

# THE CORPORATE WARRIORS

*Six Classic Cases in American  
Business*

DOUGLAS K. RAMSEY



# *The Corporate Warriors*



DOUGLAS K.  
RAMSEY

A GIFT OF  
**THE ASIA FOUNDATION**

*Houghton Mifflin Company*

*BOSTON*

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*The  
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Warriors*

A GIFT OF  
**THE ASIA FOUNDATION**  
BOOKS FOR ASIA  
SAN FRANCISCO, CALIFORNIA, U.S.A.  
NOT FOR SALE

*For family and friends,  
who put up with me  
and the book these  
past three years.*

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*War is a simple art: its essence  
lies in its accomplishment.*

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— Napoleon Bonaparte

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# Introduction



“WAR IS CAPITALISM with the gloves off.” With that terse comment, the protagonist in Tom Stoppard’s 1976 play, *Travesties*, provided an apt metaphor for business. Parallels between war and business have been drawn before, but never more frequently than in the lexicon of modern management. The corporate battlefield has become the site of takeover attacks and market penetration, price wars and sales skirmishes, poison pills and merger maneuvers. The language of war is now an established part of the corporate vernacular. But beyond the surface similarities are lessons for today’s business executive in military strategy.

In short, business resembles nothing so much as war itself. For every major takeover battle, there are losing as well as winning sides; a territory may be a market share or one particular industry, and the competitor is the enemy. A company’s success — even its survival — therefore depends on an amalgam of offensive and defensive strategies: frontal assaults, surprise attacks, propaganda (read advertising), intelligence gathering (market research), organization, and administration. These are just some of the elements on which war, military and corporate, is calculated, planned, and waged. It is on the strength of these elements, too, that commanders on the battleground or in the boardroom rise or fall, triumph or are vanquished.

The great military strategists and philosophers have said it all before, some of them centuries ago. There are crucial lessons for the executive in the writings of the great war thinkers, from Sun Tzu and Niccolò Machiavelli to Karl von Clausewitz and Ferdinand Foch. Blitzkrieg or scorched earth, encirclement or preemptive attack, strategic withdrawal or fortification: the pre-

scriptions vary, but the theories and strategies, tested in military combat, are as applicable to the wars on Madison Avenue, Wall Street, and Main Street as they were to feudal China, Italy's city states, or the two world wars in this century.

For companies and for armies, the ultimate goal of conflict is the same — victory, in the marketplace or on the battlefield. As Clausewitz defined it, there are really two kinds of war, “one to overthrow the enemy, the other to gain land.” Most corporate battles are of the second type, since few executives aim to destroy their competitors altogether. The goal is to “gain land” by winning new customers and securing larger shares of a given market. “Complete subjugation of the enemy,” Clausewitz added, “is not essential in every case.” The same is true in business.

The genesis of this book is traceable to my three-year stint as Far East correspondent for *The Economist*, the weekly magazine that my British colleagues insisted on calling a newspaper. Time after time, I was struck by the ability of Japanese businessmen up and down the corporate ladder to quote from Sun Tzu's *The Art of War*. Later, as business editor of *Newsweek* magazine, in conversations with American and European chief executives I ran across occasional references to Karl von Clausewitz's *On War*, published in the early 1800s, to explain strategies pursued by their corporations in the late 1900s. *On War*, which remains the most prominent single contribution to the shape of modern military strategy in Europe and the United States, sat prominently on the bookshelf of at least one executive interviewed by a researcher for this book. Along with the works of dozens of other philosophers and military commanders, these tomes argued the pre-eminence of strategy long before “strategic planning” became a buzz word in American M.B.A. programs.

The basic concept of war strategy varies little from one philosopher to the next. “There have existed in all times, fundamental principles on which depend good results in warfare,” wrote Swiss philosopher Henri de Jomini. “These principles are unchanging, independent of the kind of weapons, historical place or time.” Modern military science generally recognizes

nine “principles” of strategy that are equally applicable to corporate conflict.

1. Maneuver: the need for flexibility, keeping options open to deploy troops, expand manufacturing, cut prices, and so on;
2. Objective: clearly defining the goal of combat, targeting where the company should be at the end of it;
3. Offense: attacking the enemy or competitor;
4. Surprise: Clausewitz called it “the foundation of all military undertakings”;
5. Economy of force: mobilizing the fewest resources and personnel necessary to achieve the objective;
6. Mass: “Concentrate your strength” is the way Sun Tzu put it;
7. Unity of command: clear lines of authority extending from the commanding — or chief executive — officer;
8. Simplicity: what military officers summarize with the acronym KISS: Keep It Simple, Stupid!;
9. Security: maintaining secrecy and loyalty inside the military or corporate unit.

All nine principles recur throughout this book. Don Burr, the founder of People Express, demonstrated his strength of maneuver when his airline adopted a new route strategy to cope with the flight controllers’ strike that threatened to kill the three-month-old airline in its infancy. Bob Guccione, the publisher of *Penthouse*, underscored the importance of mass in withholding London copies of his magazine until a full-scale attack on *Playboy* was possible with a U.S. edition. And without the security surrounding Coca-Cola’s top-secret “Project Harvard,” the launching of Diet Coke would probably not have gone as smoothly as it did.

Leadership is also crucial. Without it, Marshal Foch stated firmly, “No battle and no victory is possible.” There is no single formula or character to define good leadership in the corporate context, but the executives profiled in the following pages are indisputably considered “leaders” by corporate America. That doesn’t mean, however, that they are cut from the same mold.

Roger Smith is as low-key and self-effacing as Ted Turner and Guccione are brash, autocratic, and unconventional. The strategy and tactics that allowed Burr to build People Express in a matter of months would probably not have worked for MCI's Bill McGowan in his decade-long cat-and-mouse challenge to AT&T. Still, the executives examined here share some traits. All are strong, hands-on managers, in one case, to a fault: Burr may have ultimately lost his company, People Express, because he breached Foch's edict that "many fine generals try to keep an eye on too many things [and] end in impotence." All had their own visions for the companies they were building, or rebuilding, in the case of General Motors and Coca-Cola. All got personally involved in mapping the strategies that were crucial to victory on the corporate battlefield. And all were blessed with what Foch called "the will to conquer . . . and a supreme resolve which the commander must, if need be, impart to the soldier's soul."

The corporate warriors you will meet also share a willingness, even eagerness, to take risks. "Great successes in war," wrote Karl von Moltke, "are not achieved without great risks." Time after time the bosses of MCI, *Penthouse*, People Express, and Turner Broadcasting bet their companies in order to make significant gains in the marketplace; time after time their companies emerged stronger and more powerful. Without strong leadership they may have foundered; without taking the risks none would have succeeded as spectacularly in the free market as each eventually did. These chief executives also share something that Winston Churchill defined as "legerdemain." "There is required for the composition of a great commander not only massive common sense and reasoning power," Churchill wrote in *The World Crisis 1915*, "not only imagination, but also an element of legerdemain, an original and sinister touch, which leaves the enemy puzzled as well as beaten."

Alliances also play a key role in corporate combat. As Bob Guccione proved by linking up with the highly respectable Times Mirror Publishing Company, a well-placed ally could lay the groundwork for a magazine invasion that *Penthouse* would have been unable to mount on its own. And MCI's linkup with

IBM would set the stage for competition with AT&T for the rest of the century. Corporations must know when and where to strike such alliances, and how to keep their allies from switching allegiances later in the game.

The battles recounted in the following pages focus on corporate and marketing strategy rather than the power struggles that typify takeover battles and management squabbles. *The Corporate Warriors* is about the struggle among companies for control of markets. In today's marketplace, however, it is not always clear which company is the aggressor, which the defender. Strategic lines are blurred. For most of the 1970s, Pepsi-Cola mounted a devastating and effective attack on Coca-Cola's market. When Coke finally woke up to the "Pepsi Challenge" and revised its strategy to meet that challenge, it went on the offensive. The strategy that let Pepsi lure new drinkers would not have worked for Coca-Cola when it wanted to get them back. Both companies were implementing offensive as well as defensive strategies at one and the same time — an almost perfect reflection of the competitive marketplace.

But is business really war? There are obviously limits to the personal damage acceptable in a business context. In war, death becomes an acceptable price to pay for victory. In business, companies may go bankrupt, but the individuals who suffer defeat are free to go to work for someone else. Defense may be an objective in itself for businesses, but it is considered tactical by most combat strategists, leading inevitably to an assumption of the offense. There is also a more stringent code of ethics in business, although the code is, admittedly, not always observed. In short, not every tactic that is acceptable in war is permissible in business. But within reason, the metaphor works, and provides basic training for business executives interested in obtaining the competitive edge shared by most of the successful strategists in corporate America.

Had I written a seventh chapter for this book, it would have been titled "Strategy vs. Tactics." At times it is difficult to see the forest from the trees, the bigger picture from the individual manager's direct "line of sight." Few of the leaders described sat down one day and mapped out a detailed strategy. Corporate

leadership is an exercise in continual planning, frequent shifts in tactics, and periodic review of the direction and execution of strategic policies — and not by just one man. The French politician Talleyrand once insisted that “war is much too serious a thing to be left to military men.” By the same token, business is much too serious a thing to be left to chief executive officers. The problem in condensing corporate history and strategy into a few dozen pages of narrative is that decisions arrived at by tens or hundreds of people must be attributed either to the amorphous “corporation” or the leader of that entity. As far as possible, I have attempted to distill — admittedly in hindsight — the essence of each company’s strategic thinking, looking at it through the eyes of the man (in these cases, all happen to be male) in charge, the chief executive officer.

There are plenty of case studies in corporate conflict. Primarily, I have tried to be contemporary, focusing on market face-offs that are likely to persist into the 1990s and beyond. One key battle in that time frame is AT&T vs. IBM, as the deregulated telephone company moves into computers and the computer giant pushes into telecommunications. But as of this writing, neither company had defined and executed strategy to the extent that an outsider could assess which of them is likely to carry the day; that book remains to be written. A second cull of corporate candidates was for examples in industries that, for one reason or another, capture the interest and imagination of readers. That triage left a dozen or so prime examples of major, ongoing corporate battles, among them the cases recounted in this book as well as a handful of others: Miller vs. Anheuser-Busch in beer; Burger King vs. McDonald’s in fast-food retailing, and so on. Most of them, interestingly, put down their roots in the last twenty years, for instance, People Express and Turner Broadcasting in the 1980s and *Penthouse* and MCI in the 1970s. It is ultimately the drama of each corporate battle and the presence of strong protagonists to “personify” each story that became a deciding factor in the battles chosen.

The quotations from military thinkers are included for a reason: to signal important changes in strategic thinking that reflect the wisdom derived from the writings of a Clausewitz or a Sun

Tzu. I have made no attempt to attribute specific lessons of military strategy to the decisions of companies and executives. True, several of the key players openly pay homage to the influence of military service in shaping the way they do business (Ted Turner), or to careful study of writings on military strategy. But it is doubtful that any of them thought about wartime analogies when it came to betting their companies — or their own careers — on a major strategic decision.

If the quotes on military strategy provide signposts, then the case studies represent a road map for corporate strategy — in this case, six corporate strategies — and the responses of the competition. The most important lesson in all six chapters is the same: the necessity to think and act strategically, or as Clausewitz put it, to fix “the point where, the time when, and the numerical force with which the battle is to be fought.” That, in a nutshell, is the challenge facing all managers in modern business.

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