The Art of Business

Sun Tzu's Art of War applied to Business

By Mark Duncan

Foreword

Sometime between 300 B.C. and 500 B.C., Sun Tzu wrote the first book on strategy and tactics, The Art of War. While written in terms of armies and wars, the wisdom and insight of this book has been applied by numerous executives to a wide variety of business situations. The intent of this book is to make Sun Tzu's concepts more accessible to business, by stating his concepts in terms of a business selling products in the global market.

The Art of War includes extensive commentaries from a variety of authors which both illustrate and clarify Sun Tzu's text. In this tradition, we have cited examples of actual businesses to illustrate how a given strategy has been implemented.

The Art of War is composed of thirteen chapters dealing with the topics of strategy, tactics, and implementation. We have followed the same structure in our text, but have added additional formatting and structure to improve the clarity of the text.

Each of the thirteen chapters is interrelated to the others. Thus the same concept may be repeated in several different contexts. There is no single concept by which success in the market can be achieved. Rather maximum success is achieved by the practice of all of the concepts of the book.

There are several English translations of The Art of War. While we feel the Samuel Griffith translation is the most satisfactory, we have also referred to the Thomas Cleary, and to a lesser extent, the Lionel Giles translations.

This text is neither exhaustive or complete. However, we believe that the insights provided by it are basic, fundamental, and timeless. While the advice offered is short and succinct, there remains no substitute for insight, creativity, and careful thinking, in creating an effective business strategy. But most importantly, the hardest part of the art of business is in the implementation of a strategy.

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Introduction

It is human to view a work written thousands of years ago as having little relevance to our lives, or having been long since superseded by other thinking. Yet the preservation and study of a work over hundreds and thousands of years is evidence of a work with timeless qualities.

In this book, we have drawn analogies between generals and CEOs, armies and companies, spies and market intelligence. In a similar manner, the selling of products in the market against competitors is the equivalent of doing battle against opposing armies. Other and different analogies are both plausible and meaningful, however we have tried to remain consistent with the our initial choices.

Major Points

Some of the major points of the book are:

- While the executive leads, they also must share the same conditions as the employees of the company. By sharing the same conditions, the CEO enlists the emotional support and loyalty of their employees. While it is important to adequately pay employees, emotional support cannot be bought, it can only be earned.
- Making good decisions requires accurate internal and external information. Making decisions without such information results in marketplace failure and is the sign of the incompetent CEO or manager. Large organizations are possible, but the responsibility for a decision must be at a level that can make an informed, thoughtful analysis, as well as respond to the day to day changes in the market.
- It is important that the correct person fill each position in a company. Never put the wrong person in a position because of past loyalties or length of employment.
- The ideal strategy is to achieve your goals in the marketplace without having to compete with your competitors.
- In anger and greed are the roots of failure in the marketplace.
- Knowing what not to do, and when not to do it, is as important as knowing what to do and when to do it.

The advice contained in here should be tempered with your own situation. Laws and regulations may discourage you from adopting some of the specific recommendations provided in this text. A CEO must be adaptable and able to react quickly to circumstances that were not expected.

It is our belief that while any given element of this book is being implemented somewhere in the world, there are very few companies which are systematically practicing all of the concepts presented here. The art of business is a difficult and demanding skill.

How This Work Differs from Others

The other classic book on strategy , *On War* by Carl Von Clausewitz, was published in 1832. Clausewitz was in the process of revising his book when he died, and the book was published in this state. This book greatly influenced European military thinking prior to World War I, and has been cited as a major reason for the length of the trench warfare in World War I.

> "There has never been a protracted war from which a country has benefited"
> Sun Tzu, The Art of War, 500 B.C.

It is ironic that when the strategy and tactics of Napoleon were most successful, it was in keeping with the principles of Sun Tzu that were introduced to France by a French missionary shortly before the French Revolution. Yet Clausewitz's book, written shortly after the Napoleonic wars, captured the minds of military men across the world as best illustrating the fundamentals behind the successes of Napoleons strategy.

While fundamentally, both authors have similar thinking, we believe that Sun Tzu provides a clearer, more balanced view of strategy. Clausewitz tends to have a more obscure presentation. His emphasis on ideals and absolutes creates a distorted impression in the mind of the casual reader of the proper tradeoffs that should be made in formulating strategy and tactics.

Author's Note

Several of my friends had urged me to read The Art of War on various occasions when we were discussing issues concerning business strategy. Upon first reading the book, I found it interesting, but requiring much thought on how a given concept might be applied in business. Becoming increasingly fascinated, I started making notes in a file of the major ideas and concepts that could be applied to business which were contained in the book.

Having started with the Lionel Giles translation, the Samuel Griffith's translation was found much more complete and careful in its translation, and resulting in extensive manuscript revisions.

Evaluating Market Conditions

Your mastery of the art of business will largely determine the success or failure of your company. Because it is of vital importance to your company, you must not neglect your study of this art.

Five Strategic Considerations

In formulating a balanced and well thought out strategy, you need to consider many different factors which will affect your decision. An useful way of doing this is to view it in terms of the following five considerations:

- State of company
- Market window
- Market conditions
- Management
- Organization

State of Company

Objectively evaluate each company in the market. Briefly state your opinions and thoughts on each company, and the basis for your opinions. In particular, try to answer the following questions:

- Does the company act in a coherent manner, or is it as if the left hand doesn't know what the right hand is doing? Do the people in the company work as a team?
- How do the employees of the company feel about it? Are they enthusiastic, or are they bitter and divided in their relations with the management of the company?
- With respect to the industry, is the company gaining or losing market share?

Market Window and Timing

For a given product, there is an ideal time to introduce it. To introduce the product prematurely means that potential customers are not ready to buy it. To introduce the product too late means that substantial competition already exists, or that the product is obsolete.

Consider the nature of the product. There are original products which require time to develop and educate the market.

What are the conditions of the economy? How available is money? What tariffs exist?

Market Conditions

To enter a market, it is crucial to know its condition.

- How large is the market
- How difficult will it be to enter
- What are the conditions for doing business in the market?
- What are the market barriers?
- What are the distribution channels for the product?
- If the market does not currently exist, who are the people who might need or want it?

Management

What are the characteristics of the management? Their experience, competence, and wisdom?

- ***Intelligence*** (ability to plan and quickly change plans)
- ***Trustworthiness*** (consistent in behavior)
- ***Humaneness*** (compassion for employees)
- ***Courage*** (seizing opportunity without vacillation)
- ***Sternness*** (willingness to strictly enforce behavior)

Organization

How is the company organized? How is spending controlled? How are new products developed and introduced to the market?

- Organization
- Chain of command
- Distribution and sales

For each competitor, create a profile of its organization. Include a description of its: product line, target markets, marketing, sales, distribution, manufacturing, labor, purchasing, research and development, and finance and control.

Evaluating Ability to Win

The following seven questions can be used to judge the success that a company will have in penetrating a market:

- In which company are the employees most loyal? What is their turnover?
- Which company has the CEO with the most ability? Has the company grown through the insight of the CEO, or because of market conditions?
- Which company is favored most by the conditions of the economy and market?
- Which company has the best discipline and determination?
- Which company is stronger? Evaluate in terms of financial resources, product, and people.
- Which company has the best trained personnel and managers?
- In which company is merit properly rewarded, and misdeeds punished?

Overall Advice

Use this advice intelligently. There is no substitute for thinking.

- Be flexible. Take advantage of circumstances and modify your plans accordingly.
- Success in the marketplace is achieved by causing your competition to be misled.
- Think through all of the different options that are possible before deciding upon a given choice.

Guidelines for Success

Some general advice on penetrating markets is:

A Company Runs on Money

A company is not a salesman with a product. Rather a company is an organization consisting of marketing, sales, accounting, manufacturing, and product development employees. A company runs on money. There is no point in hiring people unless you have the money to pay them.

- Adequate funding. Penetrating a new market is expensive.

More businesses fail from lack of adequate capitalization, than from any other cause.

Resources are Finite

Your resources are finite. The longer you take to become profitable, the more dismal are your chances of survival.

- Act quickly. The time to market is very important. A plan which can be implemented in months is better than one which requires years.

Better to Hurry than to be Late

It is acceptable to blunder in hurrying into a market, there is little point in developing a product which reaches the market too late.

Time When You are Most Vulnerable

Your company will be the most vulnerable when you are out of money, your employees are exhausted, and your spirits lowest. At such times, your competitors will be eager to take advantage of your situation. In such situations, even the best executive will have poor hopes for success.

Recognizing How You Can Fail

If you do not understand the ways in which your company can fail, neither will you see the most advantageous ways for it to succeed.

Entering a Market is Expensive

Expanding into a market is expensive. Making continual requests for money and resources will prevent your company from other necessary activities. If no restrain is shown, you will eventually no longer get the willing cooperation of your employees, they will be burnt-out.

- Always be profitable. Fund additional efforts by profits. Don't expect additional money to support the efforts.

Use Local Suppliers

When manufacturing a product, obtain your materials locally. The time and expense of obtaining materials from existing company sources will be much more expensive.

Reward Your Employees

Reward individuals. Early participants should be rewarded as initial success is achieved.

Stock options in startups. Some large companies have formed small spin-offs which may latter be merged into the corporate entity.

When you hire new people from competing companies, integrate them throughout your company and make them feel welcome, so that your company will be all the stronger.

Profits are Crucial

What is essential in business is how short a time it will take to become profitable, not how long you were able to survive before becoming bankrupt.

Strategy

There are many methods of penetrating a market. In order of excellence they are:

- Convince potential competition to not even try to compete with you.
- Cause the competition to never act in an unified manner.
- Compete with competitors on a feature by feature basis.
- Compete head to head with competition which already owns the market. (Tends to promote frustration and impatience, which leads to severe losses).

How to Engage Your Competitors

Let us consider how to convince potential competitors to not even try to compete with you.

- Suppose you have ten times the resources of the competitor. One can simply surround him with ten products to his one.

Another way you can view this statement is that it is better to focus your resources on one product.

- Suppose you have only twice the resources of the competitor. You provide two products, one which prevails on the basis of one set of features, the other on a different set of features.
- ***Equally matched***. Duke it out with the competition.
- ***Slightly inferior***. Try to avoid direct competition.
- ***Greatly inferior.*** Flee. Look for niches in the market where we can survive.

Three Strategic Errors to Avoid

There are three major methods for a CEO to bring misfortune upon their company:

- Making decisions which cannot be implemented by the company.
- Attempting to manage a company without knowledge of the conditions within it.
- Making inappropriate use of the personnel in a company.

Ability of Company to Execute a Plan

If decisions are made which cannot be implemented, less will be accomplished than if realistic decisions were made. (resource fit).

Ignorance of Conditions

Making decisions without knowledge of conditions in a company. Without such knowledge, a company cannot be either opportunistic or flexible in its decisions.

Inappropriate Use of People

A company consists of people having a wide variety of skills. Placing people in positions for which they are unqualified will shake the confidence of other workers in the company.

Five Essentials for Success

A good CEO can succeed in the market under almost any condition. There are five essential factors that such a CEO takes into consideration to insure his success.

- Timing
- Ability to use Inferior and Superior Forces
- Ability to Motivate Personnel
- Taking Advantage of Market Conditions
- Sufficient Resources and Authority

Timing

There is a market window for a product. Understanding the proper timing for a product is essential.

Ability to use Inferior and Superior Forces

It is possible to be successful with both large and small amounts of resources. It is the responsibility of the CEO to be versatile in using the resources available to achieve success.

Ability to Motivate Personnel

Success will occur when all employees share in the mission of the company.

Taking Advantage of Market Conditions

By anticipating and being prepared for changes in market conditions, a company can take advantage of competitors who are not prepared.

Sufficient Resources and Authority

A company can succeed when it has adequate organization and resources, and the board of directors does not interfere with the actions of the CEO.

Tactics

To achieve success:

- Eliminate the possibility of defeat
- Wait for an opportunity to defeat the competition

Eliminate the possibility of defeat by defensive tactics. Such tactics require that a company obscure as much knowledge about itself from the competition, such that it may respond to competition in an unexpected manner.

The Mark of Genius

There is no genius in responding to the obvious. True greatness in defeating the competition requires that the actions of competitors be balked and foiled in such a manner, than when success is achieved; that a minimum of expense will have been undertaken. Yet the skilled CEO will gain little recognition, reputation, or credit for his success against the competition, for it will have been gained without obvious signs.

The Importance of Avoiding Mistakes

Your company must adopt either a defensive or offensive strategy. Your decision should be based upon your resources. If your resources are inadequate, you should adopt a defensive posture. If you have an abundance of resources, you can take an offensive strategy with the objective of penetrating a market.

Success of a marketing campaign is achieved by not making mistakes. When the competition makes a mistake, success is achieved against a competitor which has already conceded the market.

Five Elements of the Art of Business

The five elements of the art of business are:

- Assessment of market characteristics and conditions
- Estimation of quantities
- Calculations
- Comparisons
- Chances of success

Before making decisions on how to implement a strategy, you must make certain that you understand the nature of the market you intend to enter, the characteristics of the primary competitors in this market, the difficulty and cost of entering the market. Only after having determined that you can be successful in entering the market should you start to allocate people and resources to this effort.

How to Prevail over Your Competition

The opportunity of prevailing against the competition is provided by the competition.

Your objective as a CEO is to create the situation in which your people have no other other alternative but to succeed.

How to Best Use Your Resources

The basic principles of managing a company are the same for both large and small companies. A company is managed by having an organization, a large company simply has a larger organization than a small company.

Communications make the difference between acting as one organization and many individual groups. With good communications, development may have developed a new product, only to find that manufacturing will not be ready to produce it for a year.

While direct tactics are used in the actual competition with a competitor, it is by indirect tactics that long term success will be achieved. A direct tactic is an action which is anticipated by your competitors. An indirect tactic is one which is not anticipated.

There is an infinite number of combinations of direct and indirect tactics that may be used.

Direct Tactics

It is important to be both sudden and forceful in entering a market. Slow and gradual tactics are to be avoided.

The best direct tactics are when it would appear that your company is operating in chaos, when in fact there is no disorder.

Indirect Tactics

The art of concealment. Simulated disorder and weakness.

Much can be gained if you can mislead and deceive your competition. But bear in mind that there is little point in showing chaotic behavior unless your company is well controlled. Making your company appear weak will provide you advantage over your competitors only if in fact you are very strong.

Be pragmatic in how you execute your tactics. Adapt your plans to circumstances. Remember that the goal is more important than appearances.

Management	Will determine the apparent order or disorder of your company.
Tenacity	Let it depend upon circumstances
Positioning	Will determine the strengths and weaknesses of the product in its marketplace.

The Right Man for the Right Job

Remember that success often comes from circumstances. Do not expect your employees to accomplish your objectives alone. There is no substitute for opportunity and expediency.

It is important that the proper task and responsibility be given to each person in your company. Responsibilities should be given commensurate with their abilities.

Do not overwhelm any one individual. Take individual talents into consideration, and use them accordingly. Leverage the energy of the company by having all of the individuals acting in concert to achieve a given objective.

The objective of properly positioning and introducing a product is to make maximum use of the employees of the company, given the market and competition in which it will compete. When you are taking advantage of the weaknesses of your competitors, you will experience tremendous results from your company's employees.

Avoid Strengths, Attack Weaknesses

It is better to be first in the market and well established, than to enter a market in which a competitor is already well established. If you intend to compete with a competitor, those skilled in the art of business will cause their competitors to do it on their terms.

You can make a competitor come into your market by offering some advantage. You can prevent him from entering your market by causing him unexpected time and expense.

Fundamental to being a successful competitor is your ability to identify the weak points of your competitors and exploit them, while preventing the strengths of your competitors from being used to your disadvantage.

Focus the impact of your company on the weak points of the competition. Impose your will on the competition, do not allow the competition to control you.

That you can make tremendous penetration into a market with little effort will be because you have no competition. Look for niches in the market where there is a need which is not being met, and provide a product for satisfying that need. Similarly, against a competitor, choose to compete where you are most unexpected, and bypass the products which he is most prepared to protect.

You will be certain of success when you compete in a market against a product that your competitor is not willing to protect. Similarly, you will be most able to protect a product in the market against your competitors if they will choose not to compete against it.

You can best protect a product if you can prevent your competition from realizing that it represents an area of opportunity for them. Similarly, if your competitor cannot determine what products they need to expend the most effort protecting, your efforts in competing with them in a chosen area will be enhanced.

By keeping a low profile and having little visibility, you can minimize what your competition can learn about your company. Remain mysterious and you will have control over your competitors. Moreover, by causing your competitors to perceive your strengths as weaknesses, and weakness as strengths; you can cause their strengths to become weaknesses as they apply them incorrectly against you.

Time is of the essence, both in bringing products to market, and responding to changes in the market. Speed will let you have the maximum impact when penetrating a market. Similarly, a fast response will maximize your chances of withdrawing from a market with minimum damage from a serious competitive threat.

There are times when you will wish to force your competitor to respond to you head to head in the market. To cause this to happen, simply choose to compete in an area of the market that he has no choice but to respond to your intrusion into the market.

In some cases, you will be able to cause your competitor to not compete with you by psychological techniques. Crucial to accomplishing this is to introduce fear, uncertainty, and doubt into his mind.

If you can obtain precise information as to what your competitors are doing in the market, while they remain ignorant of your own actions; then you will be able to focus your efforts in the areas where he is weakest. By having overwhelming superiority in an area where you choose to compete, you will be certain to succeed.

It is crucial that you insure that your competitors do not know your plans. If they do not know your plans, they will dilute their efforts by trying to anticipate every contingency. As such, they will become vulnerable in many different areas, instead of just a few.

Now if your resources are small in comparison to your competitors, you will have to anticipate their actions, and make preparations with this in mind. If however, your resources are

much greater than your competitors, than your competitors will be forced to make preparations against you, instead of focusing on enhancing their current business.

If you can determine in what markets your competitors plan to compete with you, and when they plan to introduce their products, you can make effective plans to respond to them. Without this knowledge, your competitors will benefit for every day that it takes you to respond to them.

Even when your resources are inferior to your competitors, you can achieve success by preventing him from choosing to compete with you. The key to accomplishing this is to keep your situation unknown to him, and to cause him to occupy himself trying to anticipate various alternatives. In this manner, he will not have the resources to plan how to compete with you.

If your competition:	
Complacent in market	Introduce competitive product
Hold advantage	Cause to come near by offering bait
Inflict damage	Look for a highly profitable product of your competitor that he will feel forced to defend in the market.
Old product line	Introduce products with new features that make his product line noncompetitive.
Has lots of cash	Make him spend his cash reserves. Encourage a raider. Cause him to spend his cash in unproductive ways.

On Attacking!	
Attack unexpectedly	The competition does not know where to expect a threat.
Attack quickly	Minimize the time your competition has to respond to your threat, by quickly establishing a presence in the market.

On Defending	
Camouflage	Let the operations of your company be as much of a mystery to your competition as possible. They will not know where to attack.

Force Your Competitors to be on the Defensive

The use of an odd and unaccountable action to confuse your competitors.

Move where your Competitors are Not

The concept here is to avoid conflict with your competitors until you chose to directly compete with them on your terms.

Attack When Unexpected

Keep your competition from knowing where and when you plan to introduce new products. In this way, you will maximize the impact of your introduction.

By keeping your competition guessing and unaware of your position in the market, you will prevent them from focusing its attention upon you. In this manner, you can survive.

Probe to Learn Competitor Plans

Force your competitor to reveal his plans by careful stimulus to cause him to mobilize his resources. In this manner you may determine his strengths and weaknesses.

Despite a competitor being larger in size, you may prevent him from competing with you by a careful evaluation of his plans and their potential for success.

Be Secret in Your Plans

Conceal your plans from the competition. The wisest competitor cannot take effective action against you if they do not know how you conduct your business.

The ultimate way of implementing a strategy is to have no apparent form or pattern to it. In this manner, it will be impossible for observers to determine your intentions, or for competitors to make plans against you.

Even though everyone can see the revenues and profits of your company, your objective should be that none understand how you were able to achieve this.

Never be predictable. Respond to circumstances in a variety of different ways.

Nothing is Constant — Be Prepared to Change

Market conditions are continually changing. The ability to modify a market plan against the competition as conditions change, and thus to succeed, is the true mark of a good businessman.

Nothing is constant. The favorable exchange rate does not last forever. Low interest rates will increase. The availability of low overhead in a country does not last forever.

Implementation

Art of implementing a set of strategy and tactics. Most difficult skill to master. It is key to deceive your competition as you are in the process of introducing your product.

What makes this skill so difficult is that you want to implement a straightforward plan which deceives the competition as it is implemented. You want to exploit an apparent misfortune to your advantage.

If you can cause the competition to think it is at no risk, it will relax its efforts, and make it possible for you to move ahead of them in the marketplace.

Coordination of the Elements of a Company

Development, finance, sales, manufacturing, and marketing must act in concert. If the development of a product is completed without the manufacturing being ready to produce it...

In planning any such effort, remember that the life blood of a company is money. If you mount a effort to penetrate a market and fund it inadequately, the effort will fail.

Move Quickly and Decisively

The trick is to strike a moving balance. If events require that you move quickly, select a key group of your company to implement a product and introduce to the market; this group can latter be reintegrated into the company.

Need for Good Market Intelligence

If you do not know the conditions of the market that you are trying to penetrate, you are unfit to direct such an effort. If you do not seek the advice of individuals that are familiar with local conditions, you will not be able to exploit to your advantage its market condition.

Basis of Marketing is Deception

Introduce a product or make a change when it is to your advantage. Create changes in the tactical situation by .... ?????

Reward All Employees Who Participate

Divide up your sales force to best cover the entire market. As accounts are won, reward them with a share of the profits.

Importance of Good Communication

It is important that there be good communications between everyone in the company, and that actions be taken in coordination. Use newsletters, meetings, teleconferences, et cetera, to clearly communicate what is the direction being taken by the company. Use the appropriate method for communication, be it local or across the world, but communicate!

In particular, make certain that any intelligence about the market or competitors are promptly provided to the management of the company.

Market Timing

It is possible to cause a company to lose its spirit, and its CEO of his courage.

When a campaign starts, spirits are high. As it persists, spirits start to lower. This is the proper time to attack.

Wait for the competition to become disorderly and clamorous.

When the competition has overcommitted itself, is the time to attack.

Allow Competitors to Withdraw Gracefully

Do not threaten a competitor which is well ordered or firmly entrenched in the market.

In particular, do not engage in introducing a product into a market which your competitor is clearly superior.

Always leave your competitor a gracefully method for withdrawing from the market. By letting them withdraw, they will save you the task of competing with them at a latter date.

Nine Tactical Variables

There are nine basic principles to keep in mind when devising your tactical strategy:

- There are markets that must be avoided because you will not be able to retain your market-share against the competition.
- When doing business in countries which are easily accessible by your competitors, form alliances with your allies.
- Portions of the market which have no strategic value. These portions of the market can be gained after the strategic portions of the market are penetrated.
- You must be resourceful when your competition is competing with you from all directions, both at the high end and low end of your product line.
- When your survival of a company is at stake, you have no choice but to compete with your competitors.
- There are marketing strategies that you must not implement.
- There are products that you must not bring to the market.
- There are companies with which you must not compete with.
- There are markets which you should not enter.

If an executive does not understand how the above nine tactical variables can be used to his best advantage, his knowledge of the market will be of little use, because he will not be able to act upon it effectively.

There are times when the people in a company need not wait for an order to do something, they recognize the correction action to be taken and act upon it.

An executive must rely on his ability to control a situation to his advantage as opportunity presents itself. Do not be bound by established procedures.

Five Variations

There are five variations:

- The most direct implementation of plans should not be used if you know it is dangerous, and it makes your company vulnerable to your competitors.

Assume that you have an existing product line, and that you intend to replace it with a new product line. Simply stopping production of the old product line and starting production of the new product line would be the most direct implementation tactic. But in doing this, you would run the risk of your competition having learned of this, to capitalize on any problems that you had, and to aggressively sell against you.

- Even though you could be very aggressive in competing with a company that is on the edge of bankruptcy or disaster, don't if there is a possibility that it will do anything to survive.

Assume that a competitor has a tremendous inventory of unsold product. Servicing the interest is using all of their money. Don't decide to start competing on price with them. They might in desperation start selling product at a cost that will bankrupt you in trying to match it.

- Even though the competitors in a market in a particular country may appear to be particularly vulnerable, choose not to enter the market if these companies have large cash reserves, good management, well trained employees, and you do not understand their plans.
- Even though it may be possible to enter a market, don't make the effort if it will be difficult to remain in the market against new competition, or if it offers no long term competitive advantage.
- While orders should be followed, they should not be followed if they are con-

trary to the laws of the nation, or are harmful to the company.

Consider both Positive and Negative Factors

In evaluating different tactics, consider both the positive and negative factors associated with each tactic. The feasibility of a plan will lie in the positive factors. By considering how to deal with the negative factors, you will be able to resolve the difficulties in your plans.

It is not enough to examine the advantages of taking a course of action, you must also carefully consider the ways in which your competitors can take advantage of you by this course of action.

Create Dissent and Confusion

The way in which you intimidate your competitors is by impacting them negatively. Ways in which this can be done are:

- Hire his best managers and workers.
- Encourage him to hire incompetent people.
- Help alienate the top managers in the company against each other.
- Send him experts who will encourage him to spend large amounts of money developing products that will exhaust his cash reserves, yet provide little return on his investment.
- Divert him with wine, woman, dance, and other creature indulgences, that his mind will not be on business.

Keep your competitors exhausted by keeping them constantly occupied by rushing to take opportunity of apparent advantages in the market.

Delay or prevent a decision by a customer to use a competitors equipment by creating dissent and confusion.

Five Dangerous Faults

When a company is defeated in the market, and its leader removed, the cause will be found among the following faults:

- Recklessness
- Hesitancy
- Delicacy of Honor
- Quick Temper
- Compassionate Nature

An executive suffering from any one of these faults will cause the much grief for both a company and its employees.

Recklessness

A stupid and courageous executive is a calamity. This leads to destruction, for the executive will not be able to appreciate opportunities when they present themselves.

Hesitancy

There is nothing like hesitation to cause a company to be lost in the marketplace.

Delicacy of Honor

Being sensitive to shame. One anxious to defend his reputation pays no regard to anything else.

Quick Temper

If you can provoke the temper of an executive, he will become hasty in his decisions, be obstinate when presented with information contrary to his beliefs. He will not consider how difficult an undertaking may be.

Compassionate Nature

A executive of a compassionate nature can be easily harassed. Fearing short term pain from layoffs, he will be unwilling to take the short term measures that are necessary to insure long term success.

On Deploying Resources

Introduce Products that Can be Defended

As your company penetrates a market, consider each product that you introduce in terms of how it can be defended against the competition, or used in selling situations against them. You never want to be in a position in which you are competing uphill against the strong points of a competitors product.

A competitor is most vulnerable when it is in the process of changing from one distribution channel to another. But wait until he has just completed the transition, but not yet finishing training the salesmen in the new channel to sell the product.

Over time, products may become less competitive in the marketplace. Take care that you introduce products at a rate which prevents your sales force from becoming demoralize from increasing loss of sales to your competitors. There is no substitute for a healthy salesforce.

Minimize Vulnerability to Competitors

Try to minimize the vulnerabilities of your company to your competitors by presenting a strong image of the strong points of your company to the world at large in both your advertising and public relations.

Avoid Hazardous Markets and Accounts

There are certain types of accounts that you do not wish to do business with, there are certain customers that you should not sell to.

- Doing business with the U.S. military makes many demands upon a company. In some cases, it will be best to decide not to accept military business.
- Selling to small customers who require a large amount of service and support. As a company, you may not be able to afford to handle very small customers, and will have to refuse to do business with them.

Encourage instead for your competitors to have these accounts and customers. They will become less able to compete with you in your chosen markets because their energies will be diluted.

Consider carefully the behavior of your competitors in the market. When a competitor is making considerable noise and challenges, they are trying to get you to compete with them on their own terms.

Be very careful of entering markets that are complex or changing rapidly. These markets offer your competitors to gain intelligence from your disclosing information to a customer to which they have a close relationship, or by being able to introduce a product which makes yours uncompetitive in the market.

Be Aware of Changes in the Market

Be very aware of changes in market conditions as evidence of the actions of your competitors. For example, are prices rapidly decreasing for a particular commodity item? A competitor may be attempting to gain in market share by special incentives or price reductions.

Examine closely the behavior of employees of your competitors. Study the parking lots of their buildings to learn how many hours workers are devoting to their jobs. What is the behavior of their workers in social situations? Are they attempting to cover their insecurities with strong statements? If the company lacks a well defined focus, the CEO may be ineffective.

Be aware of warning signs. Are companies laying off workers? Do they lack the funds to market a new product?

Command, Discipline, and Humanity

Avoid vacillation and fussiness. Workers must be attached and loyal to a company, before control can be imposed by strict discipline. Be consistent, trustworthy, and fair.

Remember that technology and the size of a company are not nearly as important as positioning. Correct positioning requires that you correctly understand your competition and its products and have focused your efforts in a manner which exploits their weaknesses.

How to Avoid Market Defeat

The major points of this chapter are:

- Market Types
- Calamities caused by the CEO
- Six Ways to Court Defeat

Market Types

There are six types of markets:

- Accessible
- Entangling
- Temporizing
- Narrow Passes
- Precipitous Heights
- Positions at a Great Distance

Accessible

A market which can be entered with equal ease by either you or your competitors. The first to enter the market can obtain a dominant market share from which it will be difficult to dislodge.

Entangling / Entrapping

This is a market which is easy to exit, but difficult to return to.

Temporizing / Indecisive

This is a market in which it is difficult for any one competitor to remain competitive.

Narrow Passes / Constricted Ground

This is a market in which it is possible to block the entry of other competitors into the market.

Precipitous Heights

This is a market having considerable complexity. In such a market, it is desirable to occupy profitable niches, and wait for your competitors to appear.

Positions at a Great Distance

It is difficult to compete with a foreign competitor of equal size when selling products in its own home country. It will be unprofitable to compete directly against it.

Six Types of Calamities

There are six types of calamities that are due to failures of the CEO:

- Flight
- Insubordination
- Collapse
- Ruin
- Disorganization
- Rout

Flight

Flight occurs when one attempts to directly compete with a competitor that has ten times the resources that you possess.

Insubordination

If the personnel of the company are more competent than their managers, the result will be insubordination.

Collapse

If you have competent managers, but incompetent employees, the result will be collapse.

Ruin

If the managers of a company are angry or insubordinate, and make a decision independent of the CEO, the result is ruin.

Disorganization

Disorganization occurs when:

- Weak CEO, no authority
- Unclear orders
- Constant reorganizations

Rout

If you have inaccurate market intelligence and enter a market with insufficient resources against the competition, you will be routed.

If you do not select the correct key individuals to implement your strategy, you will be routed.

Six Ways to Court Defeat

There are six ways to encourage your own defeat:

- Inaccurate market intelligence
- Want of authority
- Insufficient training
- Unjustifiable anger
- Nonobservance of discipline
- Failure to use picked men

Inaccurate Market Intelligence

By market intelligence we must know:

- Condition of our competitors
- State of our company
- Overall conditions of the market

Want of Authority

If the decisions made by a CEO are ignored and cannot be enforced, then the personnel of the company are useless from the view of implementing any strategy.

Insufficient Training

If a sales force has not been properly trained on how to sell a product, they will not be as effective as those of a competitor who has trained there sales force.

Unjustifiable Anger

Reacting to a competitor in anger without thinking can easily lead to disaster.

Nonobservance of Discipline

When a company does not have good management or direction, the company will be in disorder.

Failure to Use Picked Men

The best laid plans are doomed to failure unless qualified personnel are selected to implement them. The result will be a rout.

Fight Only When You Can Win

The chances of success in the market can be assured if you understand the vulnerabilities of your competitors, have made sure that you are not subject to actions of your competitors, and that market conditions are favorable. Success requires making fewer mistakes than your competition. Complete success means that you make no mistakes.

How to Succeed in a Given Market

Consider selling products in locations across the world.

Types of Markets

The nine types of markets are:

- Local Market
- Neighboring Market
- Strategic Market
- Equal Access Market
- High Leverage Market
- Highly Competitive Market
- Rapidly Changing Market
- Vulnerable Market
- Desperate Market

The tactics, deployment of resources, and the nature of the people involved are matters that the CEO must examine with the greatest care.

Local Market

Selling product in your own backyard, state, or country.

Be sure to insure that your company has a common purpose and determination.

Neighboring Market

Selling product in a neighboring state or country.

Do not restrict yourself to this market. Press onward to markets in which true global competition will occur. Be sure to keep your forces well focused on the overall objective.

Strategic Market

Selling into a market of significant strategic value to either competitor.

Be certain that adequate resources are provided to ensure success in entering these markets.

Equal Access Market

A market which is equally accessible to the competing companies.

In such situations, be careful not to divide up your resources. Make sure that you can respond to actions taken by your competitors.

High Leverage Market

A market which provides the entry to several other countries. It may also be a market of great visibility which provides a large public relations benefit to the image of the company.

It is important in such situations to strike and strengthen alliances within these countries.

Highly Competitive Market

A market in which a company has established numerous sales offices and is obtaining significant sales in a market dominated by a competitor.

Make sure that you are keeping a steady stream of product coming to these sales offices, and that adequate support is being given to allow them to expand.

Rapidly Changing Market

A market in which conditions are rapidly changing. It is a market which is difficult to compete within.

Grit your teeth, accept your losses, and press onward.

Vulnerable Market

A market in which the competitors have significant hidden advantages which can be exploited against your product. Competitors can set great ambushes for you.

Devise a strategy for responding to your competitors and implement it. Strengthen your defenses, because this market may evolve into desperate ground.

Desperate Market

A market condition in which if no action is quickly taken, all will be lost.

In order to survive, you must fight. Make it clear to the employees of your company the seriousness of your struggle.

Divide and Disperse the Enemy

It is desirable to cause your competitors to be unable to cooperate both with each other, and within their own companies.

Surprise your competitors and force them to react by taking them unaware.

Move with Great Rapidity

Speed is the essence of marketing. By taking advantage of your competitors not being prepared, you will be able to penetrate deeply into a market held by your competitor, and they will not be able to win back the market share that you have taken.

Principles for Invading

Insure that the company remains well united as it penetrates a market. The initial products should have sufficient profits as to enable you to fund your continuing efforts in the market. Do not push your employees to unnecessarily fatigue them. Make plans for deploying your salesforce which are unfathomable.

Nothing will divert the attention of a competitor about to threaten you like attacking something that he values.

- Making a hostile acquisition of a competing company.

Don't Dilute your Force Needlessly

A good CEO is able to use the employees that he has to their best advantage. If one has a very strong product line and position in the market, one can use ones weakest employees to support it, while ones best employees are used where they are most required.

Keep the Effort Well Funded

When someone performs in an outstanding manner, recognize their achievement immediately and reward them. Don't wait for weeks and months to pass first.

Success or Death

Nothing unites a company like an external threat. You will get the maximum results from your employees when they are in a literal position of do or die.

The Need for Tenacity, Unity, and Cooperation

Those who are skilled at the art of business, make it impossible for a competitor to act in an unified manner. Internal dissensions within a competitor are provoked, so as to discourage management from working in harmony with workers, cause experienced workers to not work well with newly hired workers, to cause different divisions such as field service and manufacturing to be at each others throats.

If you succeed in getting your competitor to go in every which direction, do your best to help this situation along. Stimulate his confusion by deception.

Effective use of public relations can be very helpful in accomplishing this.

As you enter a market, you should make a profit on your sales in order that you be able to sustain yourself without additional funds. Do not continually push your workers such that you unnecessarily fatigue them. Otherwise, they will have no reserves to pull upon when asked for their greatest efforts.

When your company and its workers are fighting for its life, there will be no need to ask people to work harder. Without asking you will gain the support, affection, and trust of your employees.

- This is particularly true of startups. If the startup is to survive, everyone must act in concert, or it will be doomed to failure.

Be flexible in responding to an action by a competitor upon a given portion of your com-

pany. Don't respond head on, rather threaten him in a different area.

- If he offers service prices that are lower than yours, you can offer a trade-in allowance for his equipment. If he offers lower prices on his products, you can offer a longer warranty on yours.

If your managers are paid exceedingly well, than their motivation for working becomes driven by only money. If they have no other reason for working than money, why will they remain with your company when times become difficult?

Incentives such as stock options, profit sharing, and stock purchase plans, are not sufficient by themselves to retain employees. Rather you must be sure to make the proper use of them by putting them in the correct positions. Put your least capable people on the products which are least vulnerable to your competitors, and your best people in the areas which are experiencing the greatest difficulty.

Be calm, collected, and in control. By not demonstrating your emotions, you will provide less anticipation of your intentions. As much as the rest of the company may join in celebration of its successes, the plans which lead to these successes can only be made by its leaders.

Prevent Anticipation By Competitors of Plans

In making plans, make sure that they cannot be anticipated by not implementing them in the same previous manner. Do not reveal your plans. Your competitors cannot learn from your employees what they do not know.

As much as possible, restrict the flow of information of how you are implementing your strategies.

Requirements for a CEO

If you can't answer the following questions, you are not fit to run a company.

- Do you know the plans of your competitors?
- Are you aware of the conditions of the marketplace?
- Do you have assistance and guidance of knowledgeable people?

Prevent Alliances by Competitor

Whatever you do, insure that your competitors don't unite forces together. Your objective should be to cause your competitors to divide their forces. Creating a good public relations image can be very useful in this regard.

Do Not Base Decisions on Old Customs

When you make a decision, do not be bound by precedent stating that "we've always done it this way in the company". Reward people without regard to previous custom. In this manner you can run a large company as you would manage a single individual.

Study Your Competitor, Exploit Weaknesses

Ideally, you can defeat your competitors before you even enter the market by the proper techniques. Getting the capable CEO of a competitor to be replaced by an incompetent is one such technique.

When your competition presents a opening, moving quickly to exploit it.

Using Innovation and Technology

Innovation and technology can provide tremendous leverage to a market campaign when properly used. However, it is important to time the introduction of a new technology to have the maximum impact on the market. Your marketing campaign should be designed to have its maximum impact on the competition before your competitors are able to respond with their own products.

As such, the basic effect of a product introduction based on innovation or new technology is to confuse your competitors as to how to respond to this new threat. Your objective is to exploit this opportunity for everything possible.

Five Major Strategic Objectives

There are five major strategic objectives that may be chosen for basing a market strategy upon innovation and technology:

- Force layoffs
- Liquidate inventories
- Cause competitors to alienate their suppliers
- Use cash reserves
- Disrupt activities

Force Layoffs by Competitor

By introducing a compatible product at a much lower price, cause the revenues of your competitors to drop sharply. This will force your competitors to respond by laying off portions of their workforces.

Cause Competitor to Liquidate Inventories

Force your competitors to have to liquidate their inventories at a loss.

Cause Competitors to Alienate Their Suppliers

Force your competitors to alienate their suppliers and distributors.

Make Competitors Use Cash Reserves

Cause your competitors to eliminate their financial cash reserves.

Disrupt Activities of Competitor

By a continuous series of events, force your competitors to devote their time to responding to your agenda.

Market Intelligence

The introduction of a new product is a very expensive undertaking. The executive who is willing to remain ignorant of his competitors situation, in order that the company may save money, and not give proper rank and honor to those individuals providing this intelligence is not only short sighted, but devoid of humanity.

The reason why the wise executive is able to have his company succeed in the marketplace is due to having market intelligence. Market intelligence can only be obtained from people.

Sources of Market Intelligence

There are five methods for obtaining market intelligence:

- Local Market Research Companies
- Individuals With Anger About Competitors
- Former Workers
- Planting False Information
- Knowledgeable Observer

Local Market Research Companies

In any given location, there are people which are knowledgeable about the companies and products of a given market. In many cases, these people will work for companies which specialize in this information.

Individuals With Anger About Competitors

Look for individuals who are angry about the way they or a relation have been treated by a company.

Former Workers

Hire employees of your competitors to work for you. From them you can learn how business is performed in a country and the nature of the market. From them you can identify sources of market research and other dissatisfied individuals.

Planting False Information

When you provide false information to your competitors, the source used to provide the information will no longer be trusted once the information is found to be false.

Knowledgeable Observer

The ideal observer is one who remains unnoticed by ones competitors, yet has the insight and intuition to grasp great meaning from small signs. This is of particular importance when working in a technical industry. A person without the proper technical training will not see, hear, or understand, what will be learned by a knowledgeable observer.

The Management of Intelligence Sources

The management and use of market intelligence requires much wisdom and experience. You must be humane and just in your dealings with your sources of information.