

Bill Gates 2

Mastering the Business



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Bill Gates's career teaches unbeatable lessons in business management. Although he built his fortune on highly technical products, his business mastery is even more important than his technical skills. By using his basic strategy, you can emulate Microsoft's success in your company — and yourself.

COMPETE FOR SUCCESS

Whatever business you are in, the principles for achieving market dominance are the same. Master your own market, using the six-part competitive strategy:

THE SIX-PART STRATEGY

- 1 Concentrate your effort on a market with large potential but few competitors.
- 2 Get in early and big.
- 3 Establish a proprietary position.
- 4 Protect that position in every way possible.
- 5 Aim for high gross margins.
- 6 Make the customers offers they cannot refuse.

The early success of Gates and his partner, Paul Allen — the result of supreme ambition grounded in reality — was founded on this strategy. It can be applied to anything from high-tech products to sausages — as long as they are a new, inimitable kind of sausage. Use technological advances to achieve non-technical commercial aims.

PLAN STRATEGICALLY

The best strategies aim to give you a position of clear “competitive advantage” such as that Gates enjoys. Use the following matrix to analyze your own strategy. Which of your products fits into which square? “Different and better” is by far the best.

Different and better, Different and worse

The Same and worse, The Same and better

GO FOR THE BEST

For Gates, being the best is more important than being the first. Customers want “the biggest bang per buck” and will usually pay more for something that they perceive as better. Gates believes that you should continually invest resources in research and development to get the right products, and develop your products and services to find ways in which they can be constantly improved.

While not all Microsoft’s products have achieved market leadership, in general they have been seen as sufficiently different — and effective — to support the quasi-monopoly that the company obtained through its connection with IBM.

FOLLOWING THE PRINCIPLES

Note the way in which Gates and Allen won that contract. These two absurdly young and confident entrepreneurs perfectly applied the six-part strategy outlined opposite:

They pursued a potentially huge market (built on IBM’s PC sales), in which they faced only two competitors. They got in first, even though they originally had no product.

They kept the proprietary right to sell to anybody and everybody. They protected their IBM position by charging the lowest price for their product.

They earned a high gross margin on sales to third parties. They made IBM an offer it could not refuse — a perpetual licence to use MS-DOS, with no royalties.

OUTWITTING IBM

Gates and Allen gained a tremendous advantage from riding on the coat tails of IBM, which made it much easier to pursue the six-point strategy.

Early on, Gates and Allen realized that when IBM sought to attack the clones the microcomputer would become powerful enough to challenge IBM. They dedicated themselves to ensuring success for IBM’s PCs, knowing full well that “there were going to be clones”. They “structured that original contract to allow them. It was a key point in the negotiations.”

With new PCs and software, since Gates had to carry on working with IBM, he “sunk hundreds of millions of dollars” and countless man-hours into the OS/2 joint venture. That folded in 1992, but Gates had won time to develop Windows. As a bonus, one OS/2 product became Windows NT.

1. Applying the strategy

At the outset, Microsoft's position was exceptionally favourable. The company entered on the ground floor of an industry of inexhaustible growth, and worked with a giant that depended entirely on outsiders such as Gates and Allen to make its crash PC project succeed.

LAUNCHING A BUSINESS

You may not be able to make your fortune as easily as Gates and Allen did, but you can save yourself from losing one by asking yourself the same questions that Microsoft answered. Will you:

- Have a large enough market — now and in the probable future?
- Win a big enough share of the market to make a major impact on your business?
- Get in early enough?
- Be able to sustain a big enough effort?
- Establish a proprietary position that is based on being different and better?
- Be able to protect that position from challenge?
- Earn high gross margins at value for money prices?
- Offer the customers a unique deal?

Many businesses launch ventures without posing these questions, let alone answering them. You need to be able to answer “Yes” to all eight questions. This may not be possible immediately - at first, Gates and Allen did not know whether their purchased product would work well enough for IBM's purposes. But going through the questions and changing your plans where necessary is an invaluable exercise. Approach it in a realistic but optimistic spirit: you are not trying to kill your idea but working to make it succeed.

STAYING AHEAD

Keep asking the questions again and again as markets change and new technologies and new competitors arrive. Gates offers textbook examples of how to reposition your strategy as circumstances change; for example, breaking the umbilical cord with IBM, or reversing his stand on the Internet. Never allow past successes to lull you into a sense of security. The lesson is a hard one to master, but simple to remember: “If at first you do succeed, try, try again”.

2. Building the brand

Every business is a “brand”: the sum total of the perceptions of all its customers, employees, suppliers, etc. Work on achieving brand excellence for your company, and also for your personal “brand”.

FOCUS ON PERFORMANCE

To achieve brand excellence, performance is far more important than publicity Gates won with the Windows brand by spotting an idea (from Apple) and acting on it. You can follow in his footsteps.

ACHIEVE BRAND EXCELLENCE

- Be open to new ideas from any source - look outwards not inwards.
- Have the determination to persevere - take failure as a spur on the road to success.
- Go above and beyond the innovators - take their success as encouragement.
- Make the ideas your own - and make them part of your brand identity.

As a manager, you clearly want to achieve, support, and strengthen brand excellence in every way you can. But remember this applies not only to your business, but to your own “brand” the perceptions that others have of you and your performance. Apply to yourself the same brand building strategy. Apply the four strategic aspects to your own personal career: they are highly effective.

Look for and try to use new ideas from every available source. Analyze causes of setbacks and change plans until they really work.

CREATE PERSONAL EXCELLENCE

Look for and try to use new ideas from every available source.
Analyze cases of setbacks and change plans until they really work.
Set out to be the best at what you do and believe in your superiority.

Establish yourself as somebody with special knowledge and expertise.

3. Leading decisively

*Business success depends ultimately on leadership.
But as a manager you have to grasp two apparently
contradictory principles: drive clear command from the top,
but harness as much collective effort as you can from all ranks
of the organization.*

INVOLVING PEOPLE

It is particularly important to get everyone involved if yours is a high-tech business, because you cannot possibly master all the technical knowledge - or do all the work - on your own. The key is to practise both "soft" and "hard" management.

THE "SOFT" MANAGEMENT APPROACH

The soft style of management, which has influenced the open culture in Microsoft, focuses on collective effort. You should:

- Encourage a free-and-easy atmosphere.
- Create a flat structure with few levels of hierarchy.
- Split the company into small groups.
- Give groups well-defined tasks for which they are completely responsible.
- Encourage discussion and debate (especially by using e-mail).
- Recognize and reward individual and team successes.

If your company does not have such an atmosphere, resist its rigidities as best you can.

THE "HARD" MANAGEMENT APPROACH

A proper exercise of control from the top is fundamental to effective management. Everyone in the company needs to know who exercises authority in each area of the organization.

FIND OUT WHO HOLDS AUTHORITY WHERE

- Who is in charge here?
- Who will take the decisions?
- Who will implement decisions?
- Who will build the brand?
- Who will form the strategy?

DELEGATING LEADERSHIP

In Microsoft's case, the clear answer to every question, before the 1999 restructuring, was Bill Gates. Somebody, to use a Gates phrase, must be capable of an "act of leadership". But many other people can and must contribute before any final decision is made. The issue is how widely and deeply the leader delegates, and how big a part he or she plays before having the last word.

GIVING AUTONOMY

In the Microsoft restructuring, eight autonomous divisions were established under separate managers - giving them the authority to lead was partly designed to stop Gates continuing to take on too much himself, which had the effect of slowing down the decision making process at Microsoft to an alarming degree.

To stop that happening to you, make sure that you apply the five Es that are basic to Microsoft. It will create an atmosphere in which everybody can contribute to success, and which motivates and stretches everybody, including you.

APPLYING THE FIVE ES

- 1 EMPOWER people to undertake tasks for which they are competent and to see those tasks through from start to finish.
- 2 Adopt an EGALITARIAN attitude towards everybody, and insist that they do likewise.
- 3 Place an extraordinary EMPHASIS on performance, first making clear precisely what is expected.
- 4 Use E-MAIL to send and receive messages to and from anybody, and maintain continuous, open, constructive debate on issues of interest or importance.
- 5 ENRICH people with rewards for success, using not only financial rewards but also praise and recognition.

If you are not already working in a five-E company, reconsider your position. Decide whether you — and your staff — are able to give of your best, and whether your effort is recognized. If not, think seriously about moving Myself Ltd. to a new home.