

# PROFIT ISLE

## Episode 5

### How to Win the Battle and Lose the War

Welcome to ***Profit Levers***, a podcast on managing profitable growth presented by Profit Isle.

I'm Jonathan Byrnes. I teach at MIT, and I'm Profit Isle's founding partner.

This is Episode 5 of the Profit Levers podcast. Today, I'm going to talk about "How to Win the Battle and Lose the War". You can find a transcript for this episode on the Profit Isle website: [profitisle.com](http://profitisle.com).

One of the most common, but dangerous, mistakes managers make is to focus on tactical "wins". When competitors make a tactical move, managers find it almost irresistible to immediately look for ways to respond. When the response creates positive results, they celebrate, and then seek new tactics for edging ahead a bit.

This stimulus-response pattern consumes manager after manager. The problem is that what is lost in the process is the opportunity to make strategic, game-changing leaps forward that leave competitors struggling to find solid ground to stand on.

Yet, these paradigmatic strategic changes are no more difficult to envision, and often are actually easier to create than the more-of-the-same tactical skirmishes that consume most managers in their day-to-day activities. And this massively superior business opportunity simply escapes managers' notice in the fog of tactical battles, and the celebration of tactical wins. In fact, this tactic-obsessed process tacitly defines what strategy is for all too many managers in all too many companies.

In short, these managers have become embedded in a vicious cycle: Winning the Battle but Losing the War.

If you look at the list of Fortune 100 companies of 50 years ago, you will see that most of them no longer exist, while if you look at today's Fortune 100 list, it is striking how many of them simply did not exist 50 years ago. Why? Nearly all of them failed because they focused on winning their battles, while they lost their wars.

How can you win your wars? That's the subject of this podcast.

I really appreciate your interest in listening in.

Sunday, December 7<sup>th</sup>, 1941. Admiral Chester Nimitz was attending a concert in Washington D.C. He was paged and told there was a phone call for him. When he answered the phone, it was President Franklin Delano Roosevelt on the phone.

He told Admiral Nimitz that he (Nimitz) would now be Commander of the Pacific Fleet. Admiral Nimitz flew to Hawaii to assume command of the Pacific Fleet. He landed at Pearl Harbor on Christmas Eve, 1941. There was a spirit of despair, dejection, and defeat, as if the United States had already lost the war.

On Christmas day, 1941, Admiral Nimitz was given a boat tour of the destruction wrought on Pearl Harbor. Big sunken battleships and navy vessels cluttered the waters. As the tour boat returned to dock, the young helmsman of the boat asked, "Well, Admiral, what do you think after seeing all this destruction?"

Admiral Nimitz's reply shocked everyone. "The Japanese made three of the biggest mistakes an attack force could ever make, or God was taking care of America. Which do you think it was?"

Shocked and surprised, the helmsman asked, "What do you mean by saying the Japanese made three of the biggest mistakes an attack force could ever make?" Nimitz explained:

**Mistake number one:** the Japanese attacked on Sunday morning. Nine out of ten crewmen of those ships were ashore on leave. If those same ships had been lured to sea and been sunk, we would have lost 38,000 men, instead of 3,800.

**Mistake number two:** when the Japanese saw all those battleships lined in a row, they got so carried away sinking those battleships, they never once bombed our dry docks opposite those ships. If they had destroyed our dry docks, we would have had to tow every one of those ships to the mainland to be repaired.

As it is now, they are in shallow water, and can be raised. One tug can pull them over to the dry docks, and we can have them repaired and at sea by the time we could have towed them to the mainland. And I already have crews ashore anxious to man those ships.

**Mistake number three:** every drop of fuel in the Pacific theater of war is on top of the ground in storage tanks five miles away over that hill. One attack plane could have strafed those tanks and destroyed our fuel supply.

That's why I say the Japanese made three of the biggest mistakes an attack force could make, or God was taking care of America.

My friend and classmate, Fred Hooper, sent me this story. Supposedly it came from a book that Admiral Nimitz wrote, which is now out of print. Whether it is factual or merely a very compelling urban legend, the story offers important strategic lessons.

### **Strategic lessons**

I thought about this anecdote during a recent meeting. I was reviewing a company's situation with one of its top officers. A competitor had developed an innovation and was deploying it rapidly. The action question was how the company should respond.

The seemingly obvious answer was to pick up the pace and try to match the competitor. When I thought about how other companies I had worked with had responded in similar situations, two things became clear: first, the competitor had indeed made tactical gains that raised concerns,

but second, it was not at all clear that this innovation would produce a clear long-term strategic win.

The right answer was to look very carefully at the customer value proposition that the tactical initiative created, and to set this against the broader opportunity to develop a more sweeping, strategic value proposition. Was the tactical initiative a long-term win strategy, or merely a short-term gain?

Would it win the battle, or win the war?

What's especially interesting about this situation, and so many others like it, is that the rush of events – the concerns about keeping up with a competitor's tactics, or, conversely, enjoying the satisfaction of tactical gains – can essentially blind a company's management team to the broader, more subtle opportunities to develop a truly creative, compelling strategic partnership.

Worse, managers all too often feel that they don't have time to concentrate systematically on the deeper, more subtle opportunities because they are so busy trying to keep up in the tactical battles.

In short, most managers instinctively focus on how to win the battle, rather than how to win the war.

### **Three steps**

How can a management team shift perspective from winning the battle to winning the war? Three steps are essential.

**First, walk in your customer's shoes.** There is no better way to build a powerful customer value proposition than to spend significant time physically in a set of customers. The objective is to watch the entire purchase and use cycle for your products. This includes everything from selecting the products, to obtaining them economically, to understanding how to use them.

Here, you are looking for opportunities to build the broadest, most powerful value proposition by expanding your extended product (which is the full set of activities that relate to the purchase and use of your product). The early development of innovations like vendor-managed inventory and category management provide examples. I described these in my last podcast.

Importantly, building your *extended* product can offer the opportunity to create compelling value in unexpected ways.

Think about Nalco, a company that provides chemicals to water treatment systems. It installed sensors in the chemical tanks on customer premises. This enabled Nalco to be much more efficient at replenishment and production. But the company didn't stop there.

Nalco's managers realized that this innovation allowed it to monitor the actual rate of chemical draw-down, and compare it to the expected rate if the system were operating at peak efficiency. When the Nalco engineers saw a variance, they would call the water system's managers and alert them to adjust the system. This routinely led to customer savings many times the cost of the chemicals.

In the process, it made Nalco indispensable – transforming the company’s positioning from commodity supplier to essential strategic partner. I think of this as *drawing a bigger box around your business*.

Here’s my take on the ultimate truth in business: you always have an opportunity to increase your value footprint, and real value always wins.

**Second, always move toward the middle.** When I was young, I read a book on how to win at checkers. What I remember to this day is that if you are in doubt about what to do, move toward the middle of the board. This is how you develop a dominant board position.

In fact, the classic rookie move in chess is to go for checkmate on an early move, instead of laying out your board position.

What is the equivalent of board position in a supplier-customer relationship? In a nutshell: it is real value and trust. Once you have worked to understand and develop a truly winning value proposition with a very creative extended product, the next essential task is to systematically put the core pieces in place. And, often the core pieces are subtle.

For example, suppose a supplier wants to develop a highly integrated supply chain with a major customer, and the customer is not interested in this type of relationship. What should the supplier do?

Here, the core building blocks, as always, are real value and trust.

Even with an arm’s length relationship, the supplier can arrange for its operations managers to meet periodically with their counterparts in the customer. Over time, the supplier’s operations managers will develop a trusting relationship with their customer counterparts. Note that this process does not focus on selling products or solving problems, only building trust.

Later, once the trusting relationships have developed, the operations managers can bring the customer counterparts to meet operations managers in other customers that already have productive, highly integrated supply chains with the vendor. These meetings will naturally gravitate toward identification and confirmation of the value produced.

Through this process, the supplier can build the essential core of real value and trust that will lead to a highly productive, and highly differentiated, relationship with the target account.

Contrast this with another supplier that might instead focus on tactical gains like merely expanding the product portfolio sold to the customer or edging the price up a little. This supplier might win the battle, but would surely lose the war.

**Third, touch the dream.** Every top manager in every company has a dream – a vision of what real success looks like. This nearly always centers on business growth and creative new business initiatives.

When your value proposition enables your customers to move toward their dreams, you will be an essential strategic partner. You will win the war.

This can happen in unexpected ways. For example, I’m deeply familiar with the operations of a number of vendor-managed inventory systems and other supply chain innovations. These

certainly create important benefits, including customer cost reductions. But surprisingly often, the most powerful, but unexpected, benefit is that the partnership enables the customer to enter new markets or offer new services because it can draw on the supplier partner's deep, specialized capabilities. I gave an example of this in my last podcast.

By enabling the customer to grow its business in powerful new ways that the customer alone could not have done, the supplier becomes an essential part of the customer's success. The supplier wins the war by touching the customer's dream.

### **Win the war**

It is so tempting to operate close to the surface of a customer relationship, focusing primarily on the day-to-day sale of your products and services, searching out tactical gains. And, if you do achieve tactical gains, it is overwhelmingly tempting to focus on accelerating your "victories."

However, the top managers that succeed in the long-run have the discipline to remain focused on understanding and developing the most powerful customer value proposition. When they have created this understanding, they redouble their efforts to push the value creation envelope even further – continuing to search relentlessly for new ways to create real value and trust.

I'm reminded of a wonderful exhibit on American ingenuity mounted several years ago by the Smithsonian Institution: *If We're So Good, Why Aren't We Better?*

The best managers in the best companies are always relentlessly focused on this question, and almost frantic to find an even better answer. This is how they got to be market leaders, and this is why they stay in front.

What is the ultimate secret to success? Remember Admiral Nimitz, and don't be satisfied with anything less than winning the war.

Thanks again for listening to this Profit Levers podcast. You can contact me at [jbyrnes@mit.edu](mailto:jbyrnes@mit.edu). I'd appreciate any comments or suggestions you might have.

See you in the next episode.

### **Episode Description**

Profit Levers EP005-2020-2-15 "How to Win the Battle and Lose the War"

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