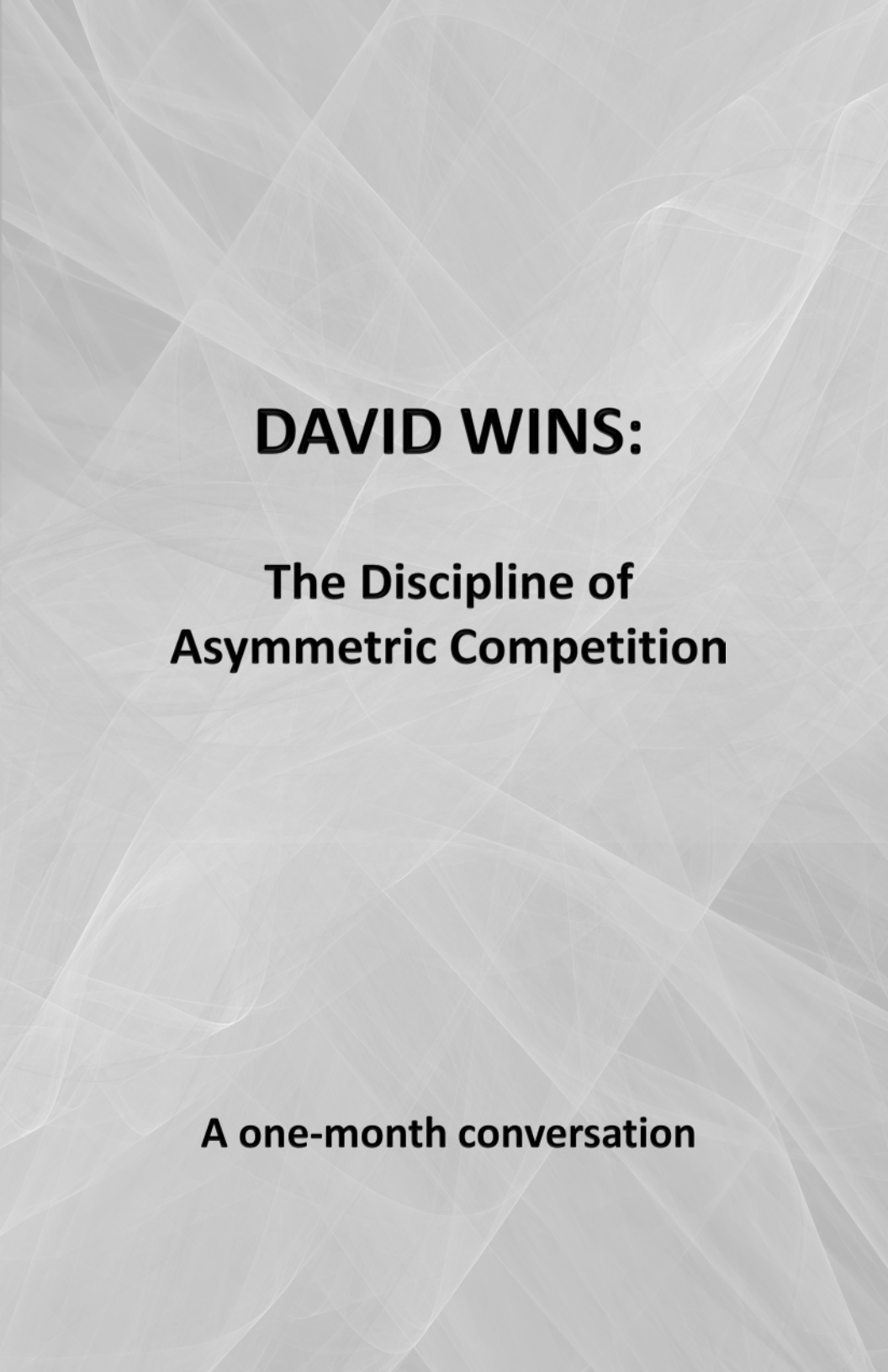


DRAFT

DAVID WINS:

The Discipline of Asymmetric Competition

September 2017



DAVID WINS:

**The Discipline of
Asymmetric Competition**

A one-month conversation

Contents

Introduction

The Asymmetric Model

- Big
- Fail
- Fast
- Frugal

- Access
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- Attract
- Story

Self-Score

Connections

Organization

History

- Portugal
- Dutch
- Chinggis

Kautilya, or Why am I doing this, anyway?

INTRODUCTION

Do not read this conversation alone.

Read it with two or three colleagues, partners, friends.

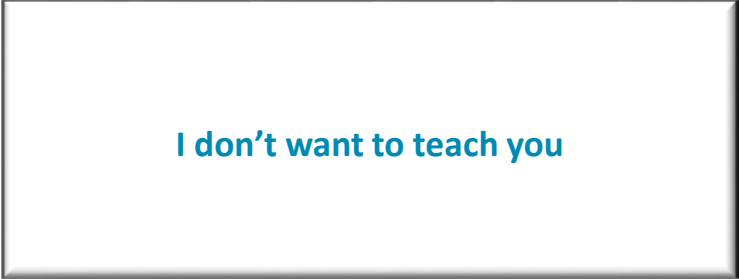
Discuss it, debate it, apply it, fail.

You'll get to answers and actions ten times faster.

Your co-readers don't have to be from your own company. All they have to be is hardworking, smart, tough-minded, curious, and fast.

This is a different type of book. You need to – and want to – work through it in a different way.

In doing so, you will learn the true spirit of asymmetric. And you will learn it within one month.



I don't want to teach you

Introduction

This book requires three commitments:

1. Go through it with 2-3 colleagues.
2. Meet for lunch twice a week, to set a good tempo (the lunch questions are provided at the end of every module).
3. When finished, read through the whole text one more time (no one ever achieved mastery without repetition).

I once asked an absolutely brilliant Japanese translator how he got to be so good, so ... effortless.

He thought for a few minutes (yes, an uncomfortable silence set in), and said:

“There are four stages. Awareness, awkwardness, application, assimilation.

The first feels awful, the second feels worse. In the third, you sweat, but you know you’re getting there, you just know it.

The fourth? It’s an absolute pleasure, for translator and audience alike.”

**I want you to teach yourself ...
what’s most important**

The Age of Anomalies

We live in disorienting times. Our business landscape has become filled with non-linearity, disproportionality, numerous surprises, and puzzling anomalies. We are seeing very small teams creating very large amounts of value. Simultaneously, there are radical and rapid changes in industry leadership.

Consider just a few numbers (you know some of these already; for the others, just turn the page).

92%
2.2 million
38 vs. 56,000
4 vs. 11
\$6 vs. \$12,000
0
10×
Cloud, Echo, Drone
Auto, aero, energy
4

The Age of Anomalies

92%	Apple share of global smartphone profit last year
2.2 million	Number of Amazon resellers and associates (referrers)
38 vs. 56,000	Number of employees to create \$1BB in market cap (Facebook vs. Air France)
4 vs. 11	Years to develop a rocket (SpaceX vs. Ariane)
\$6 vs. \$12,000	Advertising cost per car (Tesla vs. BMW)
0	Dollars of inventory for \$500BB in sales (Alibaba)
10×	SpaceX target to reduce rocket cost
Cloud, Echo, Drone	Amazon winning, rather than current leaders/Goliaths
Auto, aero, energy	Musk highest momentum, rather than current leaders/Goliaths
4	Years for Airbnb, Uber to go global

SpaceX goal is to reduce rocket cost by a factor of 10×. Chinese smartphone competitors are targeting a 10× reduction in smartphone cost. Startups with 100 people create \$1BB in value.

What’s going on?

Yes, it has become a spikier, rougher, more non-linear world. Very small teams defeat very big, very well-resourced teams.

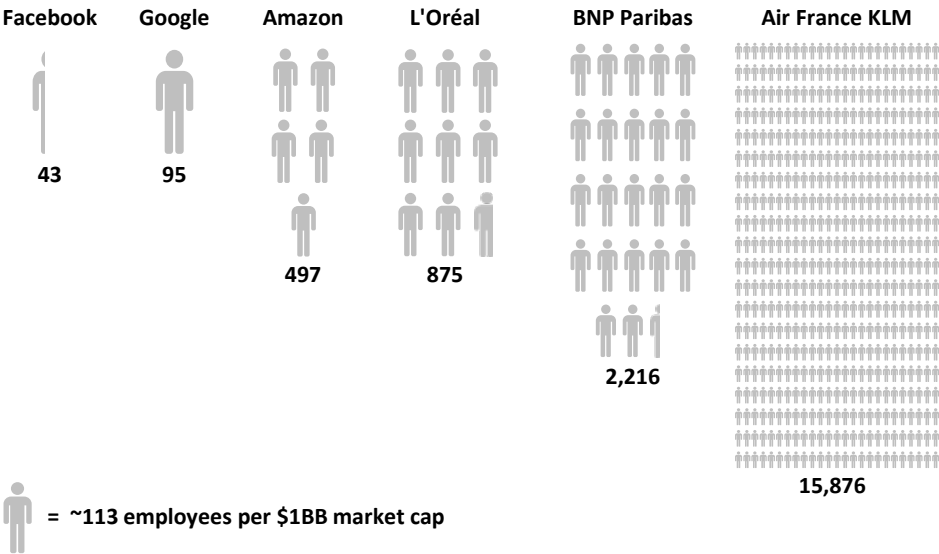
Some teams turn \$1 into \$2.

Some teams turn \$1 into \$20.

What’s going on?

Make your own list of the biggest economic anomalies you see around you.

Number of employees required per \$1 billion of market cap



There's a very broad spectrum of talent productivity.

Which part of the spectrum does my company occupy?

Where do we want to be tomorrow?

Are we willing to do the thinking and the work to get there?

1430 – 1530

How do 10,000 mariners from one of Europe's smallest countries build the world's first global trading network in a century?

See page 195



Ariane 5



SpaceX
Falcon Rockets

Years for development	11	4	Develop quickly
Lost during test phase	1	3	Fail quickly
Rockets per year	4	8	Produce quickly

\$12,636



Advertising spend per car sold:
Electric cars

\$661



\$6



The Age of Anomalies

The once-reliable rules of physics and economics no longer seem to work



Dali's "Still Life – Moving Fast" (1956)

Small Teams

	Acquirer	Target	Price	Employees at acquired company	Users today
2007	Google	YouTube	\$1.65BB	65	1.5B
2012	Facebook	Instagram	\$1BB	13	0.7B
2014	Facebook	What's App	\$19BB	55	1.0B

Many “small team” stories are illusory. These three are not. They’re very real, and they have many more customers today than they did when they were acquired.

Are they the precursor for who wins in the next decade?

1600 – 1700

How did 30,000 mariners
from one of Europe’s smallest countries
lead the world economy
for a century?

Where do these teams come from? Startup Planet*

> 100,000 startups
> \$130BB VC investment/year



World's largest lab of:

- Business design innovation
- Asymmetric competition
- Accelerated economic evolution

Why not take advantage of it?

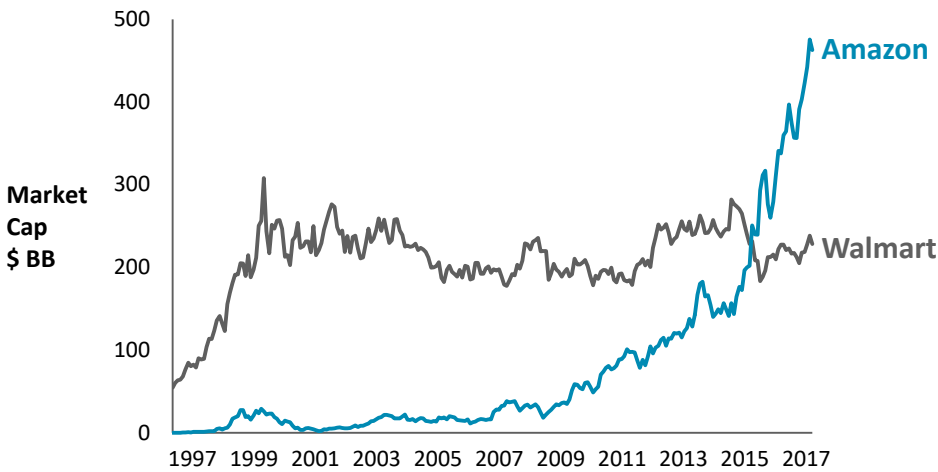
***See Appendix III: Startup Planet**

Simultaneously, there is a fundamental change in industry leadership going on

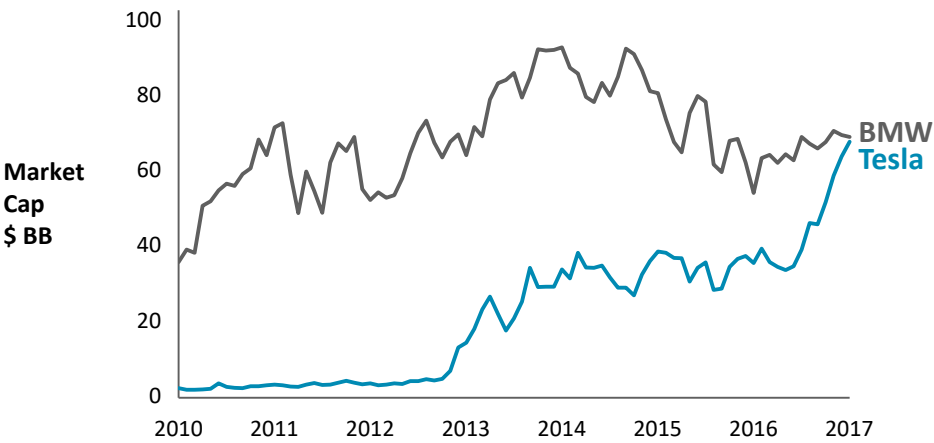
Amazon vs. Walmart: 1997-2009



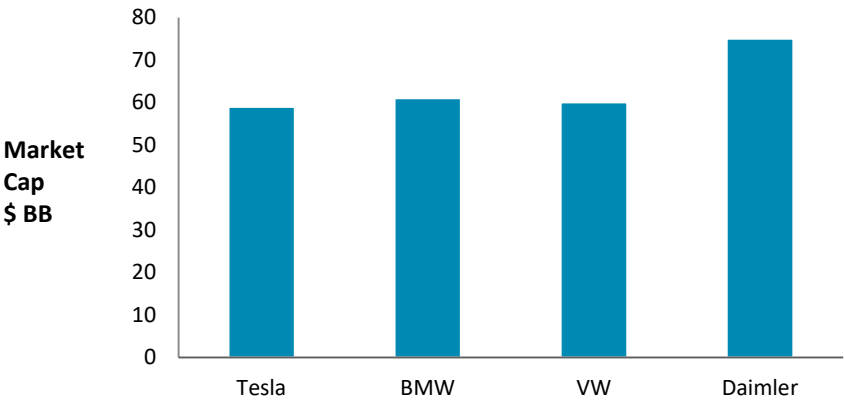
Amazon vs. Walmart: 1997-2017



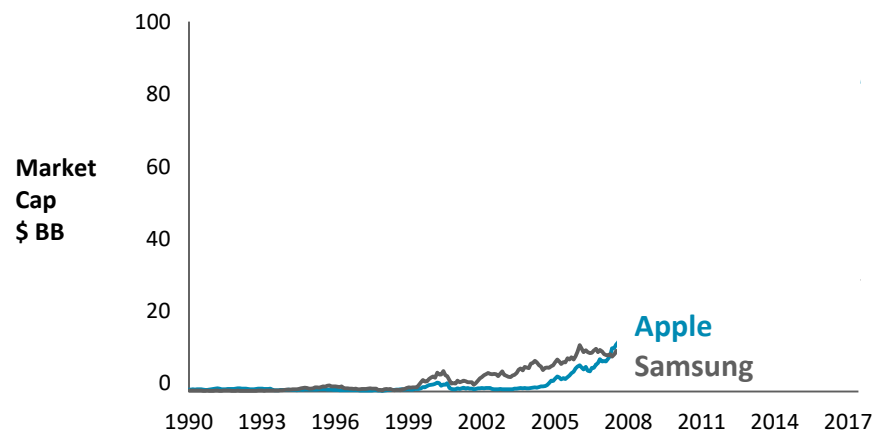
Tesla vs. BMW



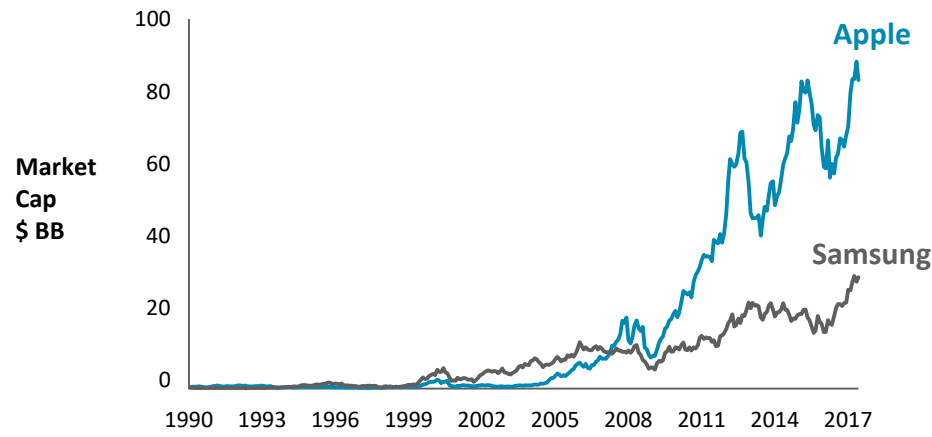
Who will lead tomorrow?



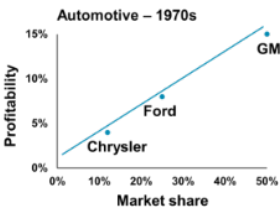
Samsung vs. Apple: 1990-2008



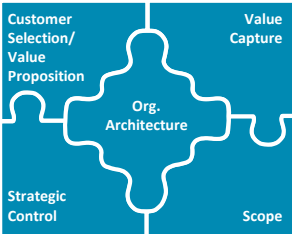
Samsung vs. Apple: 1990-2017



The evolution of competition



Market share



Business design*



Asymmetric model

*See Appendix I: Business Design

The asymmetrics

Startups	Teenagers	Classics
Airbnb	Amazon	Portuguese Empire
Didi	Alibaba	Dutch Empire
Magic Leap	Google	Mongol Empire
SpaceX	Apple	
Tesla	Tencent	
Uber	Baidu	
Xiaomi	Netflix	

Please study these companies, do it with a friend or two. Analyze them, compare them to others. Compare them to what they were just five years ago. Debate them with your colleagues.

Ask yourself, when I look at them, really look at them closely, what do I see? Use the method of the scientist: Observe and measure and compare.

Of course, don't let someone else do the observation, the analysis, the comparisons for you. Do them yourself.

When you observe them closely, you'll find that they ask different questions. And that there is a tremendous quantum of energy hidden deep inside those questions.

They ask themselves, for instance: Why work on small problems? Why not the big ones?

They ask: Why wait to fail; let's fail now (and find out what we need to know to win)?

They ask themselves: Why wait – period? Why “squeeze” a day's work into a week, or a month, as so many companies do?

They ask: Why spend a dollar, when we can find a way to do it for a dime?

CAUTION: Please read this list of questions in context. These are not all of the questions, because in prior years asymmetric competitors have already mastered the art of constantly asking themselves:

- What's best for the customer?
- What's the best business design for my company? (See Appendix I)
- What's my customer's hassle map? (See Appendix 2)
- How can I engage external energy (partners, suppliers, customers, non-profits, etc.) to create better value for the customer?

This set of questions alone would be enough to give a small team (and they all started as very small teams) a tremendous advantage. But they don't stop there.

They ask: Why own, why not access the assets of others? It's not the conventional way to think about the balance sheet. They say: Who cares about convention?

They ask: How many algorithms do we have in every part of our value chain, and in every part of our product portfolio?

They all, without exception, have set large-scale challenges for themselves because they're trying to solve very large problems for customers. As a result, they ask a very personally painful question: Is our team the kind of team that can attract the top 1% of talent in our market?

Finally, they ask the toughest question of all. The most seemingly nebulous, ephemeral, ungraspable. The question engineers hate, that super-rational analysts hate.

What is our story?

What, in a sentence, is the story of who we are, what we're doing, why we're doing it? A simple, easily repeatable, easily transmittable sentence that causes everyone to talk about us.

If we did a fMRI, we would find all these questions twisting around in the minds of these companies, like tough strands of DNA seeking to find their physical expression in the real world outside the mind.

The asymmetric player's questions:

- Why work on small problems?
- Why fail late?
- Why wait?
- Why waste?
- Why own?
- Why guess?
- Why hire the middle?
- Why be story-free?

Do we ask ourselves these questions?

As a result of these questions, these companies compete differently. They create value differently. They look for productive mismatches. They all:

1. Negate their opponents' strengths.
2. They put pressure on opponents' weaknesses.
3. They search for leverage, for multipliers that maximize their actions' impact.
4. They are far "tougher inside" than their rivals.

They are asymmetric competitors. It's as if a society of Davids is competing against an army of Goliaths, and doing very well.

Asymmetric competitors are nothing new

Please Google “How the Weak Win Wars” by Ivan Arreguín-Toft. It’s only 36 pages. It’s worth your hour, including the list of 197 examples at the back of the paper. It begins with a great story.



How the Weak Win Wars

Ivan Arreguín-Toft

A Theory of Asymmetric Conflict

No one had given Muhammad Ali a chance against George Foreman in the World Heavyweight Championship fight of October 30, 1974. Foreman, none of whose opponents had lasted more than three rounds in the ring, was the strongest, hardest hitting boxer of his generation. Ali, though not as powerful as Foreman, had a slightly faster punch and was lighter on his feet. In the weeks leading up to the fight, however, Foreman had practiced against nimble sparring partners. He was ready. But when the bell rang just after 4:00 A.M. in Kinshasa, something completely unexpected happened. In round two, instead of moving into the ring to meet Foreman, Ali appeared to cower against the ropes. Foreman, now confident of victory, pounded him again and again, while Ali whispered hoarse taunts: "George, you're not hittin'," "George, you disappoint me." Foreman lost his temper, and his punches became a furious blur. To spectators, unaware that the elastic ring ropes were absorbing much of the force of Foreman's blows, it looked as if Ali would surely fall. By the fifth round, however, Foreman was worn out. And in round eight, as stunned commentators and a delirious crowd looked on, Muhammad Ali knocked George Foreman to the canvas, and the fight was over.

The outcome of that now-famous "rumble in the jungle" was completely unexpected. The two fighters were equally motivated to win: Both had boasted of victory, and both had enormous egos. Yet in the end, a fight that should have been over in three rounds went eight, and Foreman's prodigious punches proved useless against Ali's rope-a-dope strategy.

This fight illustrates an important yet relatively unexplored feature of interstate conflict: how a weak actor's strategy can make a strong actor's power ir-

Ivan Arreguín-Toft is a postdoctoral fellow in the International Security Program at the Belfer Center for Science and International Affairs at Harvard University's John F. Kennedy School of Government.

Asymmetric practice

You are the trainer in George Foreman’s corner. It’s the end of Round 1. Ali has been taunting George non-stop. What do you do?

Now, it’s the end of Round 2. Ali’s still taunting. Foreman (in a natural human reaction) is still over-punching, still missing, still burning a tremendous amount of energy. What do you do?

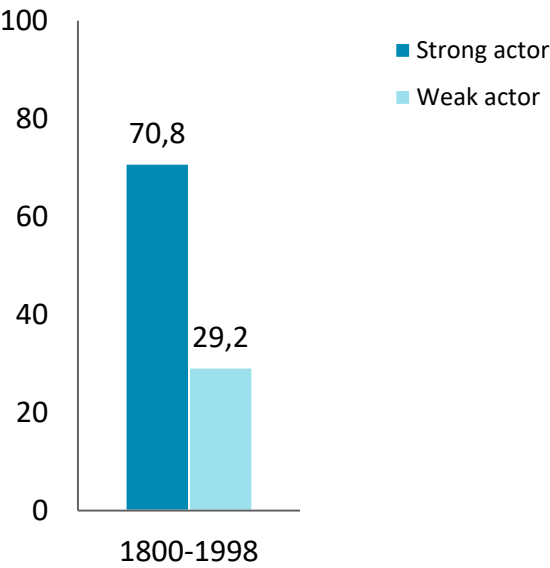
How good are we at making adjustments mid-battle? When have we done it well?

The history of war is filled with the conflict of large, evenly matched competitors, ever since the Greeks and the Trojans, whose model has been followed in an uninterrupted line all the way to the great destructions of World War I and World War II.

What happens when the forces are not evenly matched?

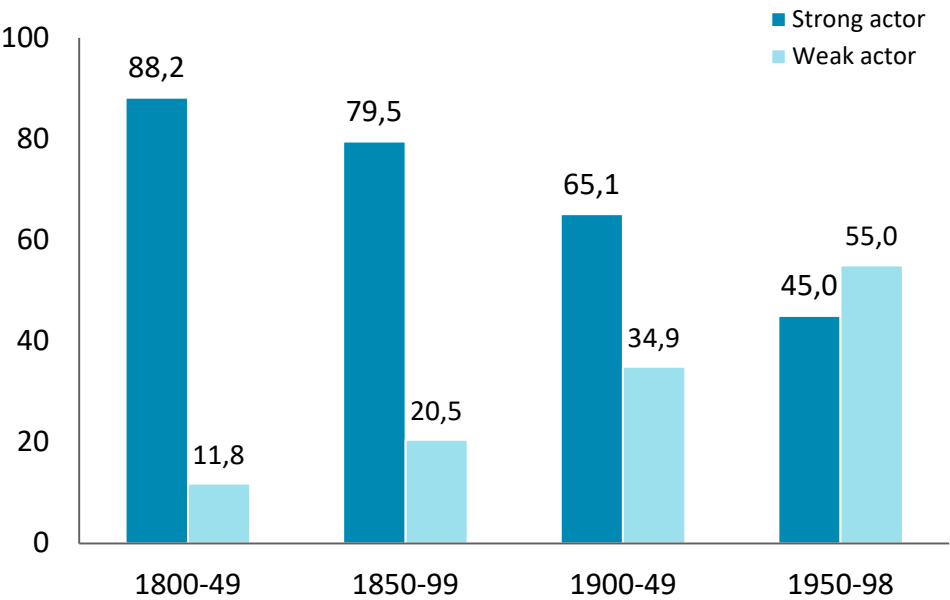
Arreguín-Toft looked at 197 battles fought since 1800. He found that, as we might expect, the more resourced competitor won most of the time.

Percentage of asymmetric conflict victories by type of actor: 1800-1998



Fortunately for us, Toft looked beneath the surface. The ratio changes over time, and it changes in a radical way.

Percentage of asymmetric conflict victories by type of actor in 45-year periods



Is this happening in business? What do you think?

1200 – 1300

How do 30,000 horsemen from one of Asia’s smallest countries conquer from Korea to Hungary and from Moscow to Baghdad in less than a century?

Asymmetric Attributes

- Small vs. big
- Methods that are very cheap
- Produce very big impact
- Along multiple vectors
- Takes away opponent's advantages of scale/mass, resources, etc.
- Highest impact/resource ratio for:
 - Customers
 - Investors

The art of the mismatch

- David
- Ali
- Longbow
- Vietnam
- Mongol composite bow (2× range)
- Afghanistan
- Drone
- ↓
- Can you find a dozen others?

- Online vs. 4,700 stores (Amazon/Walmart)
- Reusable rocket (SpaceX)
- One-click vs. conventional transaction (Amazon)
- Platform vs. thousands of contracts
- App vs. phone and wait (taxi)
- Electric car vs. hybrid, conventional engine
- Flat pack vs. volume transport (IKEA)
- Specialist vs. full value chain (Microsoft, Toyota, McDonalds)
- Do less, get more
- 9 modes (Didi) vs. private car (Uber)
- One source/format vs. dozen (Bloomberg, FactSet)
- Reality TV, unscripted (costs less, generates more)
- ↓
- Can you find a dozen others?

Lists

There are a dozen lists throughout the book.

In 1 month, you will know them all by heart.

In 2 months, you'll also make each list **twice** as long after you add your own examples.

Why?

Because you don't want to re-solve problems that have already been solved by someone else. Asymmetric competitors are wired **never** to reinvent what's already been invented.

They don't have the time, the energy, the attention, or the mental space for it. They're just too busy building new vectors for their model.

And besides, they think wasting time is just not very smart.

To get into the mode of thinking about extreme differences in resources vs. results, consider not just David's sling ...



... which negated Goliath's size, strength, and armor.

Source: [wikipedia.org/wiki/David_\(Michelangelo\)#/media/File:%27David%27_by_Michelangelo_Fir_JBU013.jpg](https://www.wikipedia.org/wiki/David_(Michelangelo)#/media/File:%27David%27_by_Michelangelo_Fir_JBU013.jpg)
https://www.google.com/search?q=david+and+goliath+sling+weapon&source=lnms&tbn=isch&sa=X&ved=0ahUKEwi53r6Ctv_UAhUI34MKHS_cCBwQ_AUIBigB&biw=1920&bih=959#imgdii=JMbE9bPxIDiQM:&imgcr=ZBKCGU1TFM2-DM:

... but also consider the Trojan horse, which negated Troy's high, thick walls and impenetrable defenses ...



Source: By Giovanni Domenico Tiepolo - Own work, Public Domain,
<https://commons.wikimedia.org/w/index.php?curid=173986>

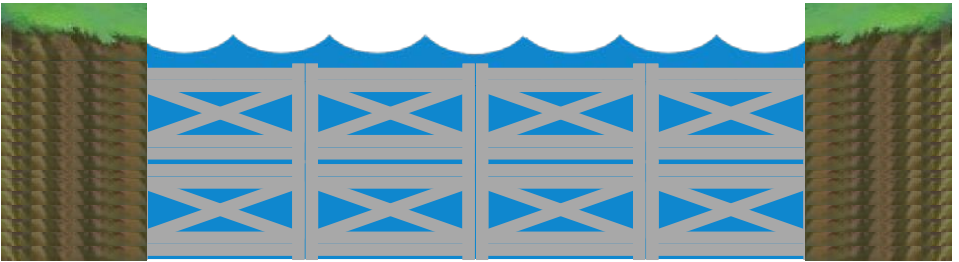
Consider also the English longbow, which negated the French superiority of mounted, heavily armored knights ...



Source: <https://www.thelongbowshop.com/products/medieval-arrow-quiver-bag?variant=27633639369>

... and the North Vietnamese underwater bridges along its rivers, which negated massive US air superiority (over 250,000 sorties flown) ...

Pilot sees blue water ...



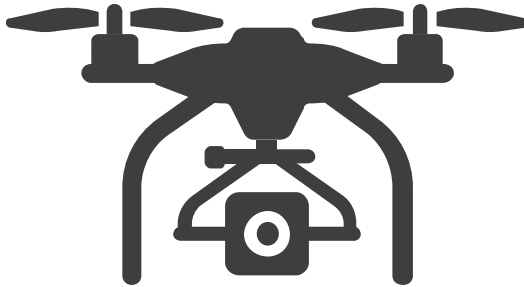
... not the bridge beneath the surface

... or consider the four horses each Mongol warrior had. By changing to fresh horses every couple of hours, the army could move three to four times faster than rivals, with much lower logistical support (mare's milk)
...



Source: <http://www.sfgate.com/world/article/Horses-are-reintroduced-to-their-native-habitat-2356952.php#photo-1879955>

... or drones that allow small groups to carry out highly targeted missions at a fraction of the cost, negating the impact of the opponent's massive air force.



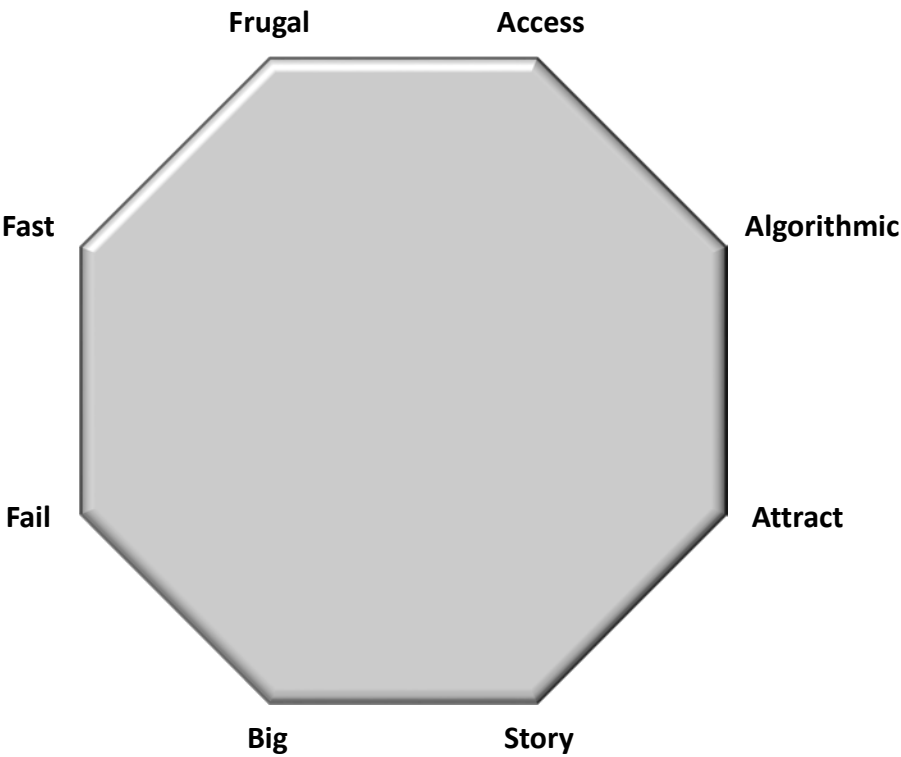
"One must take advantage of the situation exactly as if he were setting a ball in motion on a steep slope. The force applied is minute, but the results are enormous."

– Sun Tzu

There are very few companies that have evolved a fully developed asymmetric model. A careful observation of the emerging asymmetric leaders shows there are eight vectors along which they think, act, and compete differently.

	Vector
• Why work on small problems?	Big
• Why fail late?	Fail
• Why wait?	Fast
• Why waste?	Frugal
• Why own?	Access
• Why guess?	Algo
• Why hire middle?	Attract
• Why be story-free?	Story

The Asymmetric Model



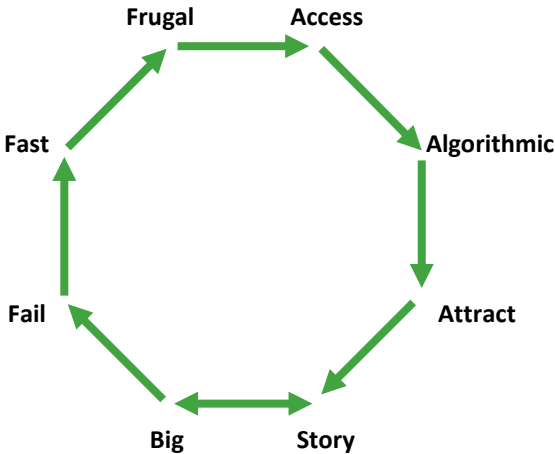
These questions form a cluster of seemingly simple, deceptively simple inquiries. It’s actually quite hard to understand each question correctly. Answering each question imaginatively can lead to surprising, unexpected results.

The hidden logic of the asymmetric model: Interdependencies

- You can’t do “big” without failing.
- You can’t fail without being fast. (Otherwise, market entropy will kill you.)
- You can’t be fast without being frugal (minute-frugal, penny-frugal).
- You can’t be fully frugal without access.
- You can’t do access (which means complexity) without algorithms.
- You can’t do algorithms (which = sophistication) without top talent.
- You can’t have the best people without a great, great story.



The result?
A self-reinforcing
upward spiral.



The following eight modules (from Big to ... Story) describe each of the eight vectors of the model.

Each module will explain the rationale for the vector, will provide examples, will ask you to provide examples you have seen in business or other spheres of activity. It will also ask what actions you will take to create this vector for your company.

At the end of each module, you'll be asked to rate yourself/your team, on a scale going from "weak/just starting" to "best in class."

At the end of each module, there will be a set of questions – that's the agenda for the lunch discussion with your colleagues.