

STRATEGY RULES

FIVE TIMELESS LESSONS FROM
BILL GATES, ANDY GROVE,
AND STEVE JOBS



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Our Answer

- Learn from masters we know well

- Bill Gates
- Andy Grove
- Steve Jobs



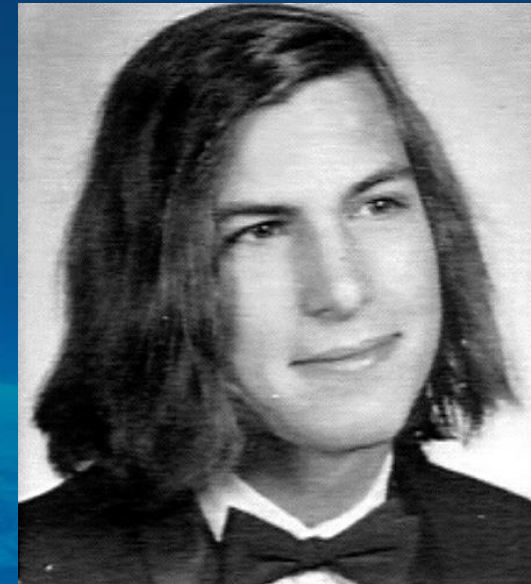
- Who happen to be three of the greatest strategists in the modern era

- Redefined modern business
- Redefined modern life
- As CEOs, built three of the most valuable franchises in history

Three Very Different People

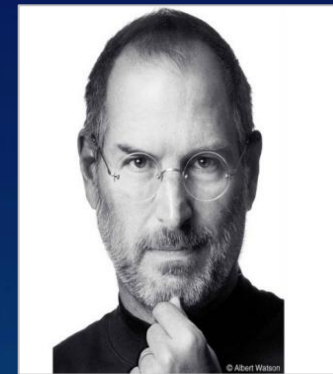


Gates – privileged, geek, drop-out
Grove – Holocaust, engineer, Ph.D.
Jobs – orphan, flower child, drop-out



Shared Common Traits that Helped Them Become Great Strategists...

1. Harbored outsized ambitions – for themselves and their companies
2. Cultivated a ferocious work ethic for themselves and their employees
3. Valued and provoked intense debate
4. Great intimidators/great motivators
5. A paranoid streak; never took success for granted



Three Entrepreneurs



Three Titans of Industry



3 Extraordinary Records

	Profits at Beginning of CEO Tenure	Op. Profits at End of CEO Tenure	Peak Market Capitalization
Gates (25 years)	—	\$11 billion	\$612 billion (12/27/99)
Grove (11 years)	(\$135 million)	\$10 billion	\$501 billion (08/31/00)
Jobs (14 years)	(\$403 million)	\$34 billion	\$658 billion (09/19/12)

Franchises They Built Have Endured, Post-CEOs

	Revenue Growth	Cumulative Operating Profit	Recent Market Capitalization
Microsoft after Gates (13 years)	\$23b to \$79b	\$257 billion	\$400 billion
Intel after Grove (15 years)	\$25b to \$53b	\$160 billion	\$180 billion
Apple after Jobs (2 years)	\$108b to \$171b	\$79 billion	\$700 billion

Gates, Grove, Jobs

Shared Five Rules

We argue these are/should be common to all master strategists

- Look forward, reason back
 - Tie vision to concrete actions... like game theory & chess
- Make big bets, without betting the company
 - Bold and ambitious, but not reckless
- Build platforms & ecosystems, not just products
 - No firm is an 'island,' especially in technology driven markets
- Exploit leverage & power
 - Master the tactics of both "judo" and "sumo"
- Shape the company around your 'personal anchor'
 - Personal strengths = comparative advantage, dive deep & compensate for weaknesses

Rule 1: Look Forward, Reason Back

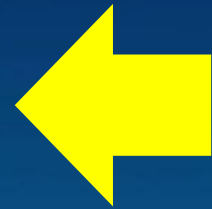
Strategy must be forward looking
Look towards the end game

Then:

Reason back to the actions which
produce the desired outcome

Look Forward, Reason Back: Four Themes

- *Look forward: a vision of the future*
 - *reason back to set boundaries and priorities*
- *Look forward: customer needs*
 - *reason back to match needs with today's capabilities*
- *Look forward: competitors' moves*
 - *reason back to build barriers to entry and customer lock-in*
- *Look forward: industry inflection points*
 - *reason back to commit to change & stay the course*



Start with a Vision

- Lou Gerstner, 1993
 - “The last thing IBM needs is a vision...”
- Gerstner 2004, pie-in-the-sky is truly irrelevant
 - “Vision is easy. It’s so easy to just point to the bleachers and say I’m going to hit one over there. What’s hard is saying...how do I do that?”
- Vision (can be) easy, but it is not irrelevant
- The key is: Look forward
 - Extrapolate & interpret -- Interpretation is key
 - Develop a point of view -- your firm & ecosystem, maybe 1, 5, 10 years?
 - It should be simple, a few key words and pictures

Then reason back

- What are the specific actions for TODAY?

Gates (at Microsoft's Founding)

Microsoft's original mission statement: "a computer on every desk and in every home, running Microsoft software."

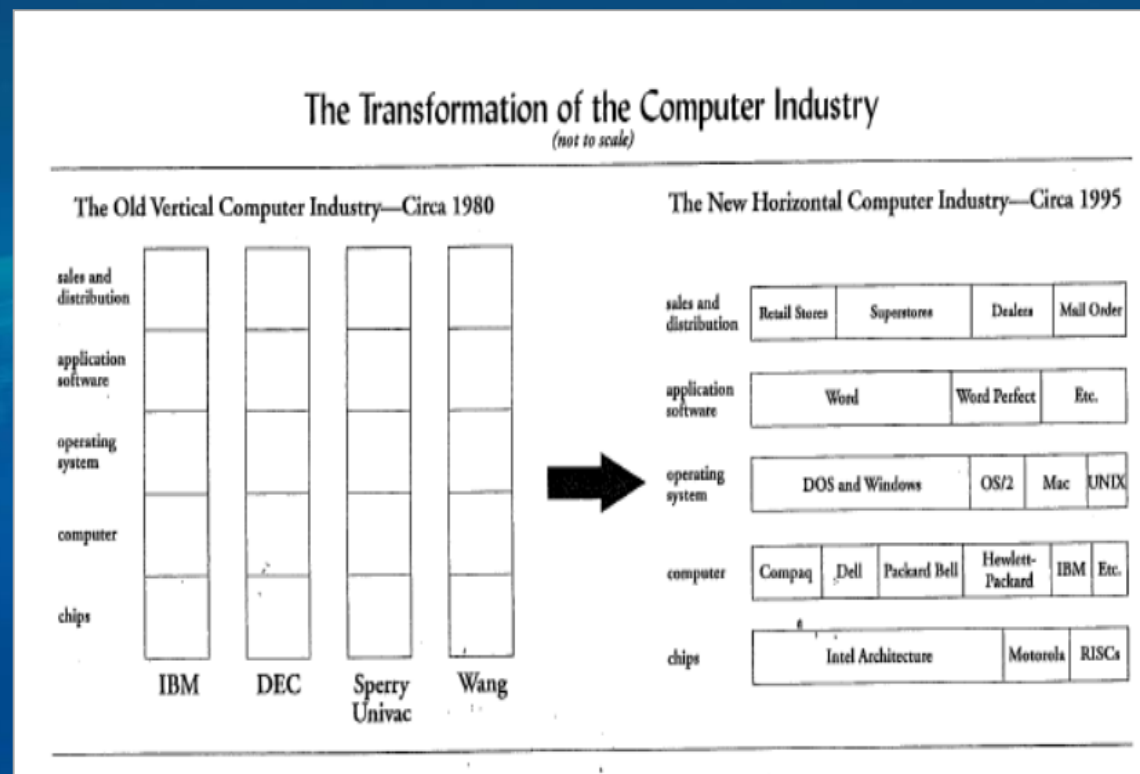
“When Paul Allen and I started Microsoft over 30 years ago, we had big dreams about software. We had dreams about the impact it could have. **We talked about a computer on every desk and in every home [running Microsoft software]**. It’s been amazing to see so much of that dream become a reality and touch so many lives. I never imagined what an incredible and important company would spring from those original ideas.”

Jobs (2000-1)

“What is our vision? ... Everyone else is saying our PC is waning...we don't think the PC is dying, we think it is evolving.” **The future of computing lay in finding a way to allow users to create, share, and add value to the *explosion of digital devices*.** The “Mac can become the ‘digital hub’ of our emerging digital lifestyle, adding tremendous value to our other digital devices.”

Grove (Late 1980's)

Grove's vision was that driving Moore's Law could break the vertical computer industry into horizontal layers and envisioned Intel as market leader in the microprocessor segment.

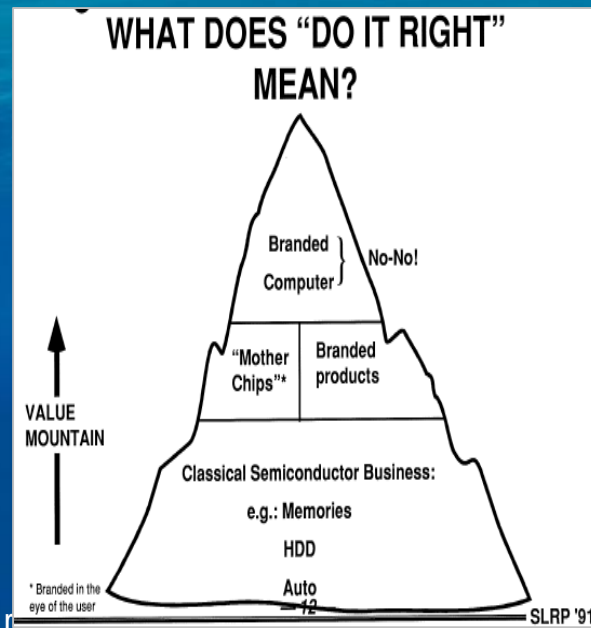




What's your vision?

Reason Back to Set Boundaries and Priorities

- Gates: software only (for 25 years)
- Jobs: digital devices that connected to the Mac (iPod)
- Grove's horizontal PC industry meant "picking your spots"
 - Focus on CPUs, staying out of making computers
 - "port of choice" for all operating systems





The easy part is looking
forward

The hard part is reasoning
back

Rule 2: Make Big Bets, Without Betting the Company

- Great strategy is not for the faint of heart: bold & risk-taking
- *Why?*
 - If it were easy, everyone could do it
- Great strategists often do the non-obvious, the difficult, and the counter-intuitive
 - Most great strategists make big, bold bets which work, in part, because they scare competitors
 - Types of bets:
 - Financial, competitive, reputational

Four Key Themes

- *Make “big” game changing bets;*
- *Don’t bet the company;*
- *Cannibalize your own businesses; and,*
- *Cut your losses.*



Make “Big” Game Changing Bets

- Gates (competitive bet)
 - Broke with IBM (60x in sales), abandoned OS/2, bet on Windows
 - Making IBM the enemy was the “nightmare scenario”
- Grove (financial & competitive bet)
 - Sole source the 386 processor; Intel Inside
 - Broke industry conventions: Grove – “opportunistic” but “monumental”
- Jobs (financial & reputational)
 - Switch to Intel from PowerPC
 - “Burned the boats”
 - Open Apple retail
 - Zero experience; Gateway had just spectacularly failed



WHAT ARE YOUR BIG BETS?

WHAT ARE YOU DOING THAT'S
BOLD TODAY?

Cautionary Tale: Bet the Company...and Lose!

- Stephen Elop's "burning platform"
 - Bet on Windows

Rule 3:

Build Platforms & Ecosystems, Not Just Products

- *To be a master strategist, you must influence the world beyond the boundaries of your firm*
- History suggests that *the best platform*, not the best product, often wins:
 - e.g., VHS vs. Betamax, DOS PC vs. Macintosh, CISC vs. RISC, Android vs. iOS ...

Rule 4: Exert Leverage & Power: Play Judo and Sumo

Great strategists must master *tactics* as well and *strategy* and know when to play *Judo* and when to use *Sumo* tactics

- Clever
- Ruthless

How to Execute?

Rule 5:

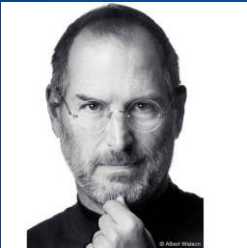
Shape the Company Around Your “Personal Anchor”



- a deep understanding of software, insight to write once & sell a million times (product model)



- pursuit of “truth & discipline” as a scientist tasked with making Moore’s Law a reality (Fab)



- an unmatched sense of product design aimed at at the average person (user experience)

Personal Anchor Defined

- A personal anchor:
 - A foundation and direction for a company, building on the leader's personal background and strengths.
 - CEOs and entrepreneurs backgrounds and strengths become like anchors for their organizations.
- CEO's gaps or weaknesses will limit what the organization can achieve unless:
 - The leader identifies the gaps and fills those holes with other resources.

Conclusion: Becoming a Master Strategist

- **Larry Page**
 - *Look forward and make big bets*
- **Mark Zuckerberg**
 - *Platform thinking*
- **Jeff Bezos**
 - *Hardball and extraordinary attention to detail*
- **Pony Ma (Tencent)**
 - *Embrace & extend, platforms, and network effects*
- DON'T LET THE ANCHOR FREEZE YOU
- COMPLEMENTS ARE NOT SUBSTITUTES



Complements Are Not Substitutes

- The Problem: How to choose a successor to a great strategist?
- Steve Ballmer - Perfect complement to Bill Gates
 - Ballmer - people and customers; Gates - technology and strategy
- Craig Barrett was the perfect complement to Grove
 - Barrett - manufacturing and operations; Grove – strategy, marketing and sales
- Tim Cook was the perfect complement to Steve Jobs
 - Cook - supply chain, operations, sales; Jobs – products, marketing, and design

Solving the Complements Are Not Substitutes Problem

- Problem: How to replace a legend?
- OPTION 1: Run internal competition
 - GE under Reginald Jones
 - Citibank under Walter Wriston
 - Two dark horses emerge:
 - Jack Welch
 - John Reed
- OPTION 2: Board of Directors take control
 - Intel and Microsoft in 2013
- Others?

Grove on Being a Moving Target

“If you’re wrong, you will die. But most companies don’t die because they are wrong; most die because they don’t commit themselves. They fritter away their valuable resources while attempting to make a decision. The greatest danger is in standing still.”

— Andrew S. Grove, *Only the Paranoid Survive*, 1996

Finally, Remember – to be a Master of Strategy

Bill Gates – a bias for action

“We always overestimate the change that will occur in the next two years and underestimate the change that will occur in the next ten. Don’t let yourself be lulled into inaction.”

Andy Grove – only the paranoid survive

“Success breeds complacency. Complacency breeds failure. Only the paranoid survive.”

Steve Jobs – you have to be a little crazy

“Stay hungry, stay foolish.”

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