast way to gain sustainable competitive advantage. I don't know any better way to come up with this big aha than by answering a set of questions I have long called the Five Slides, because each set fits roughly onto one page. This assessment process should take a group of informed people somewhere between a couple of days and a month.

Second, put the right people in the right jobs to drive the big aha forward. This may sound generic; it's not. To drive your big aha forward, you need to match certain kinds of people with commodity businesses and a different type entirely with high-value-added businesses. I don't like to pigeonhole, but the fact is, you get a lot more bang for your buck when strategy and skills fit.

Third, relentlessly seek out the best practices to achieve your big aha, whether inside or out, adapt them, and continually improve them. Strategy is unleashed when you have a learning organization where people thirst to do everything better every day. They draw on best practices from anywhere, and push them to ever-higher levels.
of effectiveness. You can have the best big aha in the world, but without this learning culture in place, any sustainable competitive advantage will not last.

Strategy, then, is simply finding the big aha and setting a broad direction, putting the right people behind it, and then executing with an unyielding emphasis on continual improvement. I couldn’t make it more complicated than that if I tried.\textsuperscript{84}

‘SO WHAT IS STRATEGY?’

Before we look at each of the three steps in some detail, a few thoughts about strategy in general. At the time I retired from GE, the company employed more than three hundred thousand people in about fifteen major businesses, from gas turbines to credit cards. It was a complex-wide-ranging company, but I always said I wanted it to operate with the speed, informality, and open communication of a corner store.

Corner stores often have strategy right too. With their limited resources, they have to rely on a laserlike focus on doing one thing very well.

In our Boston neighbourhood, for instance, within a block of each other on Charles Street, two little shops have constantly ringing cash registers and a nonstop flow of satisfied customers. One is Upper Crust Pizza. Its space is cramped, completely unadorned, and noisy, with self-service paper plates and a limited selection of soft drinks. Customers can eat either standing up or sitting at one large, benchlike table. The staff isn’t exactly rude, but they’re non-committal. It is not unusual for your order – given at the cash register – to be greeted with a bland “whatever.”

But the pizza is to die for; you could faint just describing the flavour of the sauce, and the crust puts you over the edge. Investment Bankers, artists, and cops start lining up at eleven in the morning to see the “Slice of the Day” posted on the door, and around lunch and dinner, the line can run twenty deep. A fleet of delivery people work nonstop until closing. At upper Crust, strategy is all about product.\textsuperscript{85}

‘Then there’s Gary Drug, about half the size of a New York subway car. A large, newly renovated, twenty-four-hour CVS pharmacy is a short walk away. No matter. Gary Drug, with its single, narrow aisle and shelves packed to the ceiling, is always busy. Its selection ranges from cold remedies to alarm clocks, with tweezers and pencil sharpeners mixed in. There is a personable pharmacist tucked in back, and a wide selection of European fashion magazines in a corner up front. Everything the store sells matches the mix of the neighborhood’s quirky residents. Salespeople greet customers by name when they walk in and happily give advice on everything from
vitamins to foot massagers. The store offers instant home delivery and a house charge account that bills you once a month.

A Gary Drug, strategy is all about service.86

‘Look, what is strategy but resource allocation? When you strip away all the noise, that’s what it comes down to. Strategy means making clear – cut choices about how to compete. You cannot be everything to everybody, no matter what the size of your business or how deep its pockets.

Corner stores have learned that survival depends on finding a strategic position where no one can beat them. Big companies have the same challenge.

When I became CEO in 1981, we launched a highly publicized initiative: “Be No.1 or No. 2 in every market, and fix, sell, or close to get there.” This was not our strategy, although I’ve heard it described that way. It was a galvanizing mantra to describe how we were going to do business going forward. There would be no ore hanging on to uncompetitive businesses for old times’ sake. More than anything else, the No. 1 or No. 2 initiative was a communication tool to clean up our portfolio, and it really worked.87

‘Our strategy was much more directional. GE was going to move away from businesses that were being commoditized toward businesses that manufactured high-value technology products or sold services instead of things. As part of that move, we were going to massively upgrade our human resources – our people – with a relentless focus on training and development.

We chose that strategy after getting hammered by the Japanese in the 1970s. They had rapidly commoditized businesses where we had had reasonable margins, like TV sets and room air conditioners. We ended up playing defense in a losing game. Our quality, cost, and service – the weapons of a commodity business – weren’t good enough in the face of their innovation and declining prices. Every day at work was a kind of protracted agony. Despite our productivity improvements and increasing innovation, margins were eroding, as competitors like Toshiba, Hitachi, and Matsushita were relentless.

Meanwhile, overseeing GE Capital in the late ‘70s, I was shocked (and delighted) to see how easy it was to make money in financial services, particularly with GE’s balance sheet. There were no union factories, no foreign competition, and plenty of interesting, creative ways to offer customers differentiated products and services. I remember the excitement in that period, seeing our people develop new
private label credit card programs and find niche after niche in middle market industrial financing. Fat margins weren't exactly low—hanging fruit, but close.

By the time I was made CEO, I knew that GE had to get as far away as it could from any business that smelled like a commodity and get as close as possible to the other end of the spectrum. That's why we divested businesses like TV sets, small appliances, air conditioners, and a huge coal company, Utah International. It is also why we invested so heavily in GE Capital; bought RCA, which included NBC; and poured resources into developing high—technology products in our power, medical, aircraft engine, and locomotive businesses.88

Now, in such changing times, how and why did GE stick with one strategy over twenty years? The answer is that strategies, if they're headed in the right direction and are broad enough, don't really need to change all that often, especially if they are supplemented with fresh initiatives. To that end, over the years, we launched four programs to bolster our strategy—globalization, service add-ons, Six Sigma, and e-business.

More than anything, though, our strategy lasted because it was based on two powerful underlying principles: commoditization is evil and people are everything. Virtually every resource allocation decision we made was based on those beliefs.

Yes, some companies can win in commodity situations—Dell and Wal-Mart are great examples of companies that have pulled the levers of cost, quality, and service to succeed in extremely competitive games. But that is really tough. You just can't make any mistakes.

My advice, then, is when you think strategy, think about commoditizing. Try desperately to make products and services distinctive and customers stick to you like glue. Think about innovation, technology, internal processes, service add-ons—whatever works to be unique. Doing that right means you can even make a few mistakes and still succeed.89

That's enough theory!

MAKING STRATEGY REAL

The first step of making strategy real is figuring out the big aha to gain sustainable competitive advantage—in other words, a significant, meaningful insight about how to win. To do that, you need to debate, grapple with, wallow in, and finally answer five sets of questions.
Going into this exercise, I'll assume that you have a strategy to begin with, either written somewhere or in your head.

That said, having a strategy doesn't mean its working.

The five slides we're going to look at here are a way to test your strategy, to see if it's getting you where you want to go, and figure out how to fix it if it's not, even to the point of changing it entirely.

I strongly believe this questioning process should not be a wide-scale, bottom-up event. While others may disagree, I know that strategy is the job of the CEO or the unit leader, along with his or her direct reports. If the culture is healthy, they can see the organization in all its various, interdependent parts. They know its people, as well as its sources of ideas and innovation, and can best determine where the most exciting opportunities lie. Moreover, they are the ones who will ultimately commit the resources the strategy requires. They get the plaudits if the strategy succeeds and hold the bag if it fails.

If you have a good team – candid, insightful, passionate about the business, and willing to disagree – completing this exercise should be fun and energizing. With intensity, it should take some – where between a couple of days and a month. After that, it's time to act.  

**SLIDE ONE**

- Who are the competitors in this business, large and small, new and old?
- Who has what share, globally and in each market? Where do we fit in?
- What are the characteristics of this business? Is it commodity or high value or somewhere in between? Is it long cycle or short? Where is it on the growth curve? What are the drivers of profitability?
- What are the strengths and weaknesses of each competitor? How good are their products? How much does each one spend on R & D? How big is each sales force? How performance – driven is each culture?
- Who are this business’s main customers, and how do they buy?

Over the years, I have been amazed at how much debate this simple grounding exercise can spawn. In fact, it's not unusual for people who share the same office space to have widely different views of the same competitive environment. Many people have a terrible time admitting their business is a true commodity. No matter how hard we tried, it was next to impossible to get people in our motors
business, for instance, to accept this reality. And I have sat through countless meetings where this set of questions has surfaced that discomfort and generated enormous heat about the level of resources to commit to R & D and marketing in an attempt to make the product more unique.

Another of the many important issues this slide surfaces is market size. Too often, people like to call themselves the market leader, so they end up limiting the scope of their playing field to make that happen. In our case, the No. 1 or No. 2 mantra inadvertently had that exact effect. After more than a decade, we realized that businesses were increasingly tightening their overall market definition so that their shares were enormous.

We fixed that by saying that businesses had to define their market in such a way that their share of any market they were in could not be more than 10 percent. With that restriction, people were forced into a whole new mind – set, and opportunities for growth were suddenly everywhere.

On the road in Q & A sessions, this is how I talk about the market definition dynamic: Since I am usually sitting in a chair, I ask audience members to imagine that they are a chair manufacturer. They can define their market as the kind of chair I am usually in – with curved metal arms, blue fabric, and wheels. Or they can define it as all chairs. Best yet, they can define their market as all furniture. Imagine the share differences and the implications for strategy!

This kind of discussion is why this slide really deserves to be wallowed in. A rich, wide – ranging conversation puts everyone on the same page – just where they have to be to ultimately find the big aha.92

**SLIDE TWO**

**What the Competition has Been Up To**

- What has each competitor done in the past year to change the playing field?
- Has anyone introduced game-changing new products, new technologies, or a new technologies, or a new distribution channel?
- Are there any new entrants, and what have they been up to in the past year?93

This set of questions brings the players on the field to life. Competitor A has been stealing your key salespeople. Competitor B has introduced two new products. Competitors C and D have merged and are having all kinds of integration difficulties.
Some of this information may have surfaced during the wallowing of the first question set, but now it's time to dig deeper into each competitor's behaviour.

Be granular – know what each competitor eats for breakfast.\textsuperscript{94}

**SLIDE THREE**

'What you've Been Up To

- What have you done in the past year to change the competitive playing field?
- Have you bought a company, introduced a new product, stolen a competitor's key salesperson, or licensed a new technology from a start-up?
- Have you lost any competitive advantage that you once had – a great salesperson, a special product, a proprietary technology?\textsuperscript{95}

'The best thing about this slide is that it hits you between the eyes if you're being outflanked. Very simply, the comparison of slides two and three tells you if you are leading the market or chasing it.

Sometimes these two slides show you that your competitors are doing a whole heck of a lot more than you are. You'd better find out why.

Other times, the comparison of these two slides paints a vivid picture of your business's competitive dynamics.\textsuperscript{96}

'Case in point is what happened in our medical business in 1976. The British company EMI had invented the CT scanner in the early '70s, forcing the traditional X-ray manufacturers-Siemens, Philips, Picker, and us – into an intense equipment war. Soon enough, all of us were coming out with million – dollar machines six months apart, each claiming to be thirty seconds faster in scan time than the last entry. No one was particularly happy with this situation. The CT competitors were in a slugfest, and our customers – the hospitals – were frustrated that they had to make big capital outlays for technology that could be outdated within a year.

Seeing that dynamic, Walt Robb, the head of our medical business, and his team, came up with a breakthrough idea. GE would allocate its resources to design scanners that could be continually upgraded with hardware or software that would cost less than $100,000 a year. We would sell our machines by saying, "Buy a CT scanner from our Continuum Series, and our upgrades will keep you from becoming obsolete for a fraction of the price of new equipment."
The Continuum concept changed the playing field. It made us No.1 and has kept us there for twenty-five years.

The main point here is that slides two and three work as a pair. They take anything static out of strategy and get you ready for the questions that come next.

**SLIDE FOUR**

*What's Around the Corner?*

- What scares you most in the year ahead – what one or two things could a competitor do to nail you?
- What new products or technologies could your competitors launch that might change the game?
- What M & A deals would knock you off your feet?  

'This set of questions is, with doubt, the one that most people miss. They just don’t give it the paranoia it deserves.

Most people answering this set of questions underestimate the power and capabilities of their competitors. Too often, the assumption going in is that competitors will always look the way they do in slide one – they’ll never change.

Take the case of Aircraft Engines in the 1990s, when our engineers believed that they had designed the perfect engine for the Boeing 777 – the GE90. We spent more than $1 billion to get more than 90,000 pounds of thrust out of a brand-new design, based on the assumption that Pratt & Whitney could not afford to launch a new engine and would be unable to extend their existing engines to that level.

We were wrong.

‘Pratt & Whitney, with only $200 million in development, did get 90,000 pounds of thrust out of their existing engines. Because their costs were less, we had to sell the GE90 at lower prices than we planned. We had underestimated the competition because we thought we had all the technical answers.

This story had a lucky ending. Several years later, Boeing developed a long-range version of the 777. It required 115,000 pounds of thrust, which the GE90 could meet since it was a new design and could be expanded. We ended up being chosen by Boeing as their sole source, but because of our early miscalculation, we suffered through a few painful, less profitable years.
Getting the right strategy means you have to assume your competitors are damn good, or at the very least as good as you are, and that they are moving just as fast or faster.

When it comes to peering into the future, you just can’t be paranoid enough.¹⁰⁰

SLIDE FIVE

‘WHAT’S YOUR WINNING MOVE?’

- What can you do to change the playing field – is it an acquisition, a new product, globalization?
- What can you do to make customers stick to you more than ever before and more than to anyone else?¹⁰¹

‘This is the moment to leap from analysis to action. You decide to launch the new product, make the acquisition, double the sales force, or invest in major new capacity. In reality, this is when Walt Robb and his team made the decision to allocate major resources to the Continuum Series, the strategic move that would keep GE’s medical customers “sticky” for decades.

By the time you’ve finished this set of questions, the effectiveness of your strategy should be pretty clear. Your big aha is winning, or it needs to change. Even if you didn’t have a strategy before, this process should help you get one.

But either way, you’ve only just begun.¹⁰²

‘THE RIGHT PEOPLE’

Here’s familiar scene. Managers, meet for months on end in intensive sessions about the company’s competitive situation and direction. Committees and subcommittees are formed. Surveys are conducted. Sometimes consultants are brought in. And then, at last and with tons of fanfare, the company’s leaders announce a new strategy.

Which just sits there.

Any strategy, no matter how smart, is dead on arrival unless a company brings it to life with people – the right people.

Forget speeches. They’re just hot air. The organization knows who’s important. Only if those important people are assigned to lead a new strategy will it take off.

Consider what happened in Power Systems when our push toward product services first got announced. Immediately, all the engineers wanted to know what the heck was going on. After all, they had joined GE because they wanted to build the
biggest, highest-powered, most environmentally sensitive turbines. Suddenly, they were being told that the people who serviced their “masterpieces” were going to be the stars of the show.¹⁰³

‘Didn’t service people, they thought, carry oilcans?

Although the engineers heard the speeches, they didn’t take them seriously, which was easy enough, since services were buried in the existing organization.

What did we do? We eventually took Ric Artigas, a PhD and the engineering leader in Locomotives, and put him in charge of a new and separate P & L devoted to Power Systems’ services business. It was a real signal – Ric was a well-respected player. With his new stature, he had no trouble recruiting the best engineers in Power Systems, who were needed to design sophisticated software packages for turbine upgrades.

The services strategy was under way. In 2005, Ric’s operating profit of close to $2.5 billion will be about equal to revenues when he took over in 1997.

Getting strategy right also means matching people with jobs – a match that often depends on where a business is on the commodity continuum. It goes without saying that you cannot pigeonhole. Good people are too multifaceted. That said, I would still make the case that due to their skills and personalities, some people work more effectively in commodities and others are better in highly differentiated products or services.¹⁰⁴

‘Let’s look at the motors business as an example. It’s about as commoditized as you’ll ever find. Several good companies make the product, and all have good service, quality, and cost.

The right people for this business are hard driving, meticulous, and detail oriented. They are not dreamers, they’re hand-to-hand combat fighters.

Lloyd Trotter is the perfect example. Lloyd joined GE in 1970 as a field service engineer in its high-intensity quartz lighting department, and for thirty years after that, his career was factories, factories, and more factories. He was a foreman, a production manager, and plant supervisor in Lighting, Appliances, and virtually every electrical distribution and control (ED&C) business we had. By the time Lloyd was made CEO of ED&C in 1992, he could tell you from the parking lot whether or not a factory was humming. Two steps closer and he could tell you what it could do better.

Of course, Lloyd liked thinking about strategy, but he liked implementing it more. He was in his element with people who sweated the nitty-gritty details like he
did, talking about ways to squeeze efficiencies out of every process. He was a master of discipline. And that’s what made him exactly the right kind of leader to drive our commodities businesses.

At the other end of the spectrum, it’s generally a different kind of person who thrives. Not better or worse, just different.¹⁰⁵

‘Take jet engines. Each engine is a unique, high-tech engineering miracle that requires about a billion dollars of investment to develop. The product life cycle is measured in years. And the customers are tough—the airlines themselves, perennially strapped for money, and the powerful airframers, Boeing and Airbus.

For many years, the jet engine business had its own distinct culture of romance. The people who gravitated toward it weren’t your usual business types—they were in love with the very idea of flying and the wonder of airplanes.

Brian Rowe was perfect for such an environment.

Brian started his career as an apprentice with DeHavilland Engines in England before joining GE as a factory-floor engineer in 1957. After stints in virtually every possible jet engine project, he was named head of GE’s aircraft engine business in 1979. Brian was a huge, gregarious guy-outspoken, opinionated, and visionary. He loved airplanes so much he would have worn goggles and a scarf to work if he could have.

Unlike Lloyd, Brian pretty much hated the nuts and bolts of management, and discussions of operating margins and cash flow bored him. But he sure did have the guts and the vision to place the big bets, laying a billion dollars on a single investment that would take years to pay off. Likewise, Brian’s personality made him a great salesman with customers, who shared his enthusiasm for every new technological advance.

Lloyd and Brian were both a case of perfect fit—right for their jobs, right for the business situation, right for the strategy. You won’t always get that lucky, and strategy can get implemented without an ideal match.

Buy you’re much better off with one.¹⁰⁶
‘BEST PRACTICES AND BEYOND

I’ve heard it said that best practices aren’t a sustainable competitive advantage because they are so easy to copy. That’s nonsense.

It is true that, once a best practice is out there, everybody can imitate it, but companies that win do two things: they imitate and improve.

Admittedly, imitating is hard enough. I remember a software company executive at one Q & A session lamenting, “My people don’t copy very well. They just don’t want to – they like the way they do it.” This reluctance to imitate is a common phenomenon. May be it’s just human nature.

But to make your strategy succeed, you need to fix that mind set – and go a lot further.

In fact, the third step of strategy is all about finding best practices, adapting them, and continually improving them. When you do that right, it’s nothing short of innovation. New product and service ideas, new processes, and, opportunities for growth start to pop out everywhere and actually become the norm.

Along with getting the right people in place, best practices are all part of implementing the hell out of your big aha, and to my mind, it’s the most fun.

It’s fun because companies that make best practices a priority are thriving, thristing, learning organizations. They believe that every-one should always be searching for a better way. These kinds of companies are filled with energy and curiosity and a spirit of can-do.

Don’t tell me that’s not a competitive advantage.107

‘Back in the old days – after World War II and before global competition – most industrial companies. GE included, were stuck in a not-invented-here (NIH) mind-set. The focus was on their own inventors, with paques and bonuses reserved for the people who came up with and implemented original ideas.

Once the ‘80s arrived, we had no choice but to radically broaden the NIH mind-set, and we did so by celebrating people who not only invented things, but found great ideas anywhere and shared them with everyone in the company. We came to call this behaviour “boundarylessness.” This awkward word basically described an obsession with finding a better way – or a better idea – whether its source was a
colleague, another GE business, or another company across the street or on the other side of the globe.¹⁰⁸

‘The impact of boundaryless thinking on our strategy implementation was enormous. Here’s just one example:

GE was always trying to improve its working capital usage; we were always using too much, and increasing our inventory turns would help. But try as we might with all sorts of programs and tweaks, we just couldn’t seem to get our annual turns above four.

In September 1994, Manny Kämpouris was scheduled to speak at a dinner for the top thirty leaders in our company. At the time, Manny was the chairman and CEO of American Standard, the global plumbing and air-conditioning supply company and one of the largest customers of our motors business.

You couldn’t help but notice that Manny wore a lapel pin emblazoned with the number “15” at its center. And soon enough, we all knew why.

For most of his talk that night, Manny regaled us with stories of how they had drastically improved inventory turns at American Standard, a company that produced a broad and varied mix of porcelain toilet bowls and sinks in factories in just about every corner of the world. Manny and American Standard were obsessed with inventory turns. The reason was simple: the company had recently gone through a leveraged buyout, and cash flow was king.

Our team was awestruck. You could hear people thinking, if American standard can improve inventory turns with its product mix and complicated manufacturing processes, why can’t we? Before Manny could finish his talk, our business leaders were peppering him with question after question.

But that was just the beginning.¹⁰⁹

‘What followed was an avalanche of GE people visiting American Standard facilities, meeting with foremen and factory managers – all of them wearing lapel pins like Manney’s. There was the occasional black sheep with a “10,” but many more plant managers who wore pins boasting of twenty or twenty-five turns. We crawled all over their plants and picked their brains. They were happy to help. One thing I have learned from boundarylessness over the years is that companies and their people – if they are not direct competitors, of course – love to share success stories. All you have to do is ask.’¹¹⁰

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The GE people who visited American Standard put what they had learned into practice in their own businesses. Over the next several years, these businesses adapted many of American Standard’s processes to GE, and continually innovated and shared with each other. It worked. By 2000, GE’s inventory turns had more than doubled, freeing up billions of dollars of cash. Over the years, GE borrowed great ideas with visits to Wal-Mart and Toyota and dozens of other companies. We also borrowed ideas from one another. At our quarterly meeting of business leaders, we asked attendees to present their best practice that others could use. If a leader tried to present a practice that wasn’t applicable to the other businesses, we would give him the hook.

It was in that way that the junior military officer recruitment program, which started in Transportation and spread to every corner of the company, and internet—selling techniques that helped plastics reach its customers, made their way to medical systems and beyond. The list of these best practices goes on and on.

‘And it’s hardly exclusive to GE. Yum! Brands Inc. is a case in point. Yum! is a 1997 spinoff from PepsiCo composed of five consumer restaurant brands — KFC, Taco Bell, Pizza Hut, Long John Silver’s, and A&W All American Food — with more than thirty-three thousand total outlets. Yum!’s CEO, David Novak, is an enormous believer in best practice transfer and considers each outlet an individual laboratory of ideas. David told me recently that he considered the major advantage to “bulking up” — in other words, adding chains and outlets — is to share learning. Otherwise, he said, size is just a drag.

Here’s what he means. A couple of years ago, Taco Bell was rated fifteenth in service for drive — in restaurants, with customer service time of 240 seconds, or four minutes, per order. The chain introduced a new process, and within two years, managed to bring that number down to 148 seconds, making it No.2 in the drive-through industry. Immediately, the Taco Bell practice was transferred to KFC, and last year, its customer service time moved from tenth to eighth — 211 seconds to 180 seconds, a full half-minute improvement.

‘I could tell you many other stories about how Yum!’s “laboratories” have spawned new processes, and how they have spread to improve all of its businesses. However, to make a long story short, I’ll just give you the results. Even with the tough economy, in the seven years since its spinoff, Yum!’s market capitalization has
jumped from $4.2 billion to $13.5 billion. Mainly because of ideas being shared and stretched! ¹¹³

'A focus on best practices may not sound like strategy, but try implementing strategy without it. Best practices are not only integral to making strategy happen, they are a sustainable competitive advantage if you continually improve them, with if being the key word here. That's not just a mind set. It's a religion.' ¹¹⁴

'The other evening we were eating at Torch, a wonderful little restaurant one door down from Upper Crust Pizza, and from our seats in the window, we could see its delivery people on bikes, in cars, and on foot zipping back and forth in nonstop motion. We started to play with the economics of the place, using rough numbers, but even with the most conservative estimates, we could only conclude that Upper Crust is very profitable.' ¹¹⁵

'You've got to believe that the people running Upper Crust have never held a strategy review session, let alone worked through five slides to reach a big aha. Their big aha is all in the sauce. Look, I don't want to oversimplify strategy. But you just shouldn't agonize over it. Find the right aha and set the direction, put the right people in place, and work like crazy to execute better than everyone else, finding best practices and improving them every day. You may not run a corner store, but when you're making strategy, act like you do.' ¹¹⁶

4.6 Nonconsensus Strategy

'Do those who work for you feel safe when they innovate, even if they are alone? Have you ever found yourself boasting about a time when you persevered against all odds, even when others said you were wrong? Of course, we all have. There is something irresistible about the rugged individualist, going it alone against the consensus. Teary-eyed renderings of 'my way' sung in high-end bars, chants against the dominant paradigm heard at occupy Harvard, the wealthy alumnus of an elite business school claiming to be a self-made man. For most of us, attempts to make this claim are the stuff of comedy; yet they are evidence that we would love to be the lone innovator courageously bucking the trend. No wonder, because history has been written by such people.' ¹¹⁷

'Consider the story of Qualcomm. Years ago when Irwin Jacobs was just getting Qualcomm off the ground, the world was pretty sceptical about his attempt to turn CDMA technology into a working wireless standard. The technology was
complicated, yet Jacobs’ team claimed to have made it work. Doubts about this claim mounted, even among experts; some esteemed faculty at Stanford University concluded that Jacobs’ work “violated the laws of physics.” If you ever feel surrounded by doubters, imagine how that must have felt for Irwin Jacobs and his fledgling firm.

Today we know that Qualcomm was successful in bringing CDMA technology into the market, and Jacobs is often described as a genius. This success is all the greater because of those early doubts. With so much controversy surrounding CDMA, most of the good early research was done by Irwin and his team. The benefit from being right, in a sea of doubters, is that you end up with most of the intellectual property. So it has been for Qualcomm. To this day they enjoy a handsome stream of payments: The reward for being right about a non-consensus strategy.118

‘As the renown venture capitalist Andy Rachleff likes to say, the sweet spot for an innovator is to be right about a new opportunity before the rest of the world has reached a consensus. After all, if you are right and everyone else agrees, then you are unlikely to see much of an upside. This fact is at work when we say that we would happily go it alone. We know we have an edge when we’re right and others are in doubt.119

‘But what if you are wrong? If you are wrong, would you rather be consensus or non-consensus? No doubt: If I am wrong, I just don’t want to be alone. Because if we are all wrong, who can blame me? Whereas If I’m wrong and alone, now I am a fool. Everyone said I was wrong, but I stayed with my idea anyway, and sure enough I am wrong. What a fool! Like Don Quixote, I did it my way.

In many organizations, the fear of being a fool is stronger than the hope of being a genius. We are human, after all, and vulnerable. We know that pursuing a non-consensus idea puts us at risk of being seen as a fool. So it is that people so often stay with the consensus, remaining silent about their ideas that buck the trend. After all, as long as we remain with the consensus, failure is tolerable; it is failure as the lone fool that we fear.

Is your organization a safe place to be non-consensus? Do those who work for you feel safe when they innovate, even if they are alone? You should frankly ask yourself these questions. Great leaders make it safe for others to innovate. And history then is written about those who were correct about new opportunities, even though there was no consensus.

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The academic work behind these ideas can be traced to James March’s paper on exploration and exploitation. Research showing the returns to the nonconsensus strategy appears in my paper with Elizabeth Pontikes.¹²⁰

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CHAPTER 5

Applications of Ancient Strategies in Modern Management

5.1 In the earlier two chapters we discussed the ancient strategies and the modern strategies. While the ancient strategies dealt with the warfare and other related issues, the modern strategies as we have considered mainly apply to the business environments. We therefore, are going to present here the applications of the ancient strategies as researched in today’s business context exclusively to Indian organizations and entrepreneurs. We exhibit 10 cases:

5.2 Case Analysis 1

BAJAJ AUTO LIMITED

In 1998, Bajaj Auto was ranked India’s fifth most valuable company. Internationally, it was the world’s largest scooter producer and fourth largest two – wheeler manufacturer, behind Japan’s Honda, Yamaha and Suzuki. The Company was incorporated as a trading company in 1945 and was importing two wheelers and three wheelers from Italy’s Piaggio & Co. The company got the licence to manufacture scooters and motorised three wheeler vehicles in 1959. ‘The company entered into a technical collaboration with Piaggio under which it obtained the right to manufacture and market Piaggio’ s Vespa brand scooters and three wheelers in India.’

After the agreement with Piaggio expired in 1971, Bajaj Auto continued to produce and sell vehicles but used the Bajaj brand name.

‘Rahul’s older son Rajiv studied manufacturing engineering at Pune’s College of Engineering, standing first in his class. He was then sent off to Warwick in the UK to study engineering before returning to the Company in 1991 with responsibility for setting up and managing a new product development group. His designation was general manager. His father’s brief was clear: Bajaj Auto had to have a product portfolio to suit every need. His only caveat, ‘If your customer wants stainless steel, don’t give him platinum’.

‘When Rajiv took on the responsibility of spearheading the company’s products and market thrusts in 1996 at the age of 32, he found he had inherited a lumbering giant. His priorities thus included accessing new technologies, introducing new