The idea of judo economics, building on analogies with the sport of judo, has been around for at least 20 years. But taking these ideas further to judo strategy means that a framework of strategic principles can be developed to help companies put stronger opponents on the mat.

Why do some companies succeed in defeating stronger rivals, while others fail? This is a question that all ambitious businesses eventually face. Whether you’re a start-up taking on industry giants or a giant moving into markets dominated by powerful incumbents, the basic problem remains the same: how do you compete with opponents who have size, strength, and history on their side?

The answer lies in a simple but powerful lesson: successful challengers use what we call “judo” strategy to prevent opponents from bringing their full strength into play. Judo strategists avoid forms of competition, such as head-to-head struggles, that naturally favour the large and the strong. Instead, they rely on speed, agility, and creative thinking in crafting strategies that make it difficult for powerful rivals to compete.

This is not, of course, an entirely new idea. It has long been recognised, for example, that by first securing a foothold in an undefended market, a company can improve its chances of ultimate success. (In fact, Peter Drucker has labelled this process “entrepreneurial judo”.)

We have taken this thinking on unequal competition further.

First, rather than focus on a single insight, such as the importance of niche picking, we provide an overarching framework that ties together a wealth of strategic ideas.

Second, we offer numerous examples of how companies have put these ideas to work, based on our interviews with executives at a broad range of companies – both old and new economy, large and small. (Unless otherwise noted, all quotations are drawn from these interviews.)

Moreover, the judo strategy approach seems particularly timely today. In the go-go years of the Internet boom, tilting with giants was all the rage. But in the vast majority of cases, it was the upstarts, not the incumbents, who found themselves facing defeat. Does this mean that competing with giants is a doomed enterprise? No, but it surely means that would-be challengers must find smarter ways to compete.

**What is judo strategy?**

Judo strategy is an approach to competition that emphasises skill, rather than size or strength. In developing this framework, we were inspired by the work of two economists, Judith Gelman and Steven
Salop, who coined the term “judo economics” to describe a strategy that allows a company to use a larger opponent’s size to its advantage.

In their model, a challenger must decide how aggressively to enter a market dominated by an incumbent. Based on some simple assumptions (see box), Gelman and Salop show that if a challenger tries to capture the entire market, the incumbent will fight back – and probably win. However, the challenger can induce the incumbent to accommodate his entry by making a credible commitment to target only a small subset of the market. This approach works because the incumbent is better off ceding a fraction of the market than cutting prices across its entire customer base.

The central idea behind this model – turning an opponent’s strength into a disadvantage – has enormous appeal. But judo economics also has important limitations. For example, it’s very difficult to implement. It’s one thing to say that you won’t threaten bigger competitors. It’s quite another to convince them that you mean what you say. Moreover, judo economics looks rather less promising once the assumptions behind the original model, such as the prohibition on price discrimination, are relaxed.

But perhaps the most important limitation of judo economics is that it requires an entrant to remain small in order to survive. For most managers and companies, this is not enough. Consequently, judo strategy picks up where judo economics leaves off.

Judo strategy provides a set of tools that allow you to do more than just survive in the face of daunting competition; they show you how to thrive and grow. Building on the insights of both judo economics and judo, its original source, we argue that companies can win against larger or stronger competitors by mastering three core principles: movement, balance and leverage.

In judo, these principles work closely together. As one expert writes: “Through movement the opponent is led into an unbalanced position. Then he is thrown either by some form of leverage or by stopping or sweeping away some part of his body or limbs”.

Analogously, through movement managers can seize the lead and make the most of their initial advantage. By maintaining balance, they can successfully engage with opponents and respond to rivals’ attacks. And, finally, by exploiting leverage, firms can transform their competitors’ strengths into strategic liabilities. By mastering these principles, any company can learn to compete more effectively with stronger opponents.

Below we discuss 10 core techniques that the companies we studied have used to put these ideas to work. However, it is important to note that this is by no means an exhaustive account. Moreover, judo strategy is not a rigid formula to be followed systematically. Depending on the nature of their competition, firms will combine and implement movement, balance and leverage in different ways.

### Judo economics — a simple example

- Assume that an incumbent faces a single challenger, who has no cost advantage; that customers in this market choose their suppliers solely based on price; and that all customers must be charged the same price.

- At the beginning of the game, the incumbent supplies 10 customers with widgets for $50.

- Scenario A: If the challenger offers to supply the entire market at $40, the incumbent will be forced to match the price or lose all of its sales. Eventually, the challenger will be driven from the market.

- Scenario B: If the challenger only invests in enough capacity to sell to one customer, the incumbent will find it more profitable to accommodate his entry by sticking to the original price and selling to the remaining nine.

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**If a challenger tries to capture the entire market, the incumbent will fight back – and probably win**

#### Mastering movement

Judo strategy, like judo, begins with movement. In judo, movement serves both offensive and defensive goals. Competitors use their quickness and agility to move into a position of relative strength while evading attack. Judo masters also use movement to take an opponent “out of his game”, in the words of Olympic medallist Jimmy Pedro, by preventing him from...
employing his strongest techniques. Finally, once he’s gained an edge, a skilled judoka follows through quickly, moving seamlessly from attack to attack. In a sport where advantage can shift in a second, faltering when it comes to the follow-through can be a fatal mistake.

The same tactics can help companies seize and keep the lead away from powerful opponents. Judo strategists learn to implement the “puppy dog ploy” (a term we have borrowed from economists Drew Fudenberg and Jean Tirole), steadily building market momentum while cultivating an unthreatening image in order to avoid provoking an attack. They also move quickly to define the competitive space, challenging competitors to compete by new and unfamiliar rules. And finally, they follow through fast, capitalising on their initial advantage with a well-executed plan of continuous attack.

Technique no. 1: the “puppy dog ploy”

In any kind of competition, your first goal is to stay in the game. So judo strategy counsels challengers to keep a low profile and avoid head-to-head battles that they’re too weak to win. This advice goes against the grain for many managers. In a crowded marketplace, it’s often said, you have to shout to be heard. You have to be aggressive to win customers and build value, and often that means attacking giants head-on.

There’s a kernel of truth in this argument. In order to make a dent in the market, you do have to attract attention and win credibility among customers, partners and sometimes the media as well. This is particularly true in business-to-business markets and in sectors where network effects are strong. But in most cases, this goal can be accomplished without initiating or provoking a full frontal attack.

For evidence, consider the rapid rise of Capital One, which became one of the biggest and most profitable credit card issuers in the US in less than 10 years, thanks largely to its ability to remain “extremely confidential and very, very hush-hush”, as one former executive explained. By forgoing product announcements and other publicity in favour of direct marketing campaigns, Capital One made it nearly impossible for competitors to imitate its highly targeted products. Consequently, the company faced little direct competition in many of the market segments it pioneered.

Palm Computing, by contrast, was unable to keep its products under wraps. But by downplaying their potential, the company succeeded in temporarily averting a full-scale attack. Unlike earlier handheld players, such as Apple, Palm described its products as companions, not substitutes, for personal computers. In this way, the company hoped to keep competitors like Microsoft and Compaq from identifying Palm as an urgent threat.

In addition, although the Palm operating system was eventually to serve as the launch pad for thousands of applications, Palm tiptoed around Microsoft’s greatest area of sensitivity – the potential emergence of competing platform players – by defining the Pilot not as a platform, but as a relatively inoffensive device. As a result, handheld computing remained low on Microsoft’s list of priorities for at least two years after the Pilot’s debut, giving Palm the opportunity to build a massive installed base.

For a final, cautionary example, we turn to Netscape, which rejected the puppy dog ploy in favour of “mooning the giant”, in one senior executive’s words. Netscape drew tremendous attention by posing as a giant-killer early in the game – labeling Microsoft “the Death Star” and predicting that the web would make Windows obsolete. This aggressive positioning helped Netscape in the battle for publicity and, for a while, the start-up’s fortunes soared. Over the longer run, however, the danger of mooning the giant became clear. The company’s bravado helped push the Internet to the top of Bill Gates’ list of priorities and secure Netscape’s position as enemy number-one.

Technique no. 2: define the competitive space

While the puppy dog ploy is largely about defence, with this next technique, offence comes into play. Here’s where you seize the initiative by defining a competitive space where you can take the lead. Most champions rise to the top by learning to excel at a few key skills – shoulder throws, for example, or cutting costs. Competing with a stronger player at what he does best is a losing game. But every champion has areas where he’s weak, often precisely because he’s invested so heavily in his core strengths. Take advantage of these weak points to define a game you can win.
Intuit chose usability as its battlefield in implementing this technique. When it entered the personal finance software market in the early 1980s, the seven-person start-up found that the usual road to victory lay in packing more and more complicated features into your products with every release. This was a contest that only the resource-rich could win. But by redefining customer expectations, Intuit managed to rise to the top.

Intuit didn’t try to out-feature the competition; it didn’t even try to match most of the features its rivals already had. Instead, the company picked a short list of functions that consumers used, such as writing cheques and keeping a cheque register and focused on making those things quick and easy to do. Customers flocked to purchase Quicken while the previous market leaders remained locked in the “more is better” mindset and Intuit vaulted into first place.

In a very different market, Juniper Networks also found the key to competing successfully with Cisco Systems in proactively defining the competitive space. Previous challengers had attacked Cisco on its home turf, selling “the same application to the same customers” – multi-protocol routers to enterprise customers – as Juniper CEO Scott Kriens explained.

Juniper, by contrast, forced Cisco to compete on far less hospitable terrain. The networking start-up targeted the top of the market, where Cisco was relatively weak. Moreover, Juniper broke with Cisco’s traditional product architecture in order to meet the performance needs of customers like AT&T. Rather than rely on software to drive its routers, Juniper focused on adding intelligence to the underlying chips. This strategy shifted the battleground from software to silicon, making it even harder for Cisco to match its challenger’s moves and opening the way for Juniper to capture nearly 40 per cent of the high-end router market in less than two-and-a-half years.

**Technique no. 3: follow-through fast**

By combining the first two movement techniques, you create a window of opportunity. Next, you need to use this opening to strengthen your position through continuous attack. One day soon – and these days, that’s sooner than ever – your competitors will see through the puppy dog ploy, rise to the challenges of a new competitive space and seek to bring the advantages of superior size and strength into play. By following-through fast, you can postpone this day of reckoning and make the most of your early lead.

Palm Computing in many ways exemplifies this approach. In order to stay ahead of Microsoft and its allies, Palm turned itself into a moving target, bringing new product generations to market at least once a year. Three key practices helped the company maintain this pace.

First, unlike many high-tech start-ups, Palm avoided rocket science and lengthy wish lists that could delay a launch by months or even years. The company also included manufacturing managers in the design process from the very beginning in order to help keep its engineers’ feet on the ground. And Palm relied heavily on outsourcing for non-core tasks, including electrical engineering, mechanical engineering and industrial design, and manufacturing rather than spend scarce time and resources developing these capabilities in-house.

While Palm’s engineering teams streamlined the development process for speed, the company’s marketers focused on reaching critical mass by starting with low prices ($300 as opposed to $500 for a typical Microsoft-based device) and lowering them every year.

Palm also reached out quietly to developers, who could further the company’s momentum by creating complementary applications. As early as 1996, Palm took the unusual step of publishing the source code for its basic applications in order to make it easier for developers to create new software. These decisions helped push Palm toward a market share of nearly 80 per cent in less than three years.

But what is perhaps most impressive about Palm’s follow-through is the company’s ability to speed ahead without losing its balance. Palm constantly faced temptations to extend its brand. “We had people knocking at our door to license this bit or that bit for this thing or the other thing, whether it was for set-top boxes or big-screen phones,” CEO Donna
Dubinsky later recalled. But in most cases, Palm turned its suitors down.

The company’s management realised that even as sales exploded, Palm needed to focus its resources on just one goal: building and selling the best handheld device in the world.

Skilled judo strategists like Dubinsky understand that speed is a means, not an end. While moving quickly, they remain wary of becoming overextended and creating an opening for the competition. Equally important, they realise that speed should never become an obsession to the point where it excludes other critical concerns, such as product quality, customer satisfaction and long-run profitability – a lesson that many humbled new-economy firms would have done well to learn.

Mastering balance

Movement can help you avoid head-to-head battles with bigger, stronger opponents. Eventually, however, you’ll have to meet the competition. In judo strategy, as in judo, you have to learn to engage with opponents in order to win. This is where balance comes into play.

At the beginning of a judo match, each player battles to secure a grip on the other’s collar or sleeve with the aim of pushing or pulling his or her opponent into a weakened or unbalanced position. Meanwhile, the recipient of this treatment must follow a simple but counterintuitive rule. Rather than resist, he should give way to his opponent’s momentum, pushing when pulled and pulling when pushed. Rather than oppose strength to strength, judo practitioners learn to conserve their resources and maintain their balance by first giving way. Then they use their opponents’ momentum to help bring them down.

A similar set of techniques can help companies keep the upper hand in encounters with more powerful competitors. By gripping their opponents, skilled judo strategists maximise their influence over the future course of competition, with the ultimate aim of averting an attack. Should this prove impossible, they can minimise the impact of an opponent’s blows by avoiding tit-for-tat. Pushing when pulled takes them one step further by re-channeling an opponent’s momentum and turning it against him. And finally, by mastering ukemi, judo strategists can remain in control of their future, even in the face of temporary defeat.

Technique no. 4: grip your opponent

By gripping an opponent early, you may succeed in pre-empting competition: securing victory, in essence, by making it unnecessary to fight. You can also build relationships with current or future rivals that limit their room for manoeuvre or allow you to benefit at their expense. Both moves will undercut their future ability to attack.

There are many ways to grip another player. If you want to avoid future combat, give potential competitors a stake in your success through partnerships, joint ventures or equity deals. Alternatively, if you want to limit your rivals’ options and reduce their incentives to develop their own capabilities, offer your services or products instead. Several Japanese consumer electronics companies took this route in the 1960s and 1970s, gripping their larger US competitors by producing low-end products that were sold under their rivals’ brands. In many cases, these tactics will involve what modern strategy jargon calls “co-opetition”: competing and co-operating with other companies at the same time. But keep in mind that the true goal of gripping isn’t to make all sides better off; it’s to defend and strengthen your competitive position.

RealNetworks, the leader in streaming media software, implemented gripping early in its history through distribution partnerships that fed it customers at its potential competitors’ expense. By convincing Microsoft to bundle RealAudio with Internet Explorer, for example, RealNetworks built a devoted installed base that later became one of the obstacles facing Microsoft when it launched its own streaming media products.

While gripping strengthened Real’s position vis-à-vis Microsoft, it was unable to eliminate the threat of attack. At eBay, however, the same technique had more lasting results. Beginning in the fall of 1997, eBay executives worked hard to head off the spectre of competition with AOL by negotiating three successive deals. By the spring of 1999, eBay had established a firm grip on AOL, which was left with little incentive to enter its partner’s space. In return for payments of
$75m over four years, AOL agreed to make eBay the exclusive auction provider on all AOL properties around the world, to co-brand eBay’s auctions under the eBay@AOL name, and to sell ads for the co-branded site. In addition, AOL pledged not to enter the auction market for two years.

EBay CEO Meg Whitman recognised that AOL could still decide to enter the auction market on its own. “You never can say never with AOL,” she points out. But by providing AOL with an important revenue stream with margins estimated at nearly 98 per cent, eBay was doing its utmost to ensure that AOL would remain on the sidelines of the game.

**Technique no. 5: avoid tit-for-tat**

Through gripping you can sometimes alter a competitor’s incentives sufficiently to head off a battle. Often, however, despite your best efforts, a rival company will eventually decide to attack. Once this happens, keeping your balance is a challenge. Your gut tells you to match every move. Your instinct is to stop your opponent from getting the upper hand. But as a judo strategist, the last thing you want is to get locked into a tit-for-tat struggle or a war of attrition, as tit-for-tat often becomes.

So study your opponent carefully before deciding which attacks to counter and how. “Go to school on your competitors,” as Intuit founder Scott Cook likes to say. Figure out what works and what’s just a marketing flash in the pan. Separate the truly compelling propositions from the chaff you should ignore. Figure out the moves you can match without getting dragged out of your depth, and craft counter attacks that play to your strength when you can’t afford to respond in kind.

Matching an opponent’s move makes sense in certain situations: when you can match without provoking an escalatory response, for example, or in cases where you can easily neutralise your opponent’s advantage and recapture the lead (often a sign that the enemy has strayed onto your home turf). But if matching means getting dragged into a war of attrition or a pure trial of strength, then resist the temptation to fight tit-for-tat and strike back on your own terms instead.

This is a message that Novell would have done well to heed. As late as 1992, Novell still held onto two-thirds of the market for network operating systems, despite repeated attacks by Microsoft, a company four times its size. But then CEO Ray Noorda made a fateful mistake. Angered by Microsoft’s attacks on his core business, Noorda decided to respond in kind, taking the battle to his opponent’s home turf. Novell went on an acquisition spree, buying AT&T’s UNIX, WordPerfect and Borland’s QuattroPro with the goal of storming the markets for operating systems and office productivity suites.

Five years later, the company was in shambles, undone by the unequal struggle and facing its first loss in 14 years. It took a new CEO and a radical new strategy toward the end of the decade to bring Novell back to life.

By contrast, eBay avoided Novell’s mistakes. Between the fall of 1998 and the summer of 1999, the company was forced into competition with three of the Internet’s powerhouses: Yahoo!, Amazon and Microsoft (in alliance with Excite). Nonetheless, the company maintained its balance by avoiding tit-for-tat and meeting the competition on its own terms.

After careful study of the market, eBay resisted the temptation to reflexively match competitors’ moves, such as Yahoo’s decision to make its auctions free. Instead, the company responded with moves that played to its strengths – stepping up grassroots marketing, for example, rather than trying pointlessly to match Yahoo!’s marketing on the web. This strategy helped eBay stay firmly in the lead without burning through mountains of cash. By early 2000, eBay was doing more than 25 times as much business as Yahoo!Auctions, and its other competitors trailed even further behind.

**Technique no. 6: push when pulled**

Gripping your opponent and avoiding tit-for-tat help you minimise the prospect or impact of a competitor’s attack. With push when pulled, you go one step further by using your opponent’s force or momentum to your advantage. By incorporating a competitor’s products, services or technology into your attack, you can throw him off-balance and confront him with a painful choice: whether to abandon his initial strategy or to watch it fail.
A classic example of this technique comes from the diaper business, which saw an upstart named Drypers emerge in the 1980s. Drypers challenged market leader Procter & Gamble by offering a branded product at a lower price, giving consumers a choice between no-frills store brands and premium-priced Pampers.

When Drypers entered the market in Texas, P&G responded with unusual vigour, bombarding the state with coupons for $2 – more than twice the usual 75 cents. Drypers could not afford to print and distribute coupons all across the state. But CEO Dave Pitassi, who had just finished reading a book on judo, came up with a creative response. Rather than try to match P&G’s offensive, Drypers piggybacked on its rival’s attack. The company launched a state-wide advertising campaign to tell consumers that P&G coupons could be used on Drypers and sales shot up. In a matter of weeks, Drypers had added as much as 15 points to its market share in some stores. Within two months, the company was running at full capacity and it was cash-positive for the first time. Thanks to Pitassi’s inspired use of judo strategy, P&G’s attack had seriously backfired. By harnessing its competitor’s momentum, Drypers had used P&G to underwrite its own promotional campaign.

While Drypers fits the classic start-up profile – small and scrappy – large companies can also push when pulled to powerful effect. Wal-Mart used this technique against Kmart in the 1980s, as it battled to seize the discount-retailing crown. At the time, Wal-Mart’s average prices were slightly lower than Kmart’s but Kmart aggressively advertised weekly specials in order to pull customers into its stores. Wal-Mart was reluctant to match Kmart’s advertising and promotional strategy because its business model relied on low costs and “Everyday Low Prices”.

So managers in several stores used judo strategy instead. They posted Kmart’s weekly circular at the front of their stores and promised that Wal-Mart would match or beat any of the advertised deals. This move created a real dilemma for Kmart: just like P&G, the more it advertised, the more it drove customers to the competition.

**Even in temporary or partial defeat, you should give in to your opponent’s momentum, rather than resist and risk losing control.**

**Technique no. 7: practice ukemi**

In judo, *ukemi* is the technique of falling safely and with minimal loss of advantage in order to return more effectively to the fight. In other words, even in temporary or partial defeat, you should give in to your opponent’s momentum, rather than resist and risk losing control.

*Ukemi* is the first thing that new students of judo learn, and it is a critical discipline in judo strategy as well. No matter how skilled you are as a strategist, you are unlikely to win every skirmish. But losing a battle need not lead to defeat in the war. By beating a strategic retreat, you can conserve your resources and regroup in better position for the confrontations ahead.

Microsoft absorbed this lesson in the mid-1990s when it decided to walk away from its efforts to establish the Microsoft Network (MSN) as a proprietary online service – a project that soaked up nearly $1bn in company resources – and relaunched its service on the web. A few years later, Charles Schwab took a similar step by integrating eSchwab into its core discount brokerage business, at a short-term cost of $125m in revenues.

Larger companies, of course, have both the organisational resources and the deep pockets that are often necessary to absorb a temporary loss. But while harder to implement, *ukemi* can be even more critical for smaller firms facing determined opponents, as the history of Dublin-based Ryanair shows.

Cathal and Declan Ryan started Ryanair with a single 44-seat turboprop plane in 1986. The brothers’ strategy was to build a beachhead by offering better service and simplified pricing on the London-Dublin route. But this plan soon came to an end when British Airways and Aer Lingus launched a full-scale price war, dropping fares by 20 per cent. By 1991, facing mounting losses, Ryanair was on the verge of bankruptcy.

That’s when the company’s founders decided they had to give up the struggle and find another strategy. They dropped the effort to match BA and Aer Lingus on service and made price the focus of their offering. In a Herculean effort, all unnecessary expenses were eliminated, including in-flight food and pens for headquarters staff.
With its new cost and fare structure, Ryanair returned to profitability in 1992 and remained there throughout the 1990s. After losing their balance in an initial battle, the Ryan brothers had learned the same lesson as Bill Gates and Schwab: rather than fight a losing battle, it is better to fall of your own accord and rebuild momentum.

**Mastering leverage**

By mastering movement, you improve your chances of building a strong initial position and getting ahead of competitors before they respond. The techniques of balance, in turn, allow you to engage bigger or stronger rivals without getting knocked down. In some cases, by making the most of these two principles, you can build and consolidate an insurmountable lead. In most cases, however, you will need leverage to score a win. As an old judo master said: that one does not fall in a bout means that one is not beaten; it doesn’t mean that you’ve won.

By avoiding a fall, you’ve hung on for another round or another day – or another few seconds in an actual match. But in order to win, you need to take your opponent to the mat. And that’s where leverage comes into play.

In judo, your opponent’s body becomes a lever in your hands. In judo strategy, a competitor’s assets, partners and rivals can all play a similar role. By leveraging your opponent’s assets, you can transform a competitor’s strengths into sources of weakness. Similarly, by leveraging your opponent’s partners, you can turn an opponent’s allies into brakes on his ability to respond. Finally, by leveraging your opponent’s competitors, you can confront a rival with a double challenge: first deciding to co-operate with his competitors and then convincing them to co-operate with him.

**Technique no. 8: leverage your opponent’s assets**

It may sound trite, but a company’s greatest assets can often become its greatest liabilities. Whether intangible, like brand names and intellectual property, or tangible, like property and plant, "assets collect risks around them in one form or another", as Michael Dell, Dell Computer's chairman and CEO has said. Anything that represents a significant investment can become a barrier to change. And by exploiting these barriers, you can find the leverage you need to win.

In implementing this technique, your goal is to find moves that shift your opponents’ assets to the other side of the ledger, as Sega did by leveraging Nintendo’s investments in technology and marketing in the early 1990s. At the beginning of the decade, Nintendo dominated the US home video game market with an 80 per cent share to Sega’s seven per cent. Yet three years later, the two companies were locked in a dead heat.

Sega owed much of its success to two deft judo strategy moves. In hardware, it leveraged Nintendo’s near-monopoly in eight-bit technology by launching faster, 16-bit machines. In software, it leveraged Nintendo’s brand equity by targeting an older, hipper audience with game titles containing generous doses of sex and gore.

Both moves turned Nintendo’s investments into hostages: forcing the company to decide between destroying its own assets (by matching Sega’s moves) and losing share (by failing to respond). If Nintendo brought out its own 16-bit machine, it would accelerate the cannibalisation of its highly profitable eight-bit business. Similarly, by following Sega into the teen and adult market, Nintendo would undercut its image as a trustworthy, family-entertainment brand. Faced with this dilemma, Nintendo froze. It took two years to update its hardware and even longer to revamp its image by issuing unsanitised versions of games like Mortal Kombat. In the meantime, Sega forged ahead, capturing 50 per cent of the market by 1993.

Sega used leverage to give itself a short-term boost. Once Nintendo resigned itself to destroying its own assets, Sega’s leverage lost its force. But in other contexts, leverage can do more than impose a one-time hit. It can also make it difficult for an opponent to compete effectively, even after he’s made the decision to match an attack. Delta and United found this to be true, for example, when they tried to fight back against Southwest Airlines, which also used leverage to underpin its attack.

**Anything that represents a significant investment can become a barrier to change. And by exploiting these barriers, you can find the leverage you need to win.**
The Texas-based airline rose to prominence thanks to an interlocking set of policies – smaller airports, no connecting flights, no assigned seating, no meals and an all-737 fleet – that made it possible to slash costs to the bone and keep fares 50 per cent to 60 per cent below competitors’ rates. The major carriers might try to match Southwest’s fares on selected routes, but only at the cost of cannibalising their own sales. Moreover, even if they were willing to make this sacrifice, Southwest’s rivals were at a permanent disadvantage in competing head-to-head. They could never match Southwest’s profitability if they charged the same prices due to the cost of maintaining the assets – the big-city terminals, complex reservations systems and mixed fleets – that had originally underwritten their strength.

By 1999 consumers could choose from nearly 3,000 PlayStation titles, more than 10 times the number available for Nintendo 64, and Sony had sold more than 50 million PlayStations complex reservations systems and mixed fleets – that had originally underwritten their strength.

Technique no. 9: leverage your opponent’s partners
In addition to investing in valuable assets, many powerful competitors have built up networks of suppliers, distributors and “complementors” who are a significant source of strength. But by exploiting differences among them, you can turn a rival’s partners into false friends. Using the old tactic of divide and conquer, sow dissension within the opposing camp. Set old allies at odds by creating situations where their interests are no longer aligned. You may have to look carefully but on close inspection even the most solid-looking bloc is likely to yield up a fissure you can exploit.

Back in the 1930s, Pepsi-Cola used this technique to pose its first successful challenge to Coke. By offering consumers “12 full ounces” (in the words of the once-ubiquitous jingle) for the same price as a six-and-one-half ounce Coke, Pepsi turned Coca-Cola’s army of franchised bottlers – who had millions of dollars invested in six-and-one-half ounce bottles – into a force that helped significantly delay Coke’s response.

While Pepsi found leverage in its rival’s dependence on its bottlers, Sony took advantage of its competitors’ efforts to dominate their partners, using a divide-and-conquer strategy to seize the lead in home video games in the second half of the 1990s. When Sony entered the market, Nintendo and Sega were accustomed to keeping partners on a tight leash, charging steep royalties and allowing only a limited number of independent developers to produce games for their machines.

In addition to allowing them to control game quality, this approach ensured that Nintendo and Sega would be able to keep a healthy share of the games market for themselves. However, this strategy also created an opening for Sony to hold its competitors hostage to their own success. Rather than dictate to games developers, Sony gave them free rein, making PlayStation development tools widely available and cutting licensing fees. As a result, by 1999 consumers could choose from nearly 3,000 PlayStation titles, more than 10 times the number available for Nintendo 64, and Sony had sold more than 50 million PlayStations, generating over a billion dollars in profit in a single year.

Technique no. 10: leverage your opponent’s competitors
Compared to the first two leverage techniques, this one sounds like child’s play. What could be easier and more natural than allowing your competitor’s competitors to wear him down? After all, as the old saying has it, “the enemy of my enemy is my friend”. But judo strategists don’t just sit back and let someone else do the job. By staying on the offensive you can craft a strategy using an opponent’s competitors that he’ll be hard-pressed to match.

There are many ways to leverage an opponent’s competitors. You can add value on top of his competitors’ products, as Netscape did by developing software that ran on UNIX, the chief competitor to Microsoft’s industrial-strength Windows NT. You can build coalitions with his competitors, a tactic that JVC used to beat Sony, a much stronger company, in the race to set standards in the market for VCRs. Or you can serve as a distributor for his competitors, as Charles Schwab has done to powerful effect.

In the early 1990s, Schwab decided to become a major player in the mutual fund business. Senior executives at the discount brokerage knew that they lacked the resources to compete head-to-head with entrenched opponents like Fidelity by launching their own funds. However, by rewriting the rules of fund distribution, Schwab could take a big bite out of Fidelity’s business.
Schwab’s innovation was to make mutual fund transactions free. Rather than collect commissions from customers, Schwab’s OneSource, which launched in July 1992, charged fund families a fee of 25 basis points on invested assets. Fidelity, in an impressive demonstration of strategic flexibility, soon matched Schwab’s move. In July 1993, the mutual fund giant, which had been operating its own multifamily fund supermarket since mid-1989, eliminated transactions fees on 195 competitor-run funds. Nonetheless, due to Schwab’s continuing leverage, Fidelity’s third-party fund distribution remained a fraction of Schwab’s.

Many fund companies were slow to join forces with Fidelity. As a senior executive at Invesco told The New York Times in 1994, “We don’t sell our funds through Fidelity. It goes to a competitive issue. Their interest is in selling customers Fidelity funds”. (Invesco later rethought its position and signed on.) In addition, competitors were unhappy about Fidelity’s ability to monopolise communications with customers – a sacrifice that Schwab made more palatable by declining to offer its own actively managed funds.

But the biggest brakes on the growth of Fidelity’s supermarket came from within Fidelity, where executives were keenly aware that every dollar taken in by another fund family was, to some extent, at their expense. As a result, backers of third-party distribution often found themselves on the losing side of battles over strategy, and Fidelity’s FundsNetwork was unable to copy some of Schwab’s most successful moves, such as the Mutual Fund Select List, a quarterly list of recommended funds that based its picks on a combination of risk and return.

By the end of the decade, Fidelity had overcome some of its internal resistance. In fact, for a few fund families, Fidelity was outselling OneSource. Yet from Schwab’s perspective, this was a win-win situation. As long as Fidelity held back, Schwab could count on the lead. But when Fidelity put its muscle behind third-party distribution, Schwab would still gain.

As one Schwab executive pointed out: “If we force Fidelity to offer third-party mutual funds at 25 basis points instead of 125 basis points [the fee Fidelity collected on in-house funds], they have fewer bullets in their cannon to aim our way”.

**Conclusion: judo strategy in action**

In this article, we’ve analysed judo strategy as a series of individual techniques. This approach has two advantages. Treating each technique in isolation makes it easier to identify both the similarities and the differences in how various companies have put it to work. In addition, this approach gives us the opportunity to suggest judo strategy’s range by profiling 15 companies in nearly as many industries.

However, without two important caveats, this discussion would be incomplete.

First, although we’ve focused on illustrating individual techniques, the most effective judo strategists rely on a combination of different techniques and principles. The puppy dog ploy, for example, becomes much more effective when used in conjunction with defining the competitive space and follow-through fast – as a more extended discussion of Palm Computing would show.

Similarly, when it comes to the core judo strategy principles, at any one time, one of the three may play a particularly important role. In the early days, before the contours of the competitive landscape have been fully defined, movement is often the principle most critical to success. Balance takes over as competitors start to pay attention and prepare to attack. And finding and applying leverage usually become crucial once you aim to knock a serious competitor down.

Winning over the long run, however, requires you to master a much larger portfolio of judo techniques. A true master of judo strategy must possess a rich repertoire of skills while at the same time being constantly prepared to learn new ways to win.

Our second caveat picks up on this point. By delineating 10 core techniques, we’ve tried to make the concepts of movement, balance and leverage more concrete. But it would be a mistake to see this menu of choices as a definitive account of judo strategy. No listing can capture the potential richness of this approach.

At its heart, judo strategy is about developing a deep understanding of your competitors and espying the...
potential weaknesses that lurk among their strengths. This is no science. There are no easy formulas for victory. Instead, judo strategy demands discipline, creativity and the flexibility to mix and match techniques. But the power and promise of this approach are equal to the investment it demands, for by mastering the principles behind judo strategy, you can use your competitors’ strength to bring them down.

RESOURCES

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