

PEOPLE

Chess For Fun and (Business) Profit

MATES: Crime novelist Raymond Chandler called chess "as elaborate a waste of human intelligence as you can find outside an advertising agency." But Bob Rice's Wall Street Chess Club brought Grandmasters and execs together to their mutual benefit.

In *Three Moves Ahead*, venture capitalist and chess player Bob Rice shows how strategies devised for combat between black and white can keep your business out of the red.

BY STEVEN MINTZ

Chess,” declared George Bernard Shaw, “is a foolish expedient for making idle people believe that they are doing something very clever, when they are only wasting their time.”

Seated by the antique cherry wood chessboard in his Short Hills living room, entrepreneur Bob Rice, 53, offers proof to the contrary. “The more you look at the business world,” he writes in his new book, *Three Moves Ahead: What Chess Can Teach You About Business—Even if You’ve Never Played*, “the more you see that successful companies and the people who run them use chess strategies routinely (whether they know it or not).” By his lights, chess can help business strategists defend turf, attack competitors, open new markets, manage people, and allocate resources.

A case in point was his own pivotal move as head of business development for a small graphics software company. At a meeting with Microsoft, his counterpart informed him his choice was to

walk away or to surrender ownership of his software for no payment at all.

Rice took the deal. It nearly cost him his job. To colleagues, he had abandoned the company’s sole source of income—licensing software to a modest pool of subscribers. Rice, though, envisioned far greater returns by having Microsoft bundle his software on tens of millions of home computers—if his company could find a way to exploit its broadened market presence.

“We had to go for it—what chess players would call an exchange sacrifice—trading one kind of advantage for a completely different sort, even though the exact benefits can’t be calculated,” Rice writes. Fortunately, an enlightened chairman sided with Rice.

The sacrifice paid off in the long run. Rice’s company was swallowed up by a public company, which morphed into Viewpoint and installed Rice as CEO. The technology Rice had licensed to Microsoft put Viewpoint at the forefront of Internet advertising, a business not fore-

seen as lucrative when the Microsoft deal closed. Rivals who stuck to licensing limped or folded. “The point being,” says Rice, “managers must do what chess players do—leverage something good into something unclear.”

If anyone knows business and chess, it’s Rice. A one-time corporate attorney, he left Viewpoint in 2005 to help launch and become a managing partner of Tangent Capital, which develops investment ideas for hedge funds.

Back in 1990, Rice created the Wall Street Chess Club, which became a haven for high-powered business execs and chess Grand Masters, each eager to learn from the other. With world chess champion Garry Kasparov, Rice also launched the colorful but short-lived Professional Chess Association.

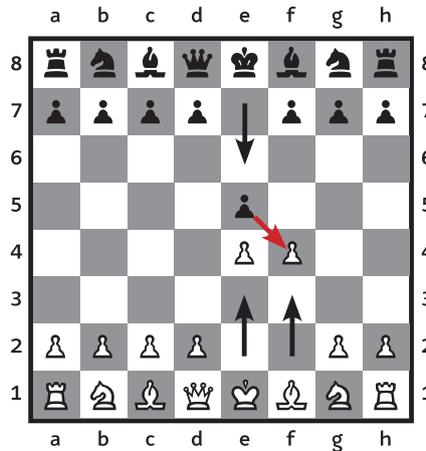
As Rice sees it, chess furnishes abundant business analogies. He likens pawns to employees, who can move mountains when their potential is unleashed. In chess, the bishop is a moderately powerful piece analogous to a middle manager.

When bishops work in tandem from strong central squares (in business terms, secure market positions) they can be devastating. But when they get pushed to the margins or hemmed in, they become “bad bishops.” Rice equates these with execs who are unable to function at peak levels because of corporate policies.

Like chess players who castle early, fledgling companies should secure intellectual property (the king) and assign a skilled team (pieces) to strategic positions (squares) before pressing attacks. Never unleash powerful ideas (the queen) until the way has been paved.

Companies in midlife should funnel investment to “the markets that companies can dominate” (strong squares) before pursuing new ones. To a Grand Master, analysis is often less valuable than the ability to imagine new tactics and positions. What works in chess, works in business: Before each move, determine what has changed, check for traps masked as opportunity, and anticipate an opponent’s response.

Companies entering new markets would do well to study the classic King’s Gambit, an aggressive opening strategy for white. Sacrificing pawns to gain positional advantages is central to the



KING’S GAMBIT: In this all-or-nothing assault, white sacrifices pieces (money) to open up the board (market) and race to a dominant position. Rice compares this to YouTube’s willingness to lose piles of money to establish its software.

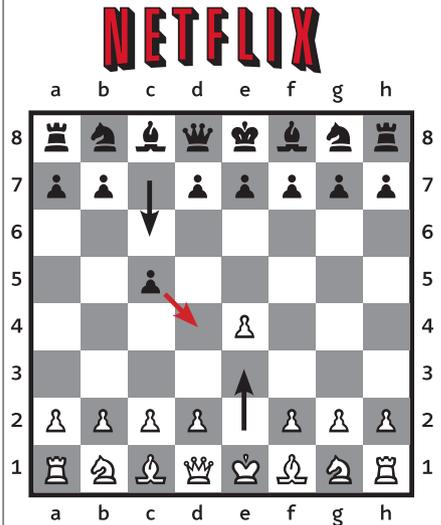
King’s Gambit. But there is a hitch: once begun there is no turning back.

“It’s more fun,” admits Rice, “but most times you lose.” In business, it can succeed when being first at any cost locks up a market and blows rivals away. YouTube’s founders employed an exemplary King’s Gambit. They burned resources, took huge losses, and spent lavishly on infrastructure to establish their business. Had they been challenged, they would have lacked means to counterattack. For YouTube, being first paid off, and the founders cashed out as billionaires.

Cautious entrepreneurs might contemplate the Ruy Lopez, “an up-tempo, pressurizing opening that exploits the first-mover advantage,” says Rice. White, which always moves first, stakes a claim to a center square without seeking a fast knockout. No sacrifice is offered. “The business lesson is this. You really can be aggressive and parsimonious at the same time.” In business practice, Rice says, a Ruy Lopez approach represents “well-paced spending in line with devel-

opment and getting and using feedback to constantly readjust the plan.”

Black’s arsenal includes the popular Sicilian defense. Instead of mounting a frontal assault, the Sicilian attacks from an angle to disrupt and destabilize the first movers. Netflix, for instance, shat-



SICILIAN DEFENSE: Instead of blocking white’s e4 pawn with its own e pawn, black attacks from a different angle. Similarly, says Rice, Netflix blindsided DVD rental stores with its own sideways Sicilian—mail order and no late fees.

tered a standard revenue model in the video rental industry by doing away with late fees. Sicilian strategies also use service and convenience to outflank larger rivals (which Netflix pulled off with its order-on-the-Web and deliver-by-mail system). Another Sicilian-style defense is to sell stripped-down versions of rival products to grab market share, like Kodak’s disposable FunSaver camera.

Attending the 1990 World Chess Championship converted Rice from enthusiast to activist. Among fellow spectators at New York City’s Macklowe Hotel, where challenger Kasparov defeated Anatoly Karpov, Rice recognized bankers, analysts, fund managers, and top Wall Street executives. During breaks in the action he confirmed a hunch: Type-A aficionados like himself lacked a suitable place to play.

That same year Rice launched the Wall Street Chess Club. By pitching it as a novel form of business development, he convinced his law partners at Milbank, Tweed, Hadley & McCloy to let the club meet in the firm’s plush boardroom on the 60th floor of Chase

Manhattan Plaza, with its sweeping view of Lower Manhattan.

Through the club Rice met Princeton University physicist Sacha Migdal, whose concept for a 3D camera gave Rice the impetus to switch careers. He planned to harness the first-mover effect—a “perfect example of the King’s Gambit,” Rice says, “in which you sacrifice a lot of material early and try to win the game before the other guy even gets out of the box.” Instead, the camera suffered technical setbacks, not least a tendency to distort faces in unflattering ways. “There was no market to control,” Rice concedes. “We got crushed.”

He regrouped. Within the troubled camera lay valuable software that could transmit high-density files swiftly over the Internet. AOL and then, fatefully, Microsoft became customers.

The title *Three Moves Ahead* was chosen for its irony. Most great players are satisfied to look one move ahead. Looking two moves ahead, much less three or four, probably exceeds human capability. In a typical position, each player has 40 possible moves. One move ahead, or the first 40 moves multiplied by 40 new moves, yields 1,600 possible positions; jump to three moves ahead and there are 4 billion possible positions—enough to cause even a computer to sweat.

Six different kinds of pieces moving in limited ways on a simple grid of eight by eight squares generate limitless possibilities. In business as in chess, the future is unknowable. So the title is Rice’s subtle reminder that the successful executive must be able to react quickly and decisively to changing and often unforeseen circumstances, without always knowing the immediate consequences. He has little regard for the dozens of business books that proffer four keys, seven strategies, five secrets, or other surefire recipes for success.

“Good chess players,” says Rice, “are much better than executives at one thing above all: acknowledging that they’ve missed something and adjusting accordingly.” Short of seeing three moves ahead, there is no better route to checkmate. ■

Montclair resident Steven Mintz is a chess player and deputy editor of CFO, a magazine for senior finance executives.