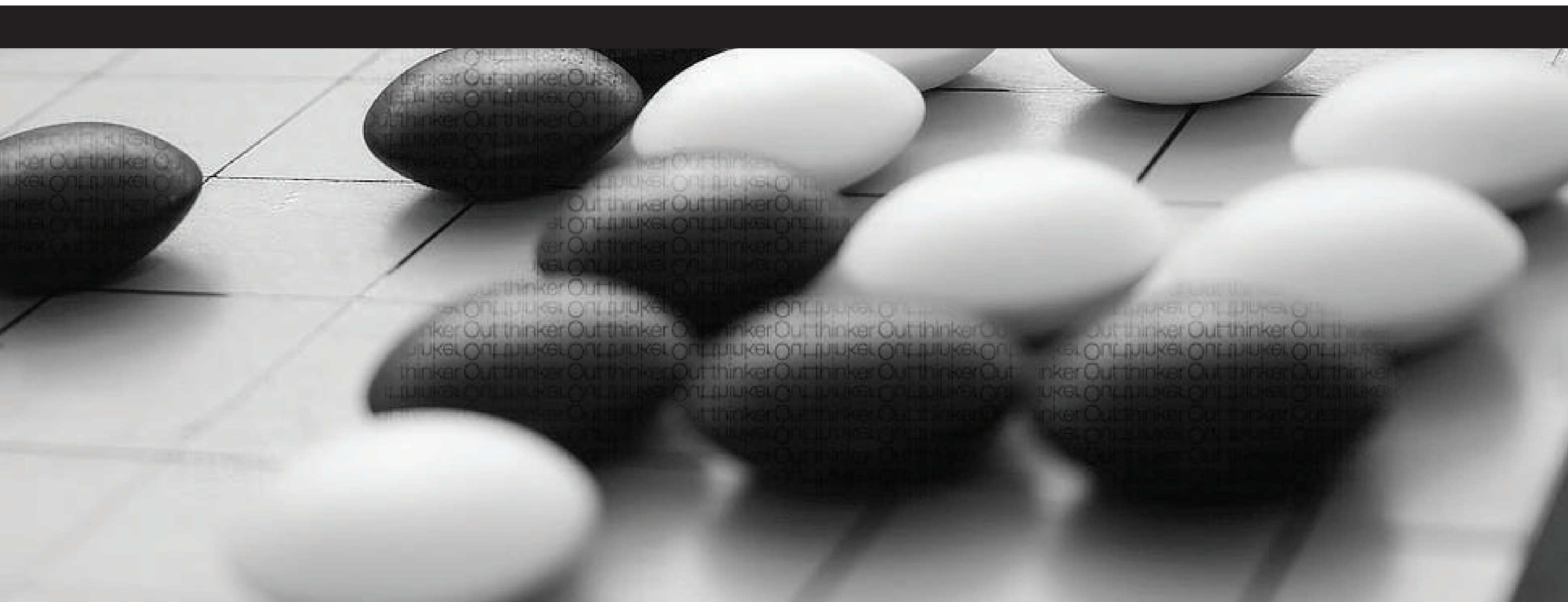
seven Surprise Openings for a Strategic Game



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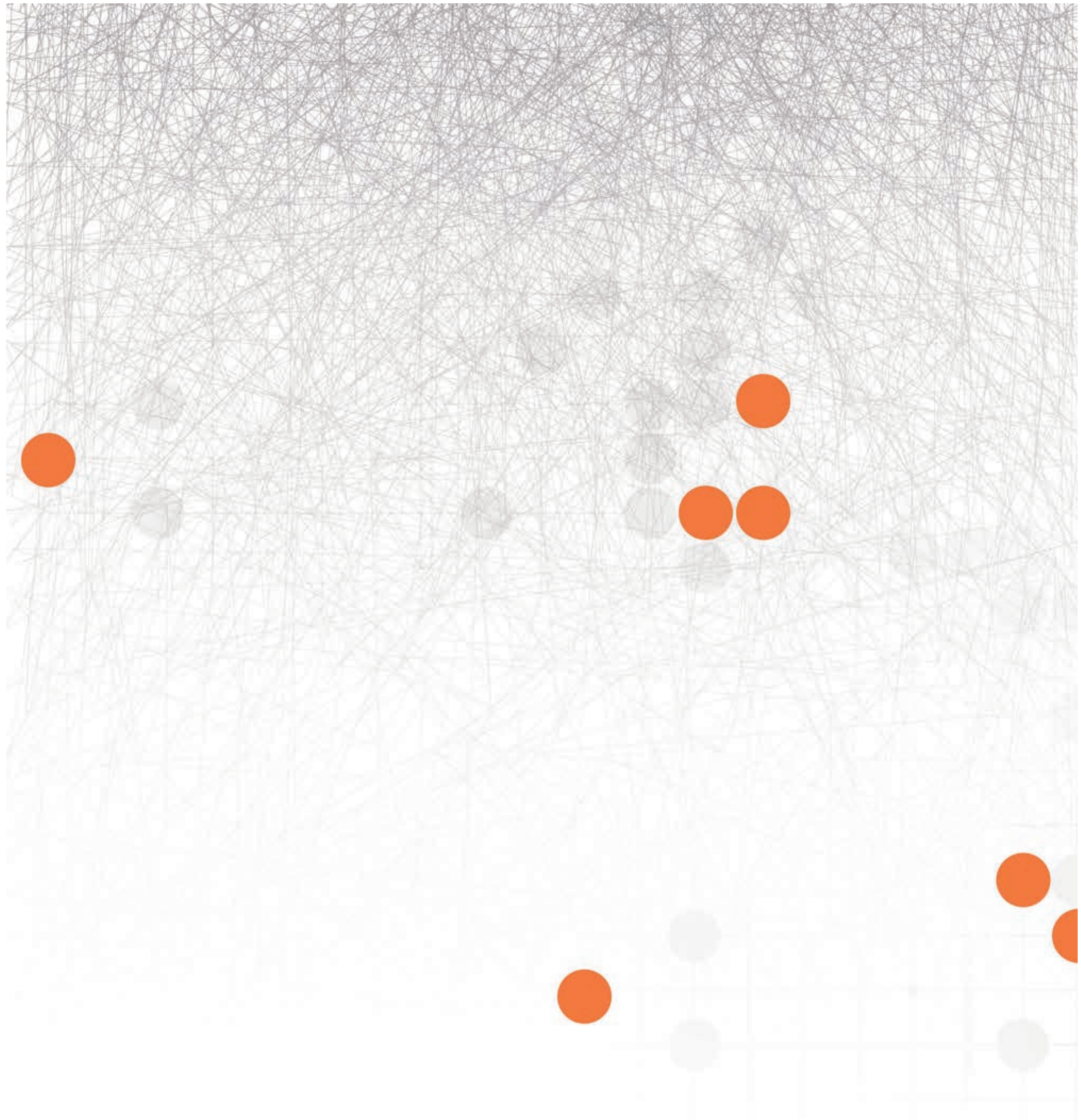

Originally published in Harvard Business Review in March 2008, "Seven Surprise Openings for a Strategic Game" succinctly captured Outthinker's approach to strategy and innovation. The popularity of the piece opened the door to our work with a growing base of leading firms across a variety of sectors, helping them reach clarity on innovative strategies that shape businesses and markets. Our approach, tools, and processes have advanced considerably. But our foundational philosophy remains unchanged: great organizations delight their customers and outthink their competition by introducing Fourth Options®, strategic choices others do not expect and will not respond effectively to Outthinkers open new games.

Seven Surprise Openings for a Strategic Game

by Kaihan Krippendorff

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SUCCESSFUL CHESS PLAYERS LEARN EARLY on that an unexpected opening is as important as taking the queen or defending their towers on their way to check-mate. They also learn that, although logic may be the most effective tool for leading the game to a successful conclusion, it plays a limited role, and indeed is often inappropriate, during the game's beginning. In fact, studies of grand master chess-players show that they often draw on something entirely "un-logical" to win early phases of the game, and that the size of their playbook is more important than the quality of their logic when it comes to surprising the adversary with an opening that sets the game to their advantage.

Every strategic game – whether chess, football or business – is composed of three distinct phases: an opening, a middle game, and an endgame, each demanding a radically different problem-solving approach. Yet in the field of business, strategists persistently cling to logical methods regardless of the phase of the game they are in. Companies teach their executives to play like novice chess players, flooding them with tools, frameworks and models nearly

Alberto Montt

always rooted in logic. After all, logic is clearly the dominant problem-solving approach during the final phases of competition – as options narrow, uncertainty decreases and a set of accepted rules takes its place; it can help companies navigate mature industries, populated by established players following accepted rules and faced with manageable options and uncertainties.

But in more innovative, unstable environments, logic is often ill-suited. In early stages of the game, strategists must often contend with more possible outcomes than logic – and the human brain's short-term working memory capacity– can handle. Thus, companies tend to fall back on timid "me-too" strategies that are safer, but do little to change the game, surprise the competition, or create competitive advantage. Traditional strategic development tools help these companies fill in the details of such tested strategies and even maximize the value extracted from them, but they are not designed to create new openings.

Instead, to succeed in the early stages of the strategic game, managers need to adopt a playbook approach. They must be able not only to navigate the middle and final phases of competition effectively, but to also let go of traditional strategy methods and, at least temporarily, to abandon the apparent comfort of logic in order to drive innovation from the start.

Over the past 10 years I have studied the corporate strategies of hundreds of large and mid-sized companies worldwide and have worked with several of them in extracting common lessons for unlocking growth. Through these efforts I have compiled a database of about 400 competitive business cases, classified into a set of 36 competitive "patterns" or "moves" that I use to understand corporate clients and to help executives design competitive growth strategies. Based on that research and on a recent two-year study I conducted of the 100 most competitive companies of the last decade, in this article I will present an approach to strategic development that can lead to designing more innovative strategies that take markets by surprise. My study shows that when a company produces a decade of dominant growth, profitability and value creation, it usually begins not with traditional logic, or with mere intuition, but by applying one of seven strategic openings from the playbook. (See the sidebar, "Finding the Top 100".) By learning these openings, managers can begin mastering the game of business competition.

Beyond Logic vs. Intuition

If the difference between an opening and an endgame is clear, particularly when comparing mature vs. fledging industries, then in dynamic markets composed of fast-moving companies competing for a growing customer base, much of what is going on could be described as the "middle game." Just as chess players do, managers must often turn to intuition to navigate the rapid changes and make the quick decisions this phase requires. Logic is no longer the sole driver of strategy development.

How does this intuitive approach differ from the playbook approach great strategists apply at the beginning of the game? By going beyond the apparent dichotomy of logic vs. intuition and taking a different view, not unlike that of a chess player contemplating successful "openings" from his playbook. In my study of the decade's 100 most competitive companies – companies that have produced extended

Logic tends to hide from view a set of initial openings that effectively catch your competition off guard.

runs of consistently superior growth, profit margins, and shareholder returns– I have learned that what set such companies apart was not their ability to manage endgames or even fast-paced middle games; it was the way they opened the game that led to breakthrough performances. (See the sidebar, "The Three Phases of the Strategic Game".) These companies took the "best of both worlds", ushering in a new game that rendered old rules and logic ineffective, but did so in a way that relied not solely on their managers' guesswork but on a well-tested playbook of strategic moves that logic normally hides from our view.

A good way to illustrate this is with the case of Frontline, an oil-tanker company that grew from a non-descript, medium-sized player into the world's largest oil-tanker fleet. John Fredriksen, the CEO of Frontline, recognized a new "opening" on the horizon, and played the opening well. For decades, owning oil-tanker freighters was a bad business. With more oil tankers on the sea than oil companies needed, oil tanker owners had to put up with weak bargaining positions and margins. In the 1990s, however, Fredriksen saw that the world of tankers was about to experience a shift. He predicted that many of the tankers built in the 1970s would soon wear out, and that oil companies would start looking for environmentally safer shipping options. That meant the tanker supply was about to shrink and this shrinking would shift power away from the oil companies and toward tanker owners. So when common industry wisdom was to avoid the tanker business, Fredriksen began buying tankers, focusing particularly on buying more expensive but environmentally friendly double-hull tankers. He also focused on the "spot market", the market for shipping oil on short notice, which had two advantages: it offered higher margins, and it gave Frontline the flexibility to raise prices in step with the market.

When, in 1999, an aging tanker spilled 70,000 barrels of fuel oil off the coast of Brittany and headlines warning of a major ecological threat drew public attention to the risks

that single-hull tankers posed to the environment, the battleground had shifted and Fredriksen's prediction came true. Big oil companies frenzied to avoid such environmental, economic, and public-relations disasters, and began looking for double-hull ships to ship their product. The result: they increasingly found themselves negotiating with Fredriksen. Today, Frontline commands nearly 25 percent of the world's supertanker spot market. This means that if you want to ship oil quickly, there is a one in four chance you will ship it with Frontline. With such bargaining leverage, Frontline effectively turned the tables on oil companies and became more than twice as profitable as its competitors while growing nearly twice as rapidly: in the ten years ending in 2005, Frontline grew revenue at 55% per year versus 15% for its peers; it now commands 50% cash profit margins while its peers produce just 20%. The company Fredriksen bought for $55 million in 1996 is today worth more than $2.5 billion.

Although logic may offer us a compelling explanation for Frontline's success and intuition a tempting scapegoat, approaching the company's experience by studying the opening used reveals a much more profound insight: nearly 20 other companies – from Amgen to Nokia – have overtaken larger competitors by playing exactly the same move. Nokia did it by recognizing the telecom marketplace was about to be characterized by open, collaborative rules; Amgen by recognizing and investing ahead of its peers in emerging biotech areas. The playbook approach allows us to begin seeing such patterns for unlocking growth, ones that can draw on and apply to any industry without the limitations of logic or pure intuition. (See the sidebar, "Adopting the playbook approach".)

The seven following "openings" are the most important for managers to consider adding to their repertoire, as they most often lead to an extended period of competitiveness. A look at some of the world's best known and most successful companies illustrates the powerful playbook that emerges from this approach.

1. Ally with a partner outside your market

By partnering with a player your competitors classify as outside your market, you can catch your competition off guard. Of the 100 companies I studied, 21% cited using this move, including the largest motorcycle company in the world, one that you might never have heard of: India's Hero Honda.

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Even though it produces more than 3 million bikes a year, including the world's most popular motorcycle, the Splendor, Hero Honda remains relatively unknown in the Western world. Equally unnoticed is the fact that the company owes its success to an unlikely pairing of two distant enemies: a motor company and a bicycle distributor. When Honda finally had a chance to begin selling motorcycles in India – after the Indian government allowed foreign companies to enter the country through minority joint ventures with local companies – the logical choice for a partner would have been a company with experience building motors, assembling motorcycles or scooters, and with a network established to sell them. After all, there were many well-suited local partners to choose from, as several domestic motor-scooter companies had enjoyed a near-monopoly for decades and had established themselves under India's protective laws. Honda could easily plug its brand and motor design expertise into such a partner.

But while Honda's competition partnered primarily with motor companies to create TVS Suzuki, Bajaj Kawasaki, and other joint ventures, Honda opted instead to align with a family-owned bicycle firm. Founded by two brothers in the 1950s, Hero had built a network of independent bicycle dealers and had established one of India's leading bicycle brands. While it did not hit the top of Honda's potential partner list initially, Hero intrigued Honda by two factors. First, Hero had already begun adopting just-in-time inventory practices pioneered by Honda and other Japanese manufacturers. Second, it had blanketed India with a large network of independent bicycle dealers, and had organized hundreds of suppliers who delivered just in time. By partnering with Hero, Honda could potentially convert bicycle dealers into motorcycle dealers and could source materials through Hero's vast distributor network. While its competition preferred to run their own dealerships, Hero Honda used Hero's experience managing independent dealers to establish a powerful network of 5,000 outlets.

The innovative strategies needed to build a bicycle business proved an ideal complement to Honda's motor design and manufacturing capabilities. Hero Honda was able to launch several innovations in the coming years that established its dominance, such as being the first to introduce a four-stroke engine in India, which dramatically increases fuel efficiency and reduces maintenance costs, making Hero's motorcycles attractive options for price-sensitive Indian riders. Had the company partnered with a "nearby" enemy, it might have remained in a crowded pack of good motorcycle companies including Suzuki and Yamaha. Instead, by partnering with a distant enemy, Honda became outstanding at its game.

Opportunities to ally with "distant" competitors abound. We can find areas of common interest among even our most direct rivals. Videogame console makers and indepen-

Finding the Top 100

During my two-year study I surveyed 9,000 publically traded companies from exchanges around the world, including Asia, Europe, and the Americas, looking for fact-based evidence of superior competitiveness. To identify a company as more competitive than its peers, I determined three qualifying conditions: first, calculating each company's average revenue growth over a ten-year period ending in 2005, the competitive company had to produce an extremely high rate of revenue growth; second, when calculating the companies' average EBITDA over the same period, the competitive company had to consistently deliver high profit margins over this same decade; and finally, when calculating the companies' average total return to shareholders over the same period, the competitive company had to produce abnormally high shareholder returns over the decade.

Of the 9,000 companies I studied, only 3,000 had been trading long enough to have ten years' worth of financial data. For each of these 3,000 companies, I calculated a "competitiveness" score composed equally of the three metrics mentioned above: the 100 companies with the highest competitiveness score are the fastest-growing, most profitable and most value-creating publicly traded companies in the world.

The second unique characteristic of my research is that when studying the history of each of these 100 companies, I did not try to rationalize a simple explanation for their success, as many studies do. Nor did I try to summarize their common lessons in a memorable framework or set of principles. Instead, I looked for the patterns, or "openings," each company used to overtake its competition. I classified how each company explained its own success by using a well-tested catalog of 36 moves borrowed from an ancient Chinese text called *The 36 Stratagems*, a playbook I have applied for the past ten years to help executives design competitive growth strategies (For more on the 36 stratagems, see "Building Creative Strategies with Patterns", HBR América Latina March 2004).

Through this exercise, seven "openings" emerged as the most important for strategists seeking new growth.

dent game developers, for example, should be direct rivals by most measures. Yet they have established a balance between competition and cooperation that makes them both better off.

Each videogame console maker (Sony, Nintendo, Microsoft, etc.) develops its own games through internal divisions, or wholly-owned development companies. They like to sell their own games. They make higher profits margins on them – six or seven times those of games developed by third parties. Given that they also have control over access to consumers, why do console makers sell independently-developed games at all? The reason both types of games coexist as "distant enemies" is two-fold. First, software success is unpredictable; knowing what will make a "hit" with consumers or what they will turn their backs on is almost impossible, so to cast a wider net and attract more users, console makers try to maximize the number of games available for their hardware. Second, the economic incentives of console makers and independent game developers are aligned: console makers lose money on each console sold (hoping to earn it back on software), while developers sink a significant investment in developing a game (hoping to recoup it through wide distribution of the completed product). Therefore, both want to get as many consoles as possible into consumers' homes.

Microsoft, for example, went to great lengths to maintain its alignment with developers. It involved them in Xbox's design process and worked hard to deliver development kits (software and hardware that enable developers to create new games) earlier than its competitors. It even started manufacturing hardware. Because success requires befriending game developers and aligning incentives (lose money on consoles to earn it back on software), when it could not find a company to produce Xboxes independently, Microsoft decided to do something it had never done before: manufacture the computers itself. Had Microsoft stuck with its old model of developing software to run on other people's hardware, it would likely have suffered the same fate of now-defunct gaming company 3DO, whose model depended on both hardware and software being profitable but just could not convince third-party developers to make games for its platform.

2. Move early to the next battleground

By identifying when and how your market will evolve, you can establish a defensive position and wait for your competition to realize that the future has already changed. Of the companies I studied, 21% cited using this move, including many of the world's most dominant companies such as Wal-Mart, Google, and the already mentioned Frontline.

Just as Frontline realized a new future in which oil companies would be bidding for the few tank owners who owned newer, environmentally safe tankers, Google realized that Internet users would increasingly launch their surfing sessions through a search engine. Today, instead of typing an address into their browser's URL box, users now type search terms into their favorite search engine. And that is usually Google. Search has become the pivotal next battleground for Internet content providers, and despite costly efforts to

improve their search engines, both MSN and Yahoo! continue losing ground to Google. (A recent report estimates Google's share of all U.S. searches at over 65%, up from 45% in 2006.) By building a stronghold on the search battlefield, Google is now well-positioned to play defense instead of offense. It has effectively turned the game on its main competitors.

Although its rise to become the world's largest retailer owes its success to multiple factors, Wal-Mart's success also sprung from a simple initial tactic: identifying the next battleground, setting up a stronghold there, and waiting for the competition. While large retailers such as Sears, JC Penny, and Kmart positioned stores only in large city and town centers, Wal-Mart took the opposite approach: it focused on smaller towns, in part to avoid direct competition, and in part because it believed the battleground would shift, moving toward small towns and suburbs as consumers began migrating to suburban neighborhoods and subsequently preferred suburban to city-center retail stores. When leading retailers faced with declining sales in their key locations followed customers into these smaller markets, they encountered an unexpectedly strong competitor. Wal-Mart had been waiting for them, fortified with a strong brand and an efficient distribution system.

3. Lock up resources

By identifying critical pinch points in supply, you can restrict your competitors' access to resources, thereby preempting their ability to resist your expansion. 17% of the companies I studied used this move. When Apple launches new products, for example, it depends as heavily on this tactic as it does on its products' design.

Take the case of the iPod. While a sequence of creative decisions contributed to iPod's success, Apple would have fallen at the starting gates were it not for a creative first step that usually goes unnoticed. When Apple launched its first iPod, it signed an exclusive agreement with Toshiba which prevented competitors from following quickly.

If you think about it, the iPod is essentially built of two key components: a hard-drive and a beautiful box. Before the iPod, hard drives were simply too large to fit in an appealing box. But Toshiba had recently developed a revolutionary new hard drive that would allow Apple to introduce an MP3 player that approximated the size of flash-memory-based players but held ten times the number of songs. That allowed Apple to make its move: it purchased Toshiba's entire inventory of these new hard drives to prevent competitors like Sony from following too closely. By locking up Toshiba's supply, at least temporarily, Apple made it impossible for competitors to match the iPod's performance.

Under different circumstances, Sony could have simply released a copy-cat product branded "Walkman" and diverted millions of Walkman buyers from the iPod. But even if Sony had wanted to act, it could not have. This gave Apple a period of protection of several months, which, in the consumer-electronics market, can make a world of difference. By the time competitors could get their hands on Toshiba's new hard drives, iPod had imprinted itself in the minds of consumers.

Several other companies have used the same opening to

The Three Phases of the Strategic Game

	Opening	Middle-game	End-game
Key characteristics	Limited options, each leading to an unpredictable set of possibilities	Moves and counter-moves balloon to an unpredictable set of possibilities	Moves and counter-moves lead to a limited set of possible outcomes
Business analogy	Emerging market segments or segments experiencing sudden changes in rules, players, or structure	Dynamic, rapidly evolving markets, in which fast-moving companies compete for a growing customer base	Mature industries populated by established players following accepted rules
Example	Software as a service	Videogames and consoles	Paper manufacturing
Appropriate problem-solving approach	**Openings**: choose from a playbook of moves picking an opening that has worked in similar situations	**Intuition**: adapt quickly to the emerging game relying on your "gut" to make rapid decisions	**Logic**: follow moves and counter moves down the branches' ends, then apply logic to choose the optimal outcome
What matters	The size of your playbook	The strength of your intuition	The accuracy of your logic

hinder their adversaries. Coca-Cola, for instance, attempted to "lock up" corn syrup supply from Pepsi by signing large, long-term supply contracts with corn syrup manufacturers. To strengthen its competitiveness in selling consumer media devices in the late 1980s, Sony purchased Columbia Pictures and CBS to ensure these companies would not deny content to Sony.

But perhaps the most interesting application of this tactic involved Minnetonka, the maker of Softsoap. The small company realized that if its new Softsoap products were successful, more powerful consumer goods companies such as Procter & Gamble and Colgate-Palmolive would quickly introduce their own liquid-soap products and leverage their marketing and distribution muscle to overtake Minnetonka. So the company signed large, long-term contracts with the manufacturers of the pumps that were needed to produce liquid-soap products.

By locking up a large share of the pump supply, Minnetonka hindered P&G's and Colgate-Palmolive's attempts to follow with competing products (because these companies could not manufacture enough pumps). This strategy afforded Minnetonka sufficient time to establish a defensible position. While most small companies that go head to head with P&G and Colgate-Palmolive fail, Minnetonka survived by targeting its enemy's source of power, rather than attacking directly.

4. Attack from two fronts

By using one business to provide cover for another, you can utilize a well-established principle of conflict: forcing your competitor into a two-front battle that enhances your chances of winning. 16% of the companies I studied cited using this move, among them such success stories as Virgin Airways, Starbucks and, again, Google.

As with most successful innovators, Google is betting on more than a great product. It is improving its chances of success by blanketing its product in a network of disruptive strategies that could diffuse competitive resistance. The latest in such a string of simultaneous battlegrounds is the imminent launch of the Google Phone, a cheap mobile phone equipped with a Google operating system. By extending its online properties – search, maps, email – to the mobile phone market, Google complicates efforts of competitors who must now offer both mobile and computer-based services. For instance, Yahoo! can only offer advertisers access to mobile devices through its mobile home page, while cell phone carriers like Cingular would need to devise their own "Google maps" equivalent to resist Google's advance. By carefully designing its strategy to deflate competitive resistance, Google buys the chance to win with least effort. Most service providers, handset makers, and software firms will find it more attractive to embrace than to fight the Google phone.

The explosive growth of Starbucks was based on the same principle. Once a sleepy, local-centric business, the traditional coffee-shop market was entirely transformed by Starbucks' strategy to trespass the neighborhood boundaries of competition. By creating a strong chain and approaching customers on two fronts (for instance, on their way to work as well as in their neighborhoods) Starbucks effectively encircled local coffee shops that once lived in relative balance with its competitors: when one Starbucks shop wins a new customer, that customer becomes loyal to its sister shops as well; this loyalty cuts into the market share of competing neighborhood coffee shops in each territory Starbucks enters.

The siege of British Airways by Virgin is another well-known example of this opening play at work. By 1984, numerous start-up airlines had failed in their attempts to challenge British Airways in the U.K. British Airways held near-monopolistic power that seemed to make competition futile. So when the Virgin Group launched Virgin Atlantic, most industry experts were incredulous. There were numerous disadvantages. It had less money, capacity, political clout, and experience, and it had no control of the reservation system. But it had something that other direct competitors of British Airways didn't have: it had already developed a strong brand in the music industry. Not only would British Airways have to deal with Virgin Atlantic, but it also would have to deal with Virgin Records. Each record Virgin Records sold helped win over passengers for Virgin Atlantic.

Virgin further complicated British Airways' position by expanding into the radio, television, and hotel businesses. British Airways, under attack from disparate directions, was unable to dispose of Virgin Atlantic with the ease it had put other start-up airlines out of business. In just five years Virgin Atlantic grew to £10 million in profits. And just five years later it expanded into Asia and Australia. Virgin learned that using one business to protect another rarely drains resources. Usually both businesses benefit. Its relatively loose conglomeration of companies provides any individual company an enviable stock of internal "allies" from which to borrow support. Just as you cannot compete with just one Starbucks in one neighborhood but must also contend with other Starbucks in other neighborhoods, you cannot compete with just one Virgin company but must simultaneously manage sister firms battling you from entirely different industries. Battling Virgin requires fighting on multiple fronts.

5. Introduce a new piece to the game board

By creating a new entity you can disrupt competitive dynamics in your favor. Because your competition is often thinking only about current industry players, while ignoring possible new ones, this strategy may take your competition by surprise. Of the companies I studied, 13% grew by applying this move.

Adopting the Playbook Approach

To master the "opening" phase of their games, chess players build and practice a repertoire of openings that suit their playing style. They select from this repertoire the opening that they think will best fit their opponent. This process is not unlike the one that successful companies employ to disrupt their competition. To adopt the playbook approach, you should follow four important recommendations:

1. Abandon logic… at least temporarily. The early phases of any strategic game present us with more possible outcomes than logic – specifically, the human brain's short-term working memory– can handle. Logic is a useful tool for convincing others of a strategy you believe is appropriate, but it does not enable strategists to devise innovative strategies.

2. Look for "moves" rather than reasons. Our traditional strategic approaches nearly always involve analyzing successful or unsuccessful cases and distilling from these a few understandable causes for their success or failure. The implication of this process is that by understanding some universally applicable rule, we can better manage the complexities of competition. But such rules rarely survive the test of application. When a company expands its business and fails, we say that it "strayed" from its core, so we adopt a rule that says we should "stick to our knitting." If the company succeeds, we say that it "diversified," and we follow suit. Master chess players understand this, so they rarely rationalize whether an opening is right or wrong. Instead they consider a playbook of openings, choose the one they think might work best and adapt to the evolving play.

3. Visualize your plays. Assess yourself. Think about your company's strengths and preferred competitive styles. Think about other openings you have used in the past. Consider your opponents' strengths and style, and the openings that they might have used in the past. **Visualize the outcomes, and color in the details.** If you reach a conclusion about which opening, or set of openings, holds the greatest potential, think about how your company would execute it, what people you need, what message you must communicate internally, what partners you must align, and so on.

4. Keep building your repertoire. A key determinant of a chess player's competitiveness is the size of his playbook. But through experience, people tend to unconsciously gravitate to a short list of "openings" that work for them in the majority of situations. Most of them stop when their playbooks seem to deliver sufficiently consistent positive results. Master players, by contrast, continually expand their playbooks. So keep studying openings that have worked in other industries to see what might apply in your own. Analyze what openings you have tried in the past to learn from them, and try openings you have not attempted before. By stocking your reservoir you will become an ever more potent adversary.

Consider the case of Blockbuster. The movie business had always worked in the same way: retailers bought movies from production companies, who in turn hired filmmakers to make them. But Blockbuster CEO, John Antioco, resisted this notion and posed a provocative idea: perhaps Blockbuster should go directly to the filmmakers for movies, by creating its own movie production company. Thus in 2001, it founded DEJ Productions. The independent film company has been unexpectedly successful. It has produced hits like "Monster", which won Charlize Theron an Oscar in 2003, and "Crash", which grossed over $50 million (almost ten times its budget) and won several Oscars, including Best Picture in 2005. Its production of Sylvester Stallone's "Eye See You," although released only on DVD, earned over $19 million in rentals.

Introducing a new piece to the game board can sometimes change the way a whole industry works. In the early 1980s, the Coca-Cola Company was struggling against its historical archrival Pepsi. By 1985, for the first time in history, Pepsi-Cola commanded a larger share of the U.S. soft drink market than Coca-Cola. One of Coca-Cola's challenges was that Pepsi's distribution model was different and, for a key customer segment, superior. Pepsi used a centralized bottling system that served large regional grocery chains better that Coca-Cola's web of small local bottlers.

After unsuccessfully trying to take over and consolidate small independent bottlers, Coca-Cola realized that playing the existing pieces on its game board was not enough. So in 1986, it added a new player to the board: independent bottling subsidiary Coca-Cola Enterprises (CCE). CCE was not an extension of Coca-Cola. It was a brand-new independent company, with 51% of its shares sold to the public. But it became Coca-Cola's "anchor" bottler, through the purchase of a string of bottlers and their consolidation into a regional network. This enabled it to compete effectively with Pepsi for regional grocery chain customers, while also achieving significant cost savings by renegotiating superior terms with suppliers and retailers, merging purchasing, and cutting its workforce by 20 percent. By creating something new from nothing, Coca-Cola helped reverse the trend of its eroding market share and regained dominance of the cola market. Twelve years later, Pepsi copied the tactic with the creation of a separate bottling operation company called the Pepsi Bottling Group (PBG).

Another application of this tactic of creating something out of nothing is to create your own customer. Possibly the best example is that of Boeing and the U.S. Postal Service. After World War I, Boeing was struggling to fill its high wartime capacity. The U.S. Postal Service was about to award a contract to deliver its airmail. Boeing wanted to make sure that whoever won that contract bought its planes from Boeing and not from its rival, Douglas. So Boeing decided to add a new player to the game, one that would be completely loyal to Boeing. And it created an airline, which later became United Airlines. When United won the U.S. Postal Services' contract, it purchased planes from Boeing. In this way the company outmaneuvered Douglas and achieved dominance in the aircraft industry.

6. Coordinate the uncoordinated

A company's strength is less a function of the assets it owns than of the elements that it can call into formation. By organizing independent players into a coordinated front you can simulate greater power with less investment. 13% of the companies I analyzed applied this move. Wikipedia and open source software are examples of this principle at work.

In 2001, about ten years after Microsoft toppled Britannica with Encarta, its digital encyclopedia, an unusual player entered the encyclopedia market. Jimmy Wales and Larry Sanger had been working for Nupedia, a web-based encyclopedia that provided free content reviewed and edited by experts. Nupedia was innovative in that it delivered its content exclusively via the web, not by CD-ROM or print, and it gave its content away for free.

But organizationally, it differed little from its competitors. It maintained a network of subject experts who applied a seven-step review process. The process was about as slow, and the resulting content as stale, as any other encyclopedia. In 2001, however, Nupedia added a new feature: an open encyclopedia that users could edit without the burden of expert review. This had the potential to unlock an ocean of content – as almost any user could submit articles – and create an encyclopedia that changed daily –since this service would require no review process.

Contributors spontaneously organized to build content. By the end of its first year, the new service, called Wikipedia, grew to approximately 20,000 articles in 18 language editions. By the end of 2002, it had expanded into 26 language editions, into 46 by the end of 2003, and into 161 by the end of 2004. By the end of 2006, Wikipedia, now a stand-alone business that absorbed its former parent Nupedia, wielded an army of over 4,500 "active editors" (those who do the bulk of the editing) who offer over 5 million articles in 229 language editions. Its English-language edition alone offers over 1.4 million articles, compared with about 100,000 for Britannica and 68,000 for Microsoft's Encarta. By efficiently coordinating millions of individuals, Wikipedia has been able to replicate and arguably exceed the power of better-funded rivals.

This pattern of competition – coordinating individual elements – has actually exposed Microsoft to another threat: open-source software. The advantages of open-source software parallel the advantages of Wikipedia closely. Open-source software allows open communities of programmers to access, edit, and use software for free. In return, users agree to make their work – from debugging work to entirely new utilities –available to the community for free. This arrangement cuts down development time considerably and multiplies the library of software available to developers by giving them access to a vast community of contributors. While experts believe open-source software is unlikely to oust Microsoft from its position atop the software industry because of the company's impressive installed base, it has been steadily gaining market share. Ironically, Microsoft pursues the same tactic of coordinating the parts into a stronger whole, but it uses company-owned assets rather than adversaries in a coalition. The company coordinates its products so that they support each other, by bundling its software products and ensuring that they are compatible with each other to create a more valuable network of products.

Similarly, in 1998, a group of handset makers that included Nokia, Ericsson, and Motorola teamed up to create a new company, Symbian. Over the years, they had seen what Microsoft did to IBM — take control of a key lucrative component (the operating system)— and did not want their handsets to suffer the same fate. If Microsoft were to dominate the cell-phone operating-system market as it does the market for computer-operating systems, handsets would become commodities with little more margin than personal-computer clones. Individually, none of the companies in the Symbian alliance has the cash or software competency to compete with Microsoft. But by coordinating their efforts, they have been able to capture a 75 percent market share of handset software, effectively containing Microsoft's inroads into that market.

7. Embrace what others abandon

By adopting what your market discards or abandons – an old business model, a technology, a player, etc. – you can secure an advantage because your market's players may hesitate to "return to the past" after having have moved on to something new. Another 13% of the companies I analyzed used this move to some degree.

RIM's now ubiquitous BlackBerry was born from this counter-intuitive tactic. By the mid 1990s, pagers were dying. Once the mobile communications tool of choice among doctors and business executives and later embraced by the general public, they were losing their place, superseded by mobile phones and PDAs with mobile phone capabilities. Why would anyone want a text message when they could

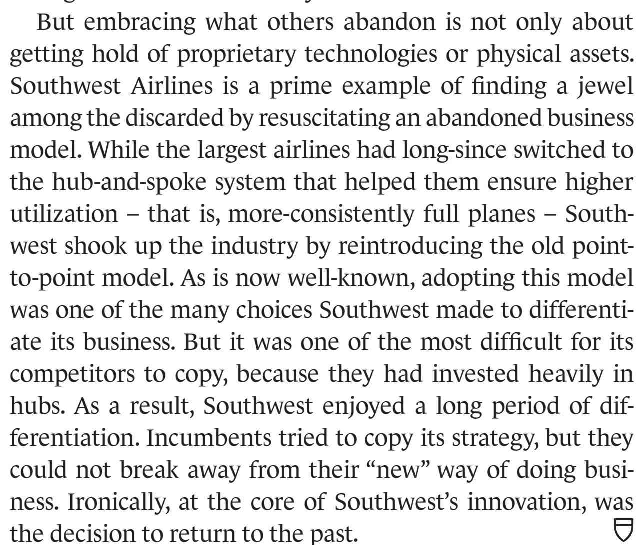
have a real conversation? But the industry's shift toward adding more and more features –combining internet connectivity with voice and video and music, for example – created an ideal opportunity for a small, unorthodox Canadian company willing to choose the opposite path and steal the show from consumer electronic giants.

The company, Research in Motion (RIM), had been founded about ten years earlier around a technology that enabled users to sell wireless data through a data network. Ericsson and a few other large companies were using RIM technology. So when the steady decline of pagers forced BellSouth – at the time one of the leading pager service providers – to look for ways to save its millions of increasingly obsolete network of antennas, called Mobitex, which it had built to pass text messages between pagers, RIM stepped in and proposed BellSouth the development of a two-way pager. This idea cut across the mobile industry's dominant momentum. Mobile phone companies and hardware producers were abandoning old text networks and replacing them with more powerful voice networks. Their vision was to build devices that could deliver everything a user would need – voice, e-mail, web pages, and videos - over one network.

RIM's approach moved in precisely the opposite direction. The RIM device, eventually called BlackBerry, was simple. It offered no voice service (it was not a phone) and no graphics (it only displayed text e-mails). Even the device's design ignored the aesthetics, which Motorola, Nokia, Palm and Compaq's iPac deemed essential to succeed in the market place. But it worked. Because RIM used an abandoned data network with excess capacity, e-mails sent from a RIM device transferred unhindered by the congestion common to newer voice networks. BlackBerry e-mails were fast and reliable. RIM also introduced two other key technological innovations: it "pushed" e-mail onto its devices, while competing products required users to prompt e-mails to be downloaded; and it solved the "two e-mail" problem. At the time, people with mobile e-mail devices needed to maintain two e-mail accounts, one for the office and the other for the mobile device. RIM's technology enabled users to maintain just one account linked to both computer and BlackBerry.

These innovations differentiated RIM's two-way pager but they did not provide a sustainable advantage. With some technical investment, competitors could, and would eventually, duplicate push-e-mail and the one-e-mail-account ability. But RIM's strategic decision to build its business around out-of-date data networks was one that its competitors, all heavily invested in building devices that leveraged more modern voice networks, would resist copying. RIM, deemed out of place and pace, suffered the dismissive treatment most great companies experience in their early days. But the results quickly proved them wrong. RIM's unorthodox, simplified offering quickly won over corporate executives. Its name became synonymous with fast, reliable e-mail. RIM later added voice capabilities and Internet capabilities as it steadily ate away at the market share of well-funded competitors. In 2005, ten years after introducing its first two-way pager, RIM's BlackBerry displaced the Palm Pilot as the most popular hand-held computer.

This pattern is multiplying, particularly in the case of companies in emerging markets that are building a global presence through the acquisition of distressed assets from first-world peers. Lenovo's acquisition of IBM's PC business is but one well-known example. There's also the acquisition of bankrupted telephone carrier MCI by Mexican tycoon Carlos Slim in 2002, or the more recent purchase of AT&T's old undersea fiber-optic cable network by a division of India's largest private business group, Tata, from another troubled U.S. firm, Tyco. Tata is using the network to compete in the high-tech arena, merging cutting edge software with global software delivery.



But embracing what others abandon is not only about getting hold of proprietary technologies or physical assets. Southwest Airlines is a prime example of finding a jewel among the discarded by resuscitating an abandoned business model. While the largest airlines had long-since switched to the hub-and-spoke system that helped them ensure higher utilization – that is, more-consistently full planes – Southwest shook up the industry by reintroducing the old point-to-point model. As is now well-known, adopting this model was one of the many choices Southwest made to differentiate its business. But it was one of the most difficult for its competitors to copy, because they had invested heavily in hubs. As a result, Southwest enjoyed a long period of differentiation. Incumbents tried to copy its strategy, but they could not break away from their "new" way of doing business. Ironically, at the core of Southwest's innovation, was the decision to return to the past.

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While the approach described in this article differs fundamentally from traditional strategy design methods, I have found it to be surprisingly in tune with the natural decision-making preferences used by executives throughout the world with whom I have consulted. Managers should begin their strategic discussions by asking not "What is the logical step to take?", nor by relying exclusively on their gut. They should begin by asking, "What can I use from my playbook that might work in this case?" Strategic openings can free companies from the constraints of strict logic at the beginning of the game, while reducing the risk associated with pure guesswork. The seven plays described in this article are a great way to start building that playbook for unlocking growth opportunities and becoming a master player at your game.

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