[Plan B and A123 [privateequityHUB]]

from [SplicedFeed] by Howard Anderson

What’s the difference between strategy and tactics? Age-old question. Usually, strategy is what you said was your plan after you blundered and lucked your way to a win.

I was never more aware of this truism than at the recent IPO for A123 Systems, a new-age battery company that a few of us backed seven-and-a-half years ago. The original idea: Build lithium ion batteries for cell phones and laptops. Who wouldn’t want a cell phone that you charge once a week or a laptop that you charge once a month?

That was the strategy, and our mission statement boldly said just that: Pick where you want to be in five years, then pick where you should be in year four, year three, etc.—in other words, work backwards. Tactics, on the other hand, say: Be opportunistic; try a few things and go with what works. If it’s successful, call it strategy later and have the Harvard Business School write a case study about how brilliant you are.

Which was exactly what happened with A123 Systems. The original investment, $15 million, was raised from Desh Deshpande (Cascade, Sycamore Networks), Northbridge Ventures (Sonus), and us (Yankee). The early directors’ meetings were Chemistry 101, where the founders (Yet-Ming Chiang, Bart Riley, Ric Fulop) talked incessantly about how to dope lithium ion to give it more power and faster recharge.

In truth, we had nothing else to talk about–we didn’t have any customers. Two additional investors then came on board (Paul Jacobs/Qualcomm (NSDQ: QCOM), Mathew Growney/Motorola (NYSE: MOT)), so we were poised to attack. Laptops were gobbling power and cell phones were turning into laptops.

One problem: The technical hurdles weren’t so easy to fix. The original technology we licensed from MIT was world class, so there really wasn’t anything else to do but keep a lid on spending and hope for technology breakthroughs. Then we found the first customer, Black & Decker. The batteries seemed to work well with cordless drills. Instead of waiting four hours to recharge you could do it in 20 minutes.

After that came BMW, GM (NYSE: GM), GE, Gillette, the Department of Energy, the electrical energy industry—and tons of money.

Today, the investors look like geniuses because we invested in “alternative energy” before it was cool. Really, we did nothing of the sort. We invested in an academic paper in material science that was attempting to take a process and turn it into a product. But trust me, we will never tell that to the case writer from the Harvard Business School.

Years ago, American Hospital Supply was a distributor of, well, hospital supplies and it had a very demanding customer, a purchasing agent at Stanford Medical Hospital who would call eight to ten times a day inquiring about availability, pricing, delivery. He was such a pain that eventually American Hospital Supply's regional manager said, "Could we give him a terminal, let him check our inventory, and would that shut him up?"

It did. But the real genius was the person who figured out that every hospital had the same problem and if they made the system industrial-strength they could change the industry. Tactics beget strategy. Tactics without strategy is just the noise you make before you fail. Strategy without tactics is just a form of self-abuse.

From a CIO's perspective, strategy sounds so nice, but often we inherit a set of circumstances that are suboptimal. When that happens, remember American Hospital Supply—a mere distributor—which so upset the status quo that it sent shivers down the spine of Johnson & Johnson and the rest of the hospital supply industry. Eventually, the Department of Justice sued American Hospital Supply for dominating the industry, which is America's version of granting knighthood.

I look forward to A123's defense of a monopoly suit some day. That's our Plan B.

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