

# RIDING THE TIGER: WHAT YOU REALLY DO WITH OODA LOOPS

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There was a moment when Detroit recognized that Americans  
were beginning to buy large numbers of foreign-made cars...  
The time for decisions was then.

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If you consciously try to thwart opponents,  
you are already late.

Miyamoto Musashi, Japanese  
Warrior/Philosopher, 1645

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## I. A New School of Thought

Time has become the latest fad in business strategy. Thanks to a series of articles and books by gurus like George Stalk, Thomas Hout, and Tom Peters, probably no student of the subject is unfamiliar with the idea that speed or time can somehow be used as a competitive weapon. Yet, one's first impression is usually something like: So what's new? The early bird has always caught the worm. Early to bed and early to rise has always made one healthy, wealthy and wise. And wasn't it one of those Civil War generals who always got there "fustest with the mostest" (whatever that means)?

Proverbs and Confederate raiders aside, all this attention to time is a fairly recent development, dating back no further than perhaps 1986, when Richard Schonberger published *World Class Manufacturing*. Until then, writers cycled through any number of secrets of competitiveness. You may recall such techniques as clever use of debt leveraging, or portfolio management (stars, dogs, and cash-cows), or most enduring of all, simply size -- to exploit efficiencies and economies of scale, and enshrine one's company in the *Fortune* 500. (Stalk and Hout 4-37) <sup>1</sup>

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<sup>1</sup> Stalk and Hout, in the first chapter of their book, describe these strategies and observe that they seem to operate in 10-year cycles. They also make the interesting observation that success often came not from being the best at a particular strategy, but from being the first to recognize and employ its successor. That is, time is not just the latest in the sequence of business fads, but is in a sense a *meta-strategy* that governs how effectively a company can use any given approach.

I cannot explain why business analysts took until the late 1980s to discover time. As all the writers take pains to note, the original idea comes from the philosophy of war, where it represents a strain of thought dating back at least 2,500 years. In other words, it has been lying around for a quite a while, and it is indeed true that some business leaders, particularly in the Japanese auto and electronics industries, have used time-based strategies for years. Still, you might expect that since the theory, if not the practice, of time-based competition in business is new, there might be areas where its military counterpart is still more advanced. In fact, the best military strategists have always had far more powerful results in mind than what is now appearing in the business press.

The key to the military notion of time lies in how practitioners of the art of war view strategy. Great commanders down through the years have used time-based strategy to cloud their opponents' understanding and destroy their morale so that the battle, if it must be fought at all, is relatively quick and painless. In the language of conflict, we say that they move their opponents where they want them to be. Leaders in business and industry can do the same thing and with similar results. This paper explores this notion, first by looking at what today's most avant-garde business theorists claim for the concept of time, and then comparing that to what the most successful generals and strategists aim to achieve. Finally, we will translate the military goals and objectives back into the commercial world and look for examples where it actually worked.

## II. What Proponents Claim

What does fast cycle time, or any other time-based technique do for a business? The claims are truly miraculous :

### Conventional Claims for Fast Cycle Time

|             |                                                                                                             |
|-------------|-------------------------------------------------------------------------------------------------------------|
| Internally: | enhance innovation<br>increase productivity<br>improve quality                                              |
| Externally: | better anticipate market trends<br>more quickly respond to competitors' actions<br>enhance customer loyalty |
| Leading to: | increased market share<br>improved margins                                                                  |

As Hamel and Prahalad put it: Building one new business after another, faster than the competition, is the only way to stay ahead. ("Imagination" 82) These are all, therefore, worthy goals, fully supported by experience, and certainly embraceable by the CEO of any Fortune 500 company.<sup>2</sup> In fact, this list contains so many of the corporate virtues that it is difficult to see how anyone could improve upon it.

### III. You Can Lose -- No Matter Who You Are

Unfortunately, many of those same companies aren't doing too well today. GM, for example, has seen its market share drop some 20 percentage points since 1980, and during the last several years, IBM has eliminated about 40% of its capacity (and 25% of its people). America's next largest computer company, Digital Equipment, lost \$3.4 billion in 1990 and 1991, retired its founder, and is in the process of laying off around 25% of its staff as well. (Collingwood 35; McWilliams 34; "GM's Revolution" 21) Tom Peters now writes almost apologetically about ever having called any large company "excellent" (with a very few exceptions, like Microsoft and HP). ("Ten Years Later") These examples might lead one to imagine that there is something important missing from our list, a suspicion reinforced from the theory of strategy itself. A real strategist doesn't like words like "respond" and is dubious about "anticipate." These are passive sorts of things that are associated with a paradigm like :

#### Something happens:

We observe it  
We understand it  
We react to it more quickly  
than the competition

So when IBM reorganized its personal computer operations as a separate company, the respected London business paper, *Financial Times*, explained that, "The computer giant has established the IBM Personal Computer Company as an independent business unit with freedom to *react* as swiftly as necessary to rapidly changing market demands." (Keyhoe 11)(emphasis added)

Now it is true that fast reactions have their place -- if your opponent catches you by surprise, for example. Competence in this tactic, such things as staying cool, using the other side's momentum against them, and so on, form an essential part of any competitor's

<sup>2</sup> Most of this list comes from Stalk and Hout, esp. p. 84. The somewhat surprising notation that faster cycle speed actually improves the ability to innovate is also documented in the articles by Clark, Gomory, and Hamel and Prahalad.

tool kit. Problems arise when, as in the above paradigm, reaction becomes the goal of strategy. First, under such an arrangement, if we don't see anything, we don't do anything. So much for initiative. For another thing, a reactive focus accepts the idea of a time lag. Each of the steps takes time, so there is a delay, or lag, between "something happens" and "we react to it." It seems obvious that there must be a delay, so the only thing we can do is minimize it, which is what all the management books are advising. But the fact that something is obvious does not make it right. Before just-in-time production systems, for example, it was obvious that a factory needed a sizable inventory of parts to cushion against unexpected demand and the inevitable bad component. People were locked into tinkering with the current system and were not creating ways of eliminating the source of the problems altogether.

So it is with strategy. If your mindset is to observe carefully and then respond, you will always incur a lag, and the focus of your efforts will be on finding ways to shrink it. But suppose there was a way to compete that didn't generate a lag in the first place. Before considering how this might be, let's look at a couple of examples from the art of war that illustrate the dangers in strategies of response.

### How Warriors Think

If you have anything of an entrepreneurial streak, this whole idea of waiting and responding should make you very uncomfortable. And in fact, the experience of military strategists suggests that your fears are well placed. When the French and British faced the Germans in 1940, for example, their position looked surprisingly strong:

#### Allied Advantages

Number of forces  
Overall quality of tanks  
Selection of the battlefield  
Immunity from surprise

Many people find this table difficult to accept. Nevertheless, the forces were roughly equal, at a time when conventional wisdom said one needed a three-to-one advantage to ensure a successful attack. The French actually had a commanding superiority in artillery, which had been the big killer on battlefields since the 1600s. As for tanks, the Germans had been prohibited from developing them by the Treaty of Versailles and really had not done much until 1933, when Hitler came to power. (Batchelor, 8-10; Jones 511-513; Macksey 35; Orgill 59; Roseler; Deighton) The battlefield was where it had to be, because the French Maginot Line forced the German attack into the 200 mile gap between the end of the Line and the sea. Finally, there could be no major surprises

since everybody knew there was war on (Germany had attacked Poland on September 1st of the previous year). So the French felt safe and confirmed in their strategy of waiting for the Germans to make the first mistake. Unfortunately, only ten days after the attack started, the Germans reached the English Channel, a trick they could not achieve in four years of bloody brawling 25 years earlier.

Far better armies than the French of 1940 have succumbed to the same fate. Consider Israel in 1973. Along the east bank of the Suez Canal, which formed the frontier with Egypt, the Israeli Defense Force had established the Bar-Lev Line, a chain of fortresses intended not so much to stop but to disrupt and channelize any attack. In the desert behind the line, the IDF's renown talent for mobile warfare (in contrast to the pre-WW II French, who showed hardly any appreciation for maneuver) would permit them to isolate and then annihilate Egyptian units that penetrated into the Sinai proper. It was a plan that capitalized on Israeli strengths in maneuver, training, and morale, and the fact that it left the initiative with the Egyptians was obviously not considered crucial. The Israelis had every other advantage, and in any case, once the Bar-Lev Line had identified and isolated the initial attack, the IDF would seize the initiative back and proceed to victory.

In a sense, the Israeli scheme worked. After a close few days, the IDF did contain the Egyptian thrust and then launched a brilliant tactical counterstroke that recrossed the canal. But it took days instead of hours, and the final results failed to come anywhere near the decisiveness of 1948/49, 1956 or especially, 1967. And at the strategic level, costs were much higher than before, as the aura of Israeli invincibility, along with her ability to awe potential Arab foes, was dimmed forever by Egypt's crossing of the canal. (El-Shazly) Israel, in analogy to Pyrrhus, could hardly afford more such victories.

The point is that the Israelis lost the initial phase of the battle not in spite of the Bar-Lev Line, but because of it, and if it can happen to the IDF, it can happen to anybody. On the military side at least, it has proven dangerous to sit back and concede the initiative to one's competition, no matter how brilliant you think the rest of your doctrine is. Reaction as a strategy may temporarily avoid defeat; it rarely delivers victory. The same is true for business, but before we consider the world of commerce, it will prove useful to examine what the military originators of the strategy of time as a competitive weapon had in mind.

#### IV. A Tiger Among Sheep

If you truly are riding the tiger, you should be able to do more than parry the designs of sheep. You should be able to go in and clean them out, a goal of strategy going back as far as we have writings on the subject. It is remarkably well developed in the earliest extant treatise, and one with which every strategist, military or otherwise, should be conversant. This is the famous *Art of War*, attributed to a certain Sun Tzu and dating from around 400 B.C. Sun Tzu's goals are anything but reactive:

Be extremely mysterious, even to the point of soundlessness.  
 Be extremely subtle, even to the point of formlessness.  
*Thereby you can be the director of the opponent's fate.*<sup>3</sup>(emphasis added)

Sun Tzu's strategy was not to wait for his adversary to make a mistake and then spring an ambush (although that might be a perfectly appropriate tactic if circumstances warranted), but that by means of your strategy, you are going to put your opponents where you want them. Sun Tzu also took aim at Maginot Line strategies: "Preparedness everywhere means lack everywhere." (108) In other words, a strategy of preparing and reacting, no matter how comforting it may seem to civilians, contains inherent vulnerabilities, a fact known to Sun Tzu and demonstrated countless times since.

As an aside, Sun Tzu is perhaps best known for his enlightened views on the role of violence. He insisted that, "To win without fighting is best." (66-67) It would not be an overstatement to summarize *The Art of War* as an uncompromised indictment of generals whose only idea of strategy is a frontal battle. It is a viewpoint that would have served the Western World well over the last 200 years.

Sun Tzu's proactive philosophy reached an apex in another famous strategist of that school, the samurai Miyamoto Musashi (1584 - 1645). He is a national hero of Japan - one of World War II's largest battleships was named after him - and his legend so typifies some aspect of the Japanese psyche that a long novel based on his life is widely known as the *Gone With the Wind* of that country. (Yoshikawa) A romantic figure to the point of cliché, he won some 60 sword fights, most of which ended in the death of his opponent, then retired to lead the life of an unkempt hermit. Along the way, he wrote one of the true gems of strategy, *A Book of Five Rings*. (Nihon)<sup>4</sup> It is so widely studied in business schools on both sides of the Pacific that you typically find it in the management section of bookstores. The translators of one edition, Nihon Services, subtitled it "The Real Art of Japanese Management."

Musashi is interesting because he deals in the most elemental form of strategy, how to win one-on-one when the alternative is death. He is the Old West gunfighter, Japanese style. For this reason, many people are repulsed by the crudeness of Musashi's goal -- literally getting the opponent to die by hacking him to bits -- and fail to see any relevance to the modern business world. This is a mistake. We do not have to identify with Musashi's grisly vocation to see that his methods are powerful. Indeed, they worked time after time against some of the best trained and most skillful swordsmen Japan ever

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<sup>3</sup> There are many translations of Sun Tzu available, of which probably the most widely read are Griffith's and Cleary's. Both are highly respected, but they reflect different viewpoints. Griffith was a brigadier general in the US Marine Corps whose book was largely written while he was a Ph. D. candidate at Oxford. Cleary is a professional orientalist, also with a Ph. D., who has published some 29 books on eastern philosophies and religion. My advice on translations is to compare as many as possible. All selections in this paper are from Cleary.

<sup>4</sup> Also available in several translations. Unless otherwise noted, all quotations in this paper are from the Nihon Services Corporation edition. The title quote of this paper is from Cleary's translation, in *The Japanese Art of War*, p. 79. For the context of this remark, see Cleary's translation of *The Book of Five Rings*, pp. 36-37.

produced. Yet, he specifically intended for his words to apply to more than just swordplay, and even there, he insisted that victory would go to the master of strategy, not to the strongest swordsman, nor to the fastest, nor even to the fighter with the most polished technique. (27)

Despite the fact that he is widely studied in Japan and the US, his strategy is easily misunderstood. Even a group like Nihon Services advises that the Musashi method of starting negotiations is to "simply sit, wait, and say nothing ... waiting for the opponent to make the first move." It is a simple ruse, one probably thought suited to unschooled Westerners. Musashi does describe the tactic, called "Tai no Sen," but it is not at all the core idea of his method. In fact, he concludes his analysis of opening maneuvers with: "It is generally advisable to be the one to initiate the attack and thereby put the opponent in the defensive position." (63) Also: "In the path to victory in Heiho (his school) taking the initiative at all costs is the most important thing." (90) Musashi would laugh at Clausewitz's endorsement of the defense as the stronger form of combat.<sup>5</sup>

What if opponents act first? Let's not be arrogant -- your opponents are thinking human beings and can also employ the basic strategic tools of surprise, deception, and ambiguity. Then, advised Musashi, you have to stifle their plans immediately. The focus, however, is never on defending, but on regaining and using the initiative so that you can lead your opponents where you want them to be. (64) Time and again, Musashi denounced anything that would let opponents regain control:

Merely striking opponents as they come forward (author's note: no matter how rapidly you do it) leads one into the frame of mind of just waiting, and this is useless. (50)

Trying to take advantage of an opponent's unguarded moment always places one in the defensive so that ... one can be led on by the opponent. (88)

I dislike the defensive spirit which is inherent in a stance. (88)

To put this into a more modern context, the Bar-Lev and Maginot Lines were, of course, stances. Classical Zen carries this philosophy to the extreme of the "no sword maneuver", where the notion is not merely to counter a slashing sword, but to take the weapon away and turn it against the opponent. Thomas Cleary, perhaps today's most active commentator on the roots of oriental strategy, notes that this maneuver neatly sums up Japan's national policy in competition with the industrialized West. (58)

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<sup>5</sup> Clausewitz made any number of astute observations on the nature of warfare, perhaps the most lasting being his insistence that real combat is dominated by those extraanalytical phenomena he called "friction." For a lucid discussion of friction, including applications to the nuclear age, the reader is referred to Watts. However, as Musashi insists, all of this comes to nought if married to a defensive mindset.

## Where Time Enters In

The notion of employing time as a weapon is woven through Sun Tzu, Musashi, and the other members of this school. In fact, it forms the central theme of their concept for seizing the initiative and finishing off the opponent. Sun Tzu had proclaimed that the ability to think and act rapidly is the essence of war. (Cleary's trans. 152) Ho Yanxi, a commentator from the 12th century, noted that a commander must "change tactics a hundred times at every pace." (Cleary 82) Sun Tzu and his commentators also talked about sowing confusion by not giving opponents time to plan. (152) Musashi endorsed this as a goal, but in many ways took a more sophisticated approach to time than merely as an adjunct to speed or rapidity. He conceived of combat as dominated by "rhythms," whereby victory became inevitable if one could employ strategy to throw off the rhythm of an opponent. (23-24, 72, 93) In particular, one could manipulate time and rhythm to unhinge an opponent's mental and moral composure: You use "an advantageous rhythm to arrest the powerful determination of the adversary's motivation." (Cleary, Japanese, 81) This was, he insisted, an essential step before engaging in physical combat. It is a stunningly powerful observation, for demotivated opponents are defeated opponents, no matter what weapons remain in their hands. Warriors using Musashi's techniques could create gaps, which the Japanese call "suki," in their opponent's attention, during which one could attack a fully armed samurai with a fencepost (as Musashi once did) and win. (Nihon 31)

In modern times, a corollary notion has been synthesized by the American strategist, John R. Boyd. Like Musashi, Boyd got his initial ideas from one-on-one combat, in his case, jets over Korea. After pondering this experience, and studying the results of engagements from Sun Tzu to the present, Boyd derived the OODA loop, for Observe, Orient, Decide and Act. It has been described for business by Bower and Hout, Stalk and Hout, and Peters.<sup>6</sup> The ability to execute rapid OODA loops is called "agility," and it is now generally recognized that the more agile organization will build-up increasingly decisive advantages over its opponents. In particular, it will gain all of the advantages noted by business strategists in Section II.

But Boyd, like Musashi, has more than this in mind. Here is an extract from his major briefing, where he describes what the side in a conflict with the faster OODA loops can do:

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<sup>6</sup> Boyd's major work, "A Discourse on Winning and Losing," was originally prepared for the Defense Department and has never been published. Summaries appear in Fallows, Spinney, Lind, Burton, Watts, and most extensively in Romm. Romm's book is dedicated to Boyd and is an elegant application of many of his strategies to problems of national policy. The notes to his introduction document the flurry of articles about Boyd that appeared immediately after the Gulf War.

### Strategy Á La Boyd

- Probe and test adversary to unmask weakness
- Interweave menace, uncertainty, and mistrust
- Move along paths of least resistance
- Exploit differences, frictions and obsessions (within) the adversary
- *Subvert, disorient, disrupt, overload, or seize* adversary's critical connections, centers, and activities (emphasis in original)

and especially:

- Generate uncertainty, confusion, disorder, panic, chaos, ... , to shatter cohesion, produce paralysis, and bring about collapse. (132)

The conclusions of Boyd, Musashi, and others of this school suggest a paradigm something like:

### A Modern Paradigm of Conflict

1. If necessary, immediately frustrate opponents' designs so that we may:
2. Use agility (rapid OODA speed) to:
  - Confuse their decision processes
  - Damage their morale
  - Open up vulnerabilities
  - Exploit vulnerabilities.
3. Continue with Step 1.

It is worth repeating that this is not a theoretical construct, but a proven strategy for winning in armed conflict. It provides a framework much more powerful than merely reacting to opponents, but one might reasonably ask whether it applies to anybody but a soldier? More to the point, businesses don't directly combat each other. Instead, they

compete for the attention, and money, of customers. Can businesses employ OODA loops and the other tools of time-based competition to achieve anything like the effects of Sun Tzu, Musashi, and Boyd, and if so, how is this going to help them survive and grow?

## **V. Moving Markets: The Samurai Approach to Business**

We can now return to our original question, that of whether there is an alternative for businesses to the rapid response mindset, with its attendant focus on management of lag times. Warfighters, as we have seen, use mind-and-morale destroying techniques to create and exploit opportunities for attacking the enemy. In business, things are fundamentally different. War has opponents; business does have its version of opponents -- competitors -- but they are of secondary importance next to a new god-like entity, the customer. You can use Musashi all you want, but if the customer buys a competitor's products or services anyway, you lose. It turns out, however, that there is money to be made by focusing the strategies of Sun Tzu, Musashi, and Boyd not directly against the competition, but on the customer. Not to destroy his or her mind, of course, but for the purposes that lead to success in the marketplace. To get an idea of what these techniques do in the commercial world, let's examine a famous business "war" described in detail by George Stalk. ("Time" 44-45)

Briefly, Yamaha had built a huge new factory and planned to take the title of "World's Largest Motorcycle Manufacturer" away from Honda. Honda responded not with a head-on frontal assault, say by building an even larger factory, but by maneuvering in the time arena. Over an 18-month period, Honda turned up the product development wick and introduced 113 new models to Yamaha's 37. Yamaha's margin and market share began to drop rapidly so that at the end of the period, Yamaha made a public (and one must believe humiliating) surrender. From the standpoint of strategy, there are at least two key points. The first, made eloquently by Stalk, is that Honda's basic structure gave it a faster cycle speed that enabled it to out-develop Yamaha by roughly a factor of three. Thus it experienced all the benefits of Section II.

But Stalk's analysis actually reveals an even more powerful conclusion. He also points out that the end of H-Y War, Honda had made newness an object of customer desire in and of itself. Next to a Honda, he reported, a Yamaha looked drab and unimaginative.

There is a world of strategic significance in this simple observation. It is, in fact, the exact analog of Musashi's seizing the initiative and leading the opponent, except that since business is not war, due to the mediating effect of the customer, what Honda led was the marketplace. Actually it is more accurate to say that Honda played the major role in shaping the marketplace, since, over the eighteen month span of the war, both Honda and the customer were changed by their frantic, mutual interaction. Honda did not wait to see what Yamaha was going to do, nor did it simply ape Yamaha's strategy of bigness. It used its faster OODA loop speed to seize the initiative with decisive effect. Yamaha, cobbled by its slower cycle time, denied itself the benefits of shaping the marketplace and so could only follow along.

Unfortunately, I have no record of what was going on inside Yamaha during this period. One can assume it was not pretty.

A quick glance at the business press uncovers many cases of companies using agility to shape the marketplace. Another of Stalk's examples is Wal-Mart, which made Sam Walton the richest man in America by servicing a market most everybody else had written off -- rural America. Although Wal-Mart watches K-Mart and Sears very closely, and will immediately steal any good idea it finds, its strategy is not based on "rapid detection of market trends" but on creating those trends in the first place. It uses its ability to "almost instantaneously convert ideas into action" to re-invent the Five-and-Dime and so slide the market right out from under its competitors. In other words, Wal-Mart is not simply a better K-Mart, but in the process of creating a market nobody believed existed, it has turned itself into something structurally quite different. (Stalk, Evans, and Schulman; Saporito "Week"; Saporito "Walton")

What about the mind-destroying effects described by Sun Tzu, Musashi and Boyd? There is little in the business press on this question, probably because writers have been focusing on the remarkable, if passive, attributes noted in Section II. But anecdotes and circumstantial evidence abound to support what military strategists and practitioners have found. Anybody who has ever been on a losing team, or worked for a failing organization, knows Boyd is right. Here is a classic description from one of the founders of the modern quality movement, Joseph Juran:

Lacking victories over their competitors, and unable to defend themselves from their bosses, they lash out at each other, making unity of purpose even harder to achieve. (74)

Or this, from the dynamic chairman of General Electric, Jack Welch:

This internal focus has wasted our time, wasted our energy, frustrated us, made us so mad some nights over some bureaucratic jackass boss that we'd punch a hole in the wall. (Sherman 46)

An organization falling victim to the Boyd Treatment will enter a tightening spiral of internal conflict. As it falls further behind in the marketplace, and its successful moves (as determined, of course, by the customer) become rarer and rarer, all the wonderful chaos and bickering beloved of military strategists follows. Interviews with members of such organizations will reveal witch hunts, strict adherence to directives and procedures (with a total lack of risk-taking), and so on. Inevitably, people split into camps and start apportioning blame, and the company turns ever more deeply inward (Welch's "internal focus", Boyd calls it "folding your adversary in on himself"). Usually, Stalk and Hout observe, traditional managers never understand what hit them. When attacked by a

time-based competitor, cost-based managers rarely figure out why, despite what their spreadsheets are telling them, they are suddenly losing market share and why more robust cost-cutting isn't restoring profitability.(264)

The key point is that for business, these effects are icing on the cake. They do not, in and of themselves, produce products that customers will buy. The primary active effect of time-based strategy in business is the symbiotic shaping of the marketplace that agile companies participate in.

## VI. Here's a Hint: The Tigers Are The Ones With Claws

Ask any CEO, "Is your business philosophy reactive?" It's like asking if his marketing plan is to wait by the phone. Even the French of 1940, that wonderful source of what-to-avoid examples, liked to brag about how their *élan* would sweep away the Teutonic invaders. Of course, as they were soon to learn, talking a good fight was not the same thing as actually doing it. And so it is with the world of business. Policies are one thing, but companies that have the power to shape the market are structurally, as well as philosophically, different.<sup>7</sup> Stalk had noted this in his analysis of the H-Y War, where Honda could generate faster OODA speeds because it had instituted structural changes, for the most part simplifications, beforehand. Structure is so intimately bound up with strategy that it is difficult to imagine how one could make any lasting change in an organization's behavior without first making equally profound changes in its systems. To illustrate, let's look at two areas, interaction with the customer and innovation, where there is great temptation to promote change not by really changing anything, but simply by ordering the troops to "Get to know the customer!" and "Come up with some great new ideas!"

### Predatory Eyes on the Customer

At the highest level of business strategy, meeting the needs of the customer should provide focus and direction to all activities of the company.<sup>8</sup> It is in this key area where we find perhaps the most visible differences between companies that claim to be proactive,

<sup>7</sup> The need for structural, as well as attitudinal, change is a common theme throughout all the sources mentioned in connection with time-based competition. Most also offer ways to increase decision cycle speed. For a specific technique, I modestly recommend "Systems Engineering for TQM," which I wrote with R. A. Meadows and Dr. L. P. Beckerman, in the *Journal of the Defense Systems Management College*, January-February 1990: 2-6. For the military viewpoint, in addition to Boyd, interested readers might want to consult the Army's FM 100-5, *Operations*, and its Marine Corps counterparts, FMFM-1, *Warfighting*, and particularly FMFM 1-3, *Tactics*.

<sup>8</sup> A point driven home by Ohmae ("Strategy"). "Focus and Direction" is another of Boyd's theses, which he derived from studying fluid military campaigns, particularly the German Blitzkrieg. The Germans used the term *schwerpunkt*, and they insisted that all the other components of a military operation support the *schwerpunkt*. The concept is also widely used by contemporary US military analysts. During DESERT STORM, for example, the *schwerpunkt* was the left hook around the right flank and into the back of the Iraqi forces. Everything else we did, including a lot of deception, was geared to making this flanking maneuver work. See Romm, 25, and, for the general concept, Boyd, 78, Lind 17 ff., and Watts, 26, 53.

and those that actually are. Reactive companies want to detect market opportunities. They engage in traditional market research, things like questionnaires, focus groups, and the like. Basic to their attitude is the idea that the customer is "out there" and we are "in here." To bridge this gap, they will put a lot of effort into going out to Customer Land and "finding out what they want."

One problem with this approach, of course, is that the customer often doesn't know. As marketing executive and author Alan Magrath points out, who in 1976 thought they needed a personal computer? In fact, few people did need the machines that were available back then. Anybody remember MITS? But along came Apple and the customer started to respond, then the IBM PC, laptops and notebooks, the Mac, Windows, and so on, to where today hundreds of thousands of these things are sold every month. (Hamel and Prahalad, "Imagination" 85; McGrath 47) Innovators are making money; responders are condemned to the low-margin clone business.

To get fast enough to lead the market, companies have had to, in the words of consultant Mack Hannan, "marry the customer." (77) This phrase certainly has the potential to sink into cliché, but whereas we all claim to put the customer first, the very structure of most companies limits how intimately involved with the customer they can become. One obvious example is a Marketing Department that jealously controls customer contact. Or a policy of basing sales and project people in a home office rather than with their customers. Or an accounting system that sees travel, phone calls, and other customer contact activities as costs, that is, things to be minimized.

Tom Peters' latest tome, the 800-and-something page *Liberation Management*, carries this thesis to its ultimate conclusion: Most of today's management systems and practices preclude the intensity of customer involvement that companies will need in order to survive. Therefore they must be eliminated. What's left is variously known as an "enterprise web" (Reich) or "virtual corporation." (William M. Davidow and Michael S. Malone, cited in Byrne, "Futurists" 41) The idea is that if hierarchies and bureaucracies aren't there, they can't slow things down or choke off initiative.

This is a radical prescription for most enterprises, and shifting to such a structure will be difficult, if not impossible for them. The reason is not lack of intelligence or even will, but the collective and understandable reluctance of managers to dismantle the system that has worked for them in the past. The amazing thing is that it has been done. At highly agile Nike, for example, which owns roughly one-third of the US sports shoe market, *The Economist* observes that "barriers between the firm, its customers, and its suppliers have almost disappeared." ("Networks") Interested readers will find pages (chapters) of examples in Peters' book. Just going virtual, however, does not guarantee that you will become a proactive market shaper. To explain the driving forces behind the new concept, *Business Week's* cover story began with "Big companies can't react fast enough." (Byrne, Brandt, and Port)

## Innovation and Initiative

If we stop innovating and stop bringing new electronic devices to the market, we'll die. We'll become just an ordinary, plain-vanilla company. -- Sony Executive. (Hamilton and Landro A1)

Another frequently mentioned attribute of a market-shaping company is its obsession with innovation. It should be obvious that to move the market in a new direction, you have to offer the customer a product or level of service or something that isn't there today. We noted in Section II that companies with rapid decision cycles are often good innovators. Partly this is because most innovations are actually incremental improvements on an original idea, what Hamel and Prahalad call "expeditionary marketing." ("Imagination" 86-92) The more rapidly that a company can sense how the customer reacted to its last offering and make changes accordingly, the better job of innovation it will do.<sup>9</sup> This was the core of Honda's strategy in the H-Y War.

This is fine, but does not disturb a reactive mindset. A more powerful reason that innovation is related to market shaping goes back to the military idea of the initiative. Companies take the initiative in the marketplace by offering a stream of new products and services. Where do new products and services come from? The only answer possible, discounting elves and gamma rays, is through the initiative of the people who work for and with the organization. A market creator uses the almost symbiotic relationship all of its people have with its customers to generate ideas for new features or capabilities or whatever. Stalk and Hout were dead on, when in the middle of describing how agile companies become entwined with their customers, they observed that "Sometimes it's difficult to know who's leading whom." (Stalk and Hout 264)

Incidentally, this is the same principle underlying maneuver warfare, where an army puts out tens or hundreds of small "feelers," then uses its fast OODA loop speed to identify and reinforce those that begin to penetrate. This remarkably successful concept has been used to great effect by such leaders as Erwin Rommel, George S. Patton, Vo Nguyen Giap, Moshe Dyan, and Norman Schwartzkopf.<sup>10</sup> In industry we have 3M, which encourages its people to spend 15% of their time working on ideas outside their formal projects, and measures its managers against a formal goal of deriving 25% of sales from products less than five years old. (Jacobson 39)

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<sup>9</sup> Success comes not just because agile companies can try more things in the marketplace, but because the percentage of those that succeed also tends to rise. Hamal and Prahalad dance all around this key point, but never actually nail it, in their otherwise seminal article ("Imagination."). In strategic terms, intense interaction with customers improves the OODA loop's second "O," the ability to reorient to new situations. This effect has also been noted by writers on technology. See, for example, Clark 97.

<sup>10</sup> Military strategists call this "reconnaissance pull." (Lind 18, who notes that its opposite is the all too common "command push") For the historical figures, see any competent military history. For Schwartzkopf, see Romm.

And one of the world's other premier innovators, Sony, holds "science fairs," where people with ideas for new products can show them off to top management. (Schendler) Even in the mundane world of automobiles, Toyota gets some 35 suggestions per employee per year for improving the business. (Peters, *Thriving* 72) The typical US manufacturer would be lucky to get one, and you don't have to look far to find the reason -- hierarchies are set up to "control" employees, not, as one of the fathers of modern Marine Corps doctrine put it, to "unleash them" on the problem. (Wyly 18)

### The Illusion of Defense

Unfortunately for US competitiveness, initiative is often honored but not practiced. Far too many companies demonstrate the *fatal flaw* noted by Sybase co-founder Robert Epstein: An established company's true major goal is to defend what it did last year. (Deutschman 84; Hamal and Prahalad, "Imagine" 83) No company, of course, admits to such a philosophy, but you can usually detect a reactive mindset. For example, when you read their annual reports or listen to statements by top management, you might find such phrases as "barriers-to-entry" and "core competencies."<sup>11</sup> These are the business versions of the Maginot Line.

Now remember the key fact, that the Maginot Line did what it was designed to do: It kept the Germans out of that part of France. However, France lost the war anyway, in large part because top French decision-makers did not develop a doctrine of mobile warfare, and failed to promote the officers who did. They didn't need to -- they had the Maginot Line. As strategist Basil Liddell Hart pointed out, the Maginot Line permitted, even required, that the French retain the trench-warfare staff culture and procedures that shattered when hit by the Blitzkrieg. (Liddell Hart 131-132)

The same thing can happen to a company. Until very recently, for example, size was thought to be a barrier from attack. Large companies could get away with being "fast followers": They had deep financial pockets, extensive R&D efforts, and predatory legal staffs and so could duplicate the offerings of upstart competitors at lower costs or tie them up in a costly court battles. (Hamel and Prahalad, "Imagination" 86) Looked at individually, these are formidable weapons, but taken as a whole, they spawn a mentality that eventually destroys their own wielders:

Protected initially by its sheer size, GM was slower than Ford and Chrysler to react to the assault mounted by the Japanese. (Dickson 21)<sup>12</sup>

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<sup>11</sup> For barriers to entry, see any business strategy textbook -- for example, Michael Porter's *Competitive Strategy* (New York: Free Press, 1980). The notion of "core competences" is fairly recent (although "Stick to the Knitting" is a chapter in Peters and Waterman's *In Search of Excellence* from 1982). See Hamel and Prahalad ("Core Competency"). A concise description of the current concept also appears in Magrath, who uses the term "corporate functional skills" (50). The idea that focusing on core competencies is the next wave in strategy forms the theme of Stalk, Evans, and Shulman.

<sup>12</sup> In keeping with the main argument of this paper, one should ask why, with every advantage in the world, Detroit's Big 3 had to re-act to the Japanese in the first place?

A similar problem can arise when a company bases its strategy around the things it does the best -- its "core competencies." It's a comforting thought, the latest meal ticket for management gurus, and proclaimed by *Business Week* as the secret to survival in lean times. ("They Came") But while it is certainly important to be very good at anything we do, basing a company's future on any particular bag of tricks is false strategy.

You will probably achieve longer-lasting advantage if you define "competence" as high up the strategic chain as possible, things like knowledge of the customer. But even there, a belief that we have unique capabilities is the siren song of complacency. In the 1970s and '80s, DEC grew fat on minicomputers, because it made an outstanding product and understood the customer for minis very well. Unfortunately, it lost \$2.8 billion in 1992 alone as the overall market accelerated a move to a different set of customers, for PCs and workstations. (Madigan 48, Verity 36) And then there's IBM, which still controls 75% of the world market for mainframes. If IBM retrenches around that "core competency," it will vanish within the decade. These are not isolated examples. *Any* manifestation of the stance mentality, as Musashi pointed out, will always generate a defensive spirit. This is probably as close to a natural law as you are likely to find in strategy.

Even observers who know better sometimes get carried away by a company's systems and hardware. Wal-Mart's ability to gather and process sales information so impressed Peter Drucker, for example, that he proclaimed it to be the bedrock of that company's success. (8) Actually, the late Sam Walton's family occupies spots three through seven (inclusive) on *Forbes'* richest list because the people in their stores greet you at the door, the places are clean and modern, they carry what their customers want, and you have a hard time beating the prices. Unarguably, computers and communication systems helped, and Wal-Mart was a pioneer. But these information systems today are all the results of Wal-Mart's highly agile management system operating over many years. Grafting any one of them, including the automated inventory and ordering processes, onto Sears or K-Mart is not going to change the bureaucratic mindsets that caused them to fall behind Wal-Mart in the first place. It is worth keeping in mind that Wal-Mart is a market shaper and creator, not merely a market responder, and thus agility -- rather than the specific products of it -- is its "core competence."<sup>13</sup>

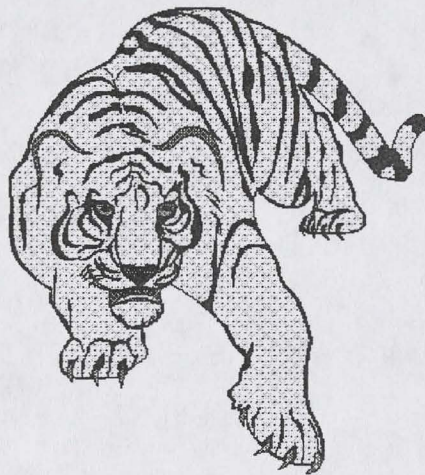
## Reality Eventually Wins

So the bottom line is yes, you can prosper by restructuring your operations to become a fast reactor to market trends. You may have to prune things some, which it's probably time for anyway, but you won't need to do great violence to your underlying

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<sup>13</sup> *Business Week* author Kathleen Madigan, somewhat in contrast to her editors, also notes the danger in focusing on core competencies, i.e., that focusing does not necessarily produce what the customer wants to buy (49). A recent example of the notion that competencies mean something only if the customer says they do is related by Rahul Jacob. He explains that Pepsi used to measure their delivery process by cost per case delivered, an "insular priority." Now, it's a customer-centered measure: order accuracy. (76)

systems and culture. And everything will probably work out OK, unless, of course, you meet up with a competitor who is determined to shape the market and who is structurally able to do so. Then 2,500 years of experience say that you are going to have a problem. And word is getting out. "Boldness," writes *Fortune's* Rahul Jacob, "may very well be the preeminent competitive advantage in this slow growth decade." (74) After all, who would you bet on, a fast sheep or a fast tiger.



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