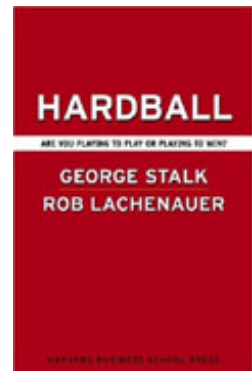




Off With the Gloves: The Hardball Approach to Business

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When George Stalk talks about hardball, he's not referring to baseball or, indeed, any other game. The author of a previous book titled, Competing Against Time, Stalk recently co-wrote, Hardball: Are You Playing to Play or Playing to Win? with Rob Lachenauer, CEO of GEO₂ Technologies, a car-engine technology firm. The book argues that hardball is a way of doing business that aims at sweeping aside rivals and leaves them sitting on their rear, wondering just what hit them. Wharton's [Michael Useem](#), director of the school's Center for Leadership and Change Management, recently spoke with Stalk, a senior vice president in The Boston Consulting Group's Toronto office, about why companies that play the toughest often deliver the most value to their shareholders. TwoKnowledge@Wharton writers also participated in the conversation.



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Useem: How would you define hardball at work in business?

Stalk: Let me break that question into two parts. First there is the manifest Companies with hardball strategies understand that competitive advantage creates shareholder value, and that competitive advantage can be sought. They also know that if you find what we in our book call a decisive or unassailable advantage, it may be so great that perhaps competitors may consider it to be unfair.

Second, how do you know you're a hardball player? One measure is if you're growing faster than your competitors. Also, is your performance superior - not just in terms of growth, but also in profitability, working capital turns and shareholder equity? Another measure is informational: Do you know more about your customers and competitors, and their costs and prices, than they know about yours? Do you know where your company and its competitors make money, and why they make money? And do you use that knowledge?

Useem: Would you single out an example of playing hardball? In your book you include examples from Toyota, Southwest Airlines and even a casket maker. Often, I think, we would not look at Toyota as a hardball player, but you make a good case for it.

Stalk: Our view is that there are hardball strategies, hardball companies, and hardball executives. We prefer to focus on the first two, strategies and companies; the third follows. Hardball strategies involve things like being able to understand where your competitors make money and how to use that information to threaten their profit sanctuaries. Toyota does that effectively; it has now threatened the core profit sanctuaries of the Big Three carmakers in North America, attacking their light trucks and SUV businesses. Depending on what Toyota does in terms of pricing and availability, it basically controls the cash flow of the Big Three.

In the book we mention companies that are hardball players because they have a hardball strategy. Batesville Casket Company - the world's leading manufacturer of welded steel caskets - had a hardball strategy of driving down costs of capital investment in an industry that was a fragmented, labor-intensive business. Batesville adopted the Toyota production approach, which resulted in low cost and high quality, and the ability to handle a great deal of variety and to do it quickly. That enabled Batesville to take its radius of competition around major cities to 40 miles while local competitors were only able to defend their business up to about 20 miles.

Toyota is the longest running hardball player. People say, "We don't think of Toyota as a hardball company." I don't know why they say that. If they spend some time in Detroit, they would realize this is

the last company that people want to compete with. Toyota is relentless in opening up and exploiting competitive advantages.

Useem: Your book details five hardball principles and six hardball strategies. Could you summarize them?

Stalk: Hardball players live by five principles:

1 They focus relentlessly on competitive advantage. They realize that when I have the advantage, you are forced to accept defeat or find a way around my advantage to build your own. So hardball competitors are never satisfied with today's competitive advantage - they want tomorrow's.

2 They strive to convert competitive advantage into decisive advantage. Competitive advantage can be fleeting - that's why hardball players seek to put themselves out of reach of their competitors by building their competitive advantage into decisive, or unassailable, advantage. The better you get at something, the harder it is for competitors to compete against it or take it away, and the more likely it is that they will pick up their marbles and leave that particular playing field.

3 Hardball players employ indirect attacks. When a company makes a direct attack, the attacker hopes that superior resources and persistence will carry the day. An indirect attack means surprising a competitor with your actions and applying resources where the opponent is least able to parry them.

4 Hardball players also exploit their employees' will to win. This can be fostered, and softball players can be transformed into hardball players. But as competitive advantage grows, it gets harder to exploit your employees' will to win.

5 Hardball players draw a bright line at the edge of the "caution zone," or the area that lies between the place where society clearly says you can play the game and where it clearly says you can't. Company leaders are responsible for defining that boundary, and for letting everybody know when they're getting close to it.

Any strategy that provides a decisive competitive advantage is a hardball strategy. In our book, we describe six classic hardball strategies that have proved, over the decades, to be particularly effective in generating competitive advantage.

1 Unleash overwhelming force against competitors. This is really hard to do - you need about a 4x advantage over your competitor, but sometimes you've got to do it, in part because the competitor who is attacking you is well-resourced and aggressive. In the book we talk about Frito Lay vs. Eagle Snacks, a unit of Anheuser-Busch. Both are tough companies, but Frito-Lay took Eagle on, unleashed its extensive resources and powerful distribution capability and chased Eagle out of the business.

2 Exploit anomalies. Every business almost always has something unusual going on, but top management doesn't have the time to give it much attention. Very often when top leaders do ask questions, these get explained away. But anomalies often offer opportunities to see how to do things differently. An example in our book is Wausau Papers, which explored why its Chicago operation held unusually high market share, and a customer relationship that was much more successful than any it had in the rest of the country. The issue was what lessons could be learned from that experience, and whether these could be applied elsewhere. The answer was yes, Wausau was able to offer faster service to those Chicago merchants, and if they could develop a business system around offering faster service to merchants, they could grow the business. Wausau ended up growing dramatically and created the most shareholder value of any paper company in the world during the 1990s.

3 Threaten your competitors' profit sanctuaries. If you know where your competitors make money, you can use that knowledge at the right moment to get your competitors to change their behavior. It might be at a time when a competitor decides to enter your market or to come up with a product like yours. At that point, if you know where your rivals make money, you can drop a bomb and dry up their cash flow. A smart competitor will get the message quickly, but a dumb one may need to get hit two or three times before realizing it is about to lose its entire source of funding by moving against you.

4 Entice your competitor to retreat. In certain businesses, if you know your cost and pricing better

than your competitors know theirs, you can segregate your customers into those who are attractive and whom you want to keep; and those who are unattractive and whom you want your competitors to have. They'll think they're winning, but your competitors are actually winning a high-cost-to-service business that's just not profitable. Over time, with enough of those "wins," your competitors' costs will go up.

5 Break compromises. Southwest and JetBlue Airways are growing against established high-cost legacy competitors in the airlines industry. The conventional wisdom is that they're just cheap, but what's actually happening is that Southwest in particular has broken a compromise. That is the belief that if I want to have the speed of air travel, I have to pay the cost of legacy players or I have to drive my car. But Southwest basically sucks people out of cars and into airplanes -- it does this by the choice of city pairs and also by pricing. So when Southwest introduces a new route it often experiences a 400% passenger volume increase over what previous airline providers had. A broken compromise usually confuses competitors because they remain locked in the business mindset that generated the compromises in the first place.

6 Look into hardball mergers and acquisitions. Despite their high failure rate, M&As can be a powerful means of pursuing a hardball strategy much faster, or on a much larger scale, than could be done organically. A good M&A deal creates competitive advantage, and a great deal can help a company achieve decisive advantage.

Useem: If you are working with an executive who says, "I get it, and I want to adopt some of these hardball strategies," what are implications for the kind of approach, style or leadership capacities of the person who will lead a company into this direction?

Stalk: We believe that every company needs to be in turnaround mode, whether it's successful or failing. The need to be in a turnaround mode in a failing company is obvious, since if you're not, you're going to be gone; you won't have a job. It's harder for a successful company to be in turnaround mode, but it's a great mode to stay in since it keeps your organization focused on what we call "the heart of the matter" - those few issues that really count and will affect the ultimate competence of the organization and its survival. That becomes the mission of the turnaround - those heart of the matter issues.

For example, for the Big Three automakers right now, it is clear that they're being squeezed at the top, the bottom, and the sides by foreign competition. Their business systems are just not capable of competing with Toyota or the other Japanese firms, or even Peugeot and Renault. The Big Three top management is in turmoil because their system involves firing people instead of letting them lay out their plan. Those are heart of matter issues. But when you go to Detroit, the executives there are more concerned about how many cars they'll sell next month instead of fixing their business or dealing with the fact that they're being beaten by their competitors.

But once you focus on the heart of the matter, you need to think about managing your cash, keeping all efforts fast, focused and fundamental. Too many organizations are distracted by a large menu of things that are important. But only a few really count, and those are the things that are fundamental to your business that can be executed quickly and that can keep the focus on the organization.

To operate this way means insisting that people not come up with reasons why things can't be done, but instead bring reasons why they can be done. One important requirement is that organizations have leaders who can say yes or no, but not maybe. Turnaround organizations cannot afford "maybes," since they're distractions. If you have ever worked with Jack Welch, you know that he said yes, he said no, but he never said maybe. Maybe is for programs that should die, but don't. Maybes are for markets that either should be used for competitive opportunity or should just be closed and we should take our goods and come home since we'll never make any money there.

Finally, turnaround organizations don't accept failure more than once or twice before they replace people. They just don't have time for it. So on Monday that's what we recommend people do. Go to the heart of the matter and execute a turnaround.

Knowledge@Wharton: How can you judge when a hardball strategy has gone too far?

Stalk: Hardball strategies are sometimes labeled as going too far when they break the law. But I would argue from the get-go that they were never hardball strategies to begin with if they required breaking the law to be successful. We don't allow anybody to claim they have a hardball strategy if they're relying on bending laws to execute, so let's put that aside.

Sometimes, though, hardball strategies can be so well executed as to go past the point where the measures of success matters to consumers. In the book we write about Texas Instruments, in the early days of electronic watches and calculators. The company broke down the experience curve and took costs and prices down for watches and calculators so low that price differential stopped being an issue. People were willing to spend another two or three bucks to have some more features in the product, whether it was design in the case of watches or functionality in the case of calculators. So companies like Casio and Sharp built calculators and watches, and Hewlett-Packard with calculators alone was able to grow another entire segment. TI had gone too far - beyond the point of being rewarded by consumers.

Today, Dell Computers could be in that situation in the PC business. You could argue that it has turned personal computers into appliances. They're functionally great machines, capable and very well priced, but do people love them? Or have they become appliances - when you whip your Dell out an airport, are you proud? Would you rather have a Sony, an Apple, or any other make?

Dell did an amazing job of taking costs out of the business, but at some point when a computer gets to cost \$1,000, other things start to become important - weight, for example, or design features. How many advertisements for laptop PCs target weight? If you want something that's light with a screen that's easy to read, it's tough to find one by reading the newspaper or magazine ads. Dell is successful, but it may be it's leaving a big base uncovered.

The same goes for Toyota, which has turned vehicles into appliances. This is a problem because there's a growth segment that the company is unable to attract, although it's working on it - the segment that wants to add emotion to their vehicles. Also, the Koreans will do a much better job of producing a low cost appliance. A very wealthy investment banker told me he won't buy another Lexus. He's decided these cars just aren't worth the trouble. Instead he'll buy a new Hyundai every year and just get rid of it; they've become disposable. It's just one guy's view, but it's an early warning sign that the strategy may have been played too far.

Knowledge@Wharton: Do you find much resistance among companies when it comes to adopting hardball strategies? What will it take for, say, the Big Three to change their way of thinking?

Stalk: It'll take either a sense of tremendous opportunity or a sense of tremendous disaster. Anyone in the middle will have a high degree of resistance. A tremendous opportunity is almost always recognized by a very few people. For example, I've been meeting with a 45-year-old woman who is president of a large consumer products company. By any measure, it's a very successful company, but she doesn't think it's moving fast enough. She thinks there's tremendous opportunity available, but there's also a tremendous threat posed by not being more aggressive, such as focusing on which competitors they can knock out of the way.

That's what this is about. We talk about customers in the book, but in the end it's information that's needed to get at competitors and push them into compromising positions. A lot of organizations will look at this and say, "Well, that's really interesting, but while it may be fun to talk about and to think about, nothing will happen." Those are frustrated people. If the top leadership isn't going to do anything about it, there's no way we can get an organization to adopt this mindset. The really great opportunity is in knowing that your competitors have this kind of resistance built in. I spend a lot of time looking at decisions that competitors made and why they made them, and it doesn't take long to figure out how they'll respond to a move made by a company.

Knowledge@Wharton: How do you do that? Where do you get the information?

Stalk: I did this exercise recently for a consumer beverage company. I looked at the annual reports for 15 years. It was clear from the reports that these people were interested in wringing earnings out of the company instead of growing it. And we found there was opportunity to grow the business, based on the way we believe customers will respond to a particular change in strategy. We were sure that competitors

would not do it, would not follow us. Eventually they'll follow us, because they'll see our success, but it gives us time to consolidate our position. So you can get information from annual reports, from public speeches, ex- employees, advertising agencies, and suppliers. There are many sources, but it requires diligence. The devil is in the details. Most people don't have the patience to do this - but it can be well worth it.

Useem: if you're in an industry where there's no "hardball player" out there, is the famous adage from Andy Grove - only the paranoid survive - still applicable? Even if there is no hardball player now, there may well soon be one. Is it better for you to be that player instead of your competitor?

Stalk: The whole notion of having a turnaround mentality in order to be successful is focused on that. It's very similar to Andy Grove's statement that only the paranoid survive. Our book tries to put teeth in that - we try to ask, "What does it mean on Monday?" Showing up to work on Monday being paranoid is step one. Showing up Monday being paranoid and knowing what to do in terms of an agenda is really the key to delivering on that advice.

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