

STRATEGY RULES

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



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After observing Gates, Grove & Jobs for 25+ years, Michael Cusumano (MIT) and I decided to ask an important question: How Does One Become a “Master Strategist?”



Our Answer:

- Learn from the masters we know well

- Bill Gates
- Andy Grove
- Steve Jobs



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

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

THE ARGUMENT

Gates, Grove, Jobs Shared Five Timeless Rules

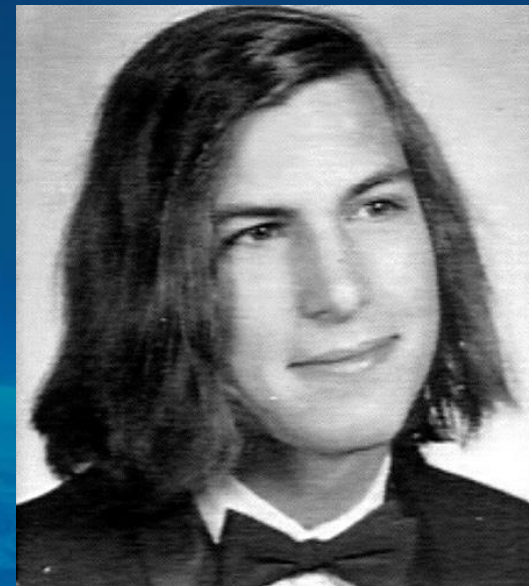
We argue these are/should be common to all master strategists

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

The Context: Three Very Different People



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



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

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

Rule 1: Look Forward, Reason Back

Strategy must be forward looking
Look towards the end game

Then:

Reason back to the actions which
produce the desired outcome

Gates (at Microsoft's Founding)

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

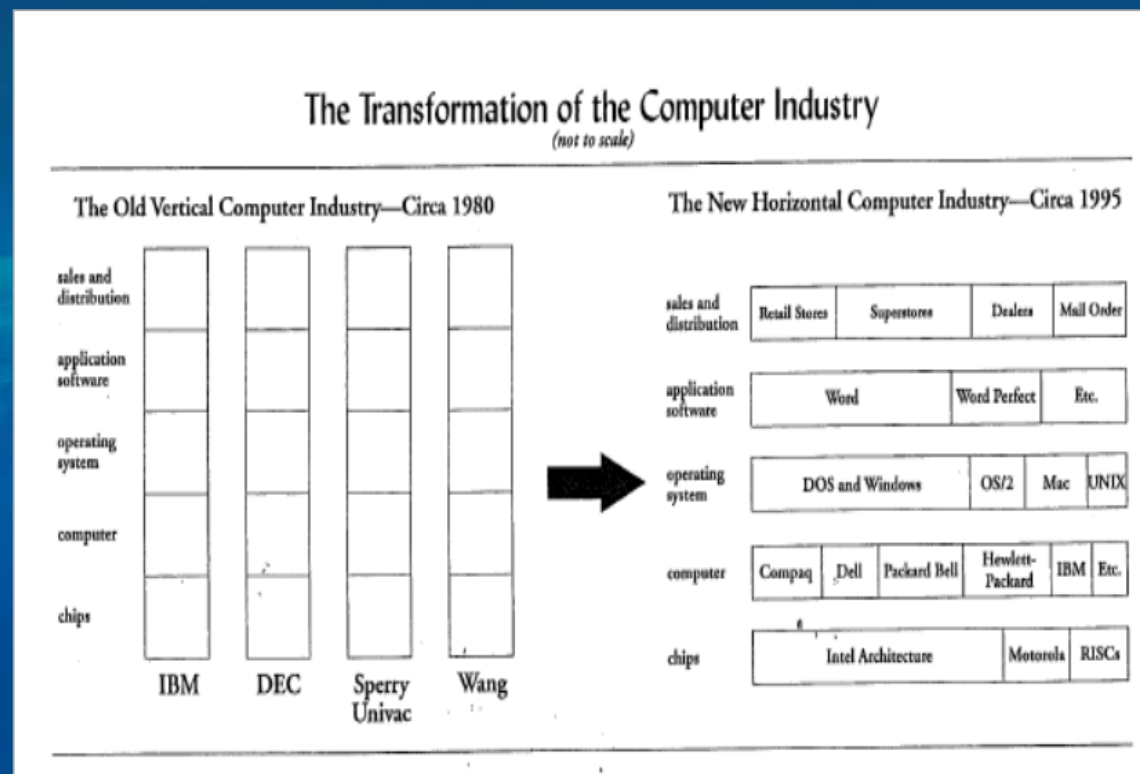
“When Paul Allen and I started Microsoft over 30 years ago, we had big dreams about software. We had dreams about the impact it could have. **We talked about a computer on every desk and in every home [running Microsoft software]**. It’s been amazing to see so much of that dream become a reality and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

Jobs (2000-1)

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

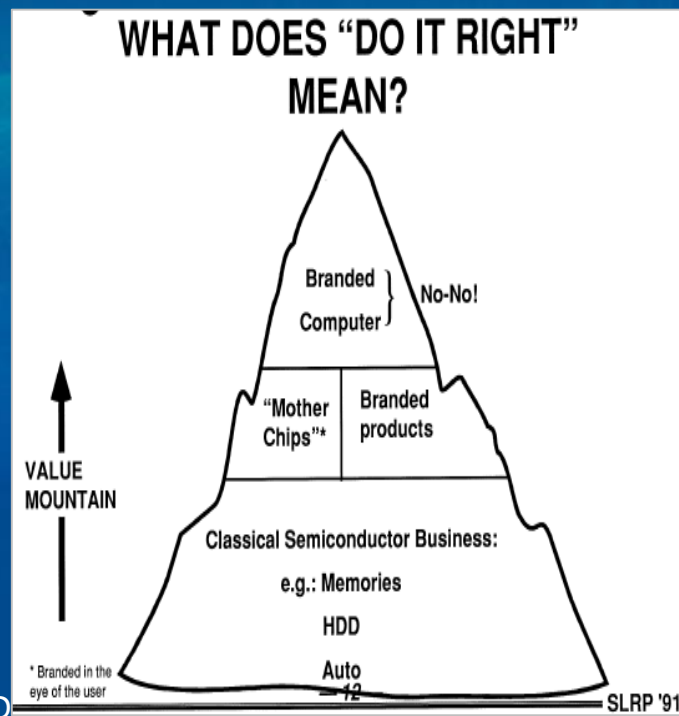
Grove (Late 1980's)

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



Reason Back to Set Boundaries and Priorities

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



Rule 2: Make Big Bets, Without Betting the Company

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

Make “Big” Game Changing Bets

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

Don't Bet the Company

- Diversify your bets
 - Gates:
 - Office, Macintosh software sales, plus Windows would keep Microsoft strong, even if IBM brought all guns blazing
- Spread your bets over time
 - Grove:
 - Build capacity for the world, but never got ahead of demand. CapEx remained at long-term historical averages
- Time your bets
 - Jobs:
 - Waited to switch to Intel from PowerPC until iPod represented ~50% of Apple's revenues. A Macintosh failure would no longer sink the company

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

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

How to Execute?

Rule 5:

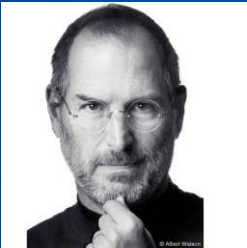
Shape the Company Around Your “Personal Anchor”



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



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



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

Learn New Domains

- Grove:
 - Found “tutors” – internally and externally
 - Learned computer architecture, marketing/branding (Intel Inside), sales and management/strategy
 - Critical to moving from broad semiconductor, to microprocessors, one of the world’s top ten brands, and later servers and networks
- Gates:
 - Think Weeks – dedicated to learning new things
 - Fast follower: Started with tools, moved to OS, productivity apps, networking, multi-media, internet, and business strategy
- Jobs:
 - Found tutors to teach him music (Jimmy Iovine), movies (John Lasseter), retail (Ron Johnson), software (Avie Tevanian), etc.
 - “Here’s how it is going to work: I’ll teach you electronics, and you teach me retail...Let’s go walk the mall...” Steve Jobs to Ron Johnson

Conclusion: Becoming a Master Strategist

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



Complements Are Not Substitutes

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

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FORTHCOMING
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