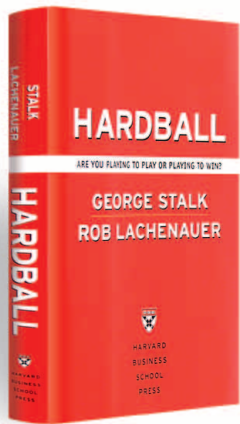




Executive Book Summaries®



By George Stalk
and Rob Lachenauer
with John Butman

Are You Playing to Play or Playing to Win?

HARDBALL

THE SUMMARY IN BRIEF

Master strategists George Stalk and Rob Lachenauer predict that business competition will become so fierce over the next 10 years that marginal victories and short-term advantages will not be enough to keep a company thriving. In *Hardball*, they explain that winning will require relentless strategic execution focused on turning competitive advantages into decisive advantages that neutralize, marginalize and even punish rivals.

The world of hardball competition is a place where the players are zealously committed to winning and relentlessly driven to strengthen their competitive positions, creating a virtuous cycle that puts them far out of the reach of competitors. Stalk and Lachenauer turn the experience they have developed during 25 years advising and observing a wide range of companies into a game plan for using hardball techniques. With these techniques, companies can achieve decisive victories over competitors — without bending the law or compromising their obligations to stakeholders. *Hardball* competitors can unapologetically play rough, yet they are also adept at the “soft” side of management — rallying talent and building culture through a determined focus on the few issues that are most critical to their success.

Hardball presents detailed case studies of companies from many industries to outline seven hardball strategies: unleash massive and overwhelming force, exploit anomalies, threaten competitors’ profit sanctuaries, take it and make it your own, entice competitors into retreat, break industry compromises, and hardball M&A.

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What You’ll Learn In This Summary

- ✓ Who uses hardball strategies and how have they helped?
- ✓ Under what circumstances does each hardball strategy work most effectively?
- ✓ How can a company orchestrate a hardball attack?
- ✓ What is the meaning of competition for the new generation of business players?
- ✓ Why do great companies stumble when they lose their competitive advantage?
- ✓ What new ideas and strategies do veteran executives have to learn to compete in today’s global marketplace?

HARDBALL

by George Stalk and Rob Lachenauer with John Butman

— THE COMPLETE SUMMARY

The Hardball Manifesto

When companies play hardball, they use every legitimate resource and strategy available to them to gain advantage over their competitors. When they achieve competitive advantage, they attract more customers, gain market share, boost profits, reward their employees and weaken their competitors' positions. They then reinvest their gains in their businesses to improve product quality, expand their offerings, and improve their processes to further strengthen their competitive advantage. When they continue this cycle of activity for a prolonged period, they can transform their competitive advantage into a position even more powerful and desirable — they can achieve decisive advantage. They can use their decisive advantage to bring about fundamental change to an entire industry, put their competitors into a reactive position, cause their partners and suppliers to make adjustments, and deliver so much value to their customers that their market share grows larger still.

Five Hardball Principles

Hardball players live by the following five principles:

1. They focus relentlessly on competitive advantage.

Hardball players strive to continually widen the performance gap between themselves and competitors. They are not satisfied with today's competitive advantage — they want tomorrow's. They know what their advantage is and exploit it relentlessly. They don't deceive themselves or cheat. They measure their competitive advantage and differentiate theirs from their competitors.

Wal-Mart began playing hardball by creating a distribution system that reduced transportation costs, increased inventory turns and gave it a competitive advantage. Then it went to "every day low prices" to stabilize demand, further reduce costs and build volume. Next it leveraged its huge sales volume to gain influence over shipments from suppliers and to dictate merchandising and product mix, reducing prices further and adding yet more volume.

2. They strive to convert competitive advantage into decisive advantage.

Decisive advantage is systemically reinforcing and puts you out of the reach of your competitors. The better you get at it, the harder it is for competitors to compete against it or take it away. For example, as you get bigger than your competitors, your costs go down further, enabling you to further your market share.

Toyota's decisive advantage — which is built on its superior production system — has enabled Toyota to grow its global market share from 5 percent in 1980 to 11 percent today, with each point of market share worth about \$10 billion in revenue. Toyota's market capitalization in 2003 was greater than that of GM and Ford combined.

3. They employ the indirect attack.

Hardball players often avoid direct confrontation with competitors. "The indirect attack is by far the most hopeful and economic form of strategy," writes B.H. Liddell Hart, a military historian. "The most consistently successful commanders when faced by an enemy in a position that was strong naturally or materially have hardly ever attacked it in a direct way."

Southwest Airlines launched a classic indirect attack. It chose not to compete head-to-head with the major airlines at the biggest city hubs where the majors were strongest. Rather, Southwest built up operations in secondary airports. In the Washington, D.C., metropolitan region, for example, Southwest started operations from the Baltimore-Washington airport, the third largest airport in the region, with 12 flights a day. Now it has 163 departures from BWI.

4. They exploit their employees' will to win.

To achieve competitive advantage, people must be action oriented and impatient with the status quo. Fortunately, the will to win can be fostered; softball players can be transformed into hardball players. But as your competitive advantage grows, it gets harder to exploit your employees' will to win. "The

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The Hardball Manifesto

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number-one threat is us,” Herb Kelleher, the former CEO of Southwest Airlines, told his people at a big company meeting. “We must not let success breed complacency, cockiness, greediness, laziness, indifference, preoccupation with nonessentials; bureaucracy; hierarchy, quarrelsomeness; or obliviousness to threats posed by the outside world.”

5. They draw a bright line in the caution zone. To play hardball means being aware of when you are entering the “caution zone” — the area of possibility that lies between the place where society clearly says you can play the game of business and the place where society clearly says you can’t. Before you enter the caution zone, you have to know where the unacceptable area is and draw a bright line for your company that marks the edge, the limit beyond which you will not venture. It is the leader’s responsibility to draw the line and make it very bright and clear. Get legal and accounting counsel to help you determine what you can do and what you can’t. Hardball players never engage in illegal practices. ■

Unleash Massive and Overwhelming Force

Although the indirect attack is the preferred hardball strategy, there are times when a company has such superior resources that it can use them to overwhelm its competitors with a direct onslaught. GM did so in 2001 when it used its massive financial strength and low costs to offer a zero financing scheme that forced Ford and Chrysler to respond and, ultimately, did those competitors damage. In the early 1990s, Frito-Lay unleashed its extensive resources, especially its killer distribution system, to overwhelm an upstart competitor, Eagle Snacks.

Overwhelming force is not a sure bet. The company that intends to use force must be sure it actually has the resources it thinks it has, and they must be readily accessible. A company must also have the will to deploy its resources with sufficient commitment.

Fat and Sluggish Leaders

The upstart competitor, bent on attack, can see when the leader has gotten fat and sluggish. The upstart will quickly deploy its attack strategy and penetrate the leader’s customer base. If the leader does not respond, the upstart pushes the attack even harder. By the time the leader notices the attack and takes it seriously, it might be too late to marshal its overwhelming resources and force the competitor into retreat. Suddenly, the upstart has the competitive advantage and the leader is trying to hit hardballs with a softball bat.

The use of force can sometimes backfire. It can be a dangerous strategy, for example, if the company deploy-

ing it does not have a cost advantage over its competitors, and does not have at least product parity and, preferably, product advantage, as well. Without those advantages, competitors can blunt the forceful attack with attractive, new customer offers, better products or price cuts.

Undesirable Consequences

The use of force can also go too far, creating undesirable consequences for the attacker. If the force is so overwhelming that the competitor ends up as roadkill, it may be able to take cover in bankruptcy protection. Then it will have the time and ability to renegotiate contracts on favorable terms and shed unproductive assets. It may emerge from bankruptcy fitter and leaner than ever, ready to fight back or make its own direct attack. It is often best to use just enough force to weaken a competitor, but not obliterate it.

The market leader that deploys massive strength can also become a natural target for competitive protest, bad press, and legal investigation. Overwhelming force is an appropriate strategy only for the company that is willing to take the time to gather good market intelligence and make a plan that avoids any taint of the abuse of market power. If you are charged with wrongdoing, even if you are eventually found innocent, defending against a legal action is its own form of distraction, can eat up resources and can have a negative impact on a brand’s reputation. Don’t let that happen. ■

Exploit Anomalies

Sometimes a growth opportunity lies hidden in something — such as an idiosyncratic customer preference or a seemingly aberrant employee behavior — that, at first glance, seems to have no relevance to strategy, the business or growth. Hardball players know that such anomalies can contain the seeds of a new business idea, and they look for ways to exploit them.

An anomaly is an irregularity, a departure from the norm. Most anomalies go unnoticed or are ignored. Organizations try to contain or suppress them, precisely because they are departures from the norm and to embrace them might disrupt standard operating procedures.

Nooks and Crannies

Anomalies can sometimes reveal what your customers really want from you. They can also provide a glimpse of what your organization is capable of achieving. Paying attention to anomalies may point you to major opportunities to grow your business by doing on a broad scale what you are already doing in some aberrant nook or cranny.

Exploiting an anomaly can be difficult — taking a limited phenomenon to a much larger scale may require that business processes and systems be adjusted in order to

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Exploit Anomalies

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sustain and encourage the new behavior and to achieve competitive advantage in cost, quality, time and value.

But hardball executives do not ignore or dismiss anomalies. They dig into them and look for ways to exploit them, asking: What's really going on? How can we learn from this? Is there an insight buried here that can move the business to a whole new level?

Anomalies, such as a large market share in a single city, exist in all businesses, but you are more likely to find them in businesses that are characterized by high complexity — those that have a diverse customer base with many segments, defined by volume, product variety and customer type. The more diverse your customer base, the more likely it is that the standard process cannot be forced to fit all possibilities and that one or more customers will present an anomaly. The diverse base, however, will also make it more difficult for management to see the anomaly because so much information is available. There may be many inconsistencies and aberrations.

Mature Businesses

Mature businesses, complex or not, are also fertile breeding grounds for anomalies. Companies in mature businesses are often set in their ways, resist change and have become prisoners of existing customer relationships.

Hardball companies go looking for anomalies in an organized way with a team that looks for anomalies, analyzes their causes, estimates the profit potential they represent and comes up with recommendations for exploiting them. Once an anomaly with likely potential for building strategic advantage has been identified, the work begins. The anom-

ally must be thoroughly tested and explored before the strategy can be implemented. You must understand the economics of the anomaly, and the potential sources of growth and increased profitability need to be made explicit.

Taking advantage of an anomaly is an opportunity to inject into your company some of the spirit of experimentation that is characteristic of startups. By capitalizing on anomalies, you can harness the same kind of creative energy and put growth back on your company's agenda. ■

For additional information on the anomaly of the prayer cards, go to: <http://my.summary.com>

Threaten Your Competitor's Profit Sanctuaries

You can influence the behaviors of a competitor if you can determine where its profit sanctuaries are. Profit sanctuaries are the parts of your competitor's product, service and geographic portfolio where it makes the most money. Every company has one or more profit sanctuaries, and they are important not only because they deliver healthy profits to the bottom line, but because they usually fund other — weaker or developing — parts of the business.

There are many ways to put pressure on a competitor's profit sanctuaries. You can compete aggressively on price on selected products or in selected geographies where you go head-to-head with your competitor. You can offer products with new features, or special combinations of features, at prices that will suck volume away from its products. You can increase service, while holding prices, on a portion of your offering where your own profitability is fairly minor but that provides a major source of your competitor's profitability.

The goal of devastating a competitor's profit sanctuaries is not to force your rival out of business or to create a monopoly within your industry for yourself. Rather, the goal is to choke the flow of cash from your competitor's profit sanctuaries, forcing it to change specific actions or behaviors that are detrimental to you. If it doesn't, it risks an incursion into its profit sanctuaries that will, in turn, put pressure on other areas of its business.

Japanese Automakers Attack

In the early 2000s, the leading Japanese automakers — Toyota, Nissan and Honda — took aim at an important profit sanctuary of the Big Three North American automakers: light trucks.

The initial attempts of the Japanese to move up from compact trucks to full-size trucks were only modest successes. Gradually, North American consumers accepted the Japanese light truck offerings, and the Japanese automakers

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Three Types of Anomalies

Here are three examples of the types of anomalies that might catch the eye of a scouting team:

✓ Medeco, a manufacturer of high-security locks, has average sales per household in major Canadian cities that are twice the average of its sales per household in the United States, even though Canadian cities are generally safer than those in the United States. Why? What drives those sales in Canada?

✓ MEC, a consumer electronics brand, is considered a commodity in Japan, where its products sell at a discount to Sony and Matsushita. In the United States, MEC products sell at a premium through specialty retailers. Why?

✓ Steetley Industrial Distributors has a branch in Oshawa, Ontario, whose gross margins are the lowest of all Steetley's branches, but the branch's sales per employee and return on investment are the highest. Why?

Threaten Your Competitor's Profit Sanctuaries

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steadily grew their share of the market. From 1980 to 1995, the major Japanese light truck manufacturers had a nearly constant share of 10 percent. The North American producers held the rest of the share. By early 2000, the Japanese leaders had grown their share to almost 25 percent and Detroit's share had fallen to 75 percent.

This is a straightforward example of an entire class of competitors, the Japanese automakers, attacking the profit sanctuaries of established leaders. The result is that Toyota, Nissan and Honda now indirectly control the cash faucets of GM, Ford and Chrysler. For years to come, the strategies of the Big Three will be what Toyota allows them to be.

The use of hardball pricing to threaten a competitor's profit sanctuary and get it to change a behavior sounds straightforward, but execution is difficult. Insight and good planning are key. The management team must be willing to take risks and have the courage to press the attack even when the going gets rough. It is essential that you have good legal counsel throughout the process of planning and executing your strategy.

An attack on a profit sanctuary, especially through pricing, will very likely cause a fierce competitive reaction. It should not be undertaken by the faint of heart. ■

Take It and Make It Your Own

Many businesses achieve success by recognizing the value of an existing idea, practice or business model and making it their own. Ray Kroc didn't invent the fast food restaurant or the assembly line burger. He recognized the potential of Dick and Mac McDonald's Southern California burger joint, cut a deal to franchise it, built the McDonald's Corp., and eventually bought out the founding brothers. Similarly, The Home Depot founders Arthur Blank and Bernie Marcus didn't invent the first warehouse hardware chain. They borrowed the big box concept from their earlier employer, Handy Dan, evolved it into an even bigger box and expanded it throughout North America.

Hardball players are always on the lookout for ideas they can adopt or adapt. They look at competitors in their own industry for trade practices, pricing schemes, product designs, technologies, employee hiring and development methods, approaches to supplier management, and customer focus tactics that are better than their own. They also look in other industries for innovations — such as time and quality management methods, alternative channels and supply chain management tactics — that have not yet appeared in their own.

But hardball players do not infringe on copyrights or steal patents. When they identify a good idea, they find a way to improve it. The founder of Kmart claimed that Sam Walton,

The Risks of Attack

There are many things you cannot do when attacking your competitor's profit sanctuaries, because they involve pricing practices that may be seen as anticompetitive and therefore will raise substantial risks of civil and criminal liability. U.S. federal and state laws, as well as the laws of many countries, for example, prohibit predatory pricing, which is generally defined as selling goods or services at an unreasonably low price with the intent of driving a competitor out of business. Other statutes make price discrimination criminal where the effect of such discrimination may be to substantially lessen competition or tend to create a monopoly in any line of commerce. These laws define areas that lie well beyond the caution zone, and leaders must draw a very bright line at a safe distance from them.

founder of Wal-Mart, "not only copied our concepts, he strengthened them. Sam took the ball and ran with it."

Hardball players know that good, proven ideas are hard to come by and are not shy about taking them for their own. In doing so, the hardball company is often able to create a competitive advantage, often faster than it would otherwise, and sometimes even decisive advantage. Hardball competitors seize on a good idea when they see one and then they add something to the model — improve it, adapt it or interpret it. Soon enough, what might have been seen as copying looks like innovation. ■

Entice Your Competitor Into Retreat

In certain circumstances, it is possible to entice your competitors into retreat from competing in a business area that is important and highly profitable for you. This can be done by taking actions that are likely to lure your competitors into a different business area where you also may both compete, but that is less important and profitable for you.

One of the best ways to entice a competitor to retreat from your main area of interest into another area is to leverage your superior knowledge of the costs of your business activities. If you can lure your competitor to compete in an area that it believes (because of its inferior knowledge of its costs) is highly profitable for it, but is not, you might be able to nudge it out of the area of your greatest profitability, and also cause its costs to go up, its margins to shrink and its share to decline. You have, in effect, led your competitor to a business area that it convinces itself is the entrance to a gold mine but, is, in fact, a rabbit hole. This form of indirect attack is the most complex and subtle of all the hardball strategies, and requires a superior understanding of both your own and your competitors' costs and pricing.

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Entice Your Competitor Into Retreat

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Japanese Manufacturers Lure Others to the Brink

Japanese manufacturers masterfully used a version of this strategy to attack and gain power in many industries in Western markets in the 1970s and 1980s. The Japanese company would build a base in the high-volume segment of the market, typically the low end. Its Western competitors, thinking that the low end of the market was not profitable to fight for, would respond by adding features to their offerings that would justify a price increase, rather than by trying to cut their own prices or lower their costs. Eventually, they would abandon the segment altogether and focus their efforts on the higher-end products, which generally resulted in their losing overall market share.

Two industries where Japanese companies gained decisive advantage by raising the competitor's costs are:

- **Ball bearings.** Koyo Seiko, Nippon Seiko (NSK) and Toyo Bearings led the Japanese assault on Western manufacturers, including Sweden's SKF and Germany's FAG, by focusing on a narrow product offering in the high-volume automotive market.

- **Motorcycles.** Honda, and later Yamaha and Suzuki, gutted the markets of Western manufacturers such as Norton, Triumph and Harley-Davidson by starting with small, low-priced motorcycles and then progressively moving upscale as the Western manufacturers retreated to bigger and higher-priced products.

If you have not examined your costs, in detail, within the past five years — or if you believe your competitors have not — it is very likely that there exists, lurking somewhere in your cost structure, a major opportunity to improve your profits, weaken your competitor and expand your influence.

There are limits to cost-raising strategy. As important as price is to your customers, they care about other things as well, including product features, quality, time and status. ■

For additional information on other industries where Japanese manufacturers gained advantage, go to: <http://my.summary.com>

Break Compromises

Breaking compromises is the most powerful hardball strategy for companies seeking breakaway growth.

The Home Depot broke the compromises inherent in the do-it-yourself home-improvement business and achieved annual growth as high as 27 percent in an industry that had become accustomed to less than 5 percent growth. By breaking compromises in air travel, Southwestern Airlines has grown seven times faster than the industry over the past decade and is among the most profitable airlines. In 1984, Chrysler introduced the minivan, breaking compro-

mises in the auto industry, and over the next 10 years, the minivan segment grew eight times faster than did the industry overall. Chrysler maintains its leadership today.

Senior managers at The Home Depot, Southwest and Chrysler had the wisdom, curiosity and the perseverance to identify, explore and break the compromises their industries had forced customers to endure. By doing so, they released so much trapped value that they stimulated significant sales and profit growth.

What Are Compromises?

To understand compromises, they must be differentiated from choices. Customers are accustomed to, and want, choices. They want to be able to choose from among a variety of products or services with different features, characteristics and prices. In textiles, for example, the customer can choose from a huge range of fabrics, differentiated by such characteristics as thread count, type of yarn, color and pattern. Customers understand that the price will vary depending on the features and quality of the product choice they make.

A compromise, by contrast, is a limitation on customer choice made by the industry. In fabrics, for example, the customer rarely has a choice about the width of the fabric. It is governed by the capability of the looms that are standard in the industry. When such a compromise is endemic to an industry, customers don't see them as compromises. They accept them as "the way the industry works."

Most compromises don't have to be. Compromises creep into industries in various ways. Some are imposed by standard operating practices that few industry insiders or customers question. Others stem from decisions that might make marginal economic sense for the company, if customers adjust their behaviors. The most important compromises are caused when companies lose touch with their customers. They think that because customers can't see the compromise, or don't complain about it, that they are satisfied.

Then some smart company comes along, sees the compromise and finds a way to break it. And customers suddenly see the compromise, too, and are delighted they now have a choice.

Exploit Compromise-Breaking Opportunities

Here are several ways in which companies can find and exploit compromise-breaking opportunities in any industry:

- **Shop the way your customer shops.** Develop more than a rudimentary understanding of why customers behave the way they do.

- **Know how your product or service is really bought and used.** In all industries, customers devise ways of buying and using products and services so they get what they want, which is not necessarily what the company offers.

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Break Compromises

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- **Try to make a change to your product/service delivery mechanism.** Redesigning your organization presents a difficult and potentially painful challenge, yet the size of the prize is so large that some company, if not you, will step up to it.
- **Create new ways for your product/service and its delivery system to create value for customers.** Saturn dramatically changed the car-buying experience by creating a no-haggle, low-pressure sales process that placed the emphasis on the wants of the customer rather than on the needs of the manufacturer.
- **Test the limits of your imagination.** Can you find a compromise to break that could result in a radical change to your industry?
- **Relentlessly pursue the breaking of key compromises.** When a strategy breaks industrywide compromises, speed of execution becomes the ultimate differentiator. ■

Hardball M&A

Despite their high failure rate, mergers and acquisitions can be a powerful means of pursuing a hardball strategy much faster, or on a much larger scale, than could be done organically. Mergers made without a strategic rationale and acquisitions pursued on the whim of the CEO are softball moves. A good M&A deal creates competitive advantage; a great deal can help a company achieve decisive advantage, enabling it to lock up critical assets or build superior economics, making the company (almost) untouchable.

Mergers and acquisitions can be used to further any of the hardball strategies previously discussed. Companies often pursue M&A activity to rapidly expand, nationally or globally, or annex a rival and reduce competition. There can be so much strategic benefit in merging or acquiring companies that some hardball players become serial acquirers.

A Warning

There is a danger, however, in such continuous M&A activity. It can appear to be a strategy, when in fact it is only a tool that supports a strategy. M&A as a strategy unto itself does not necessarily create competitive advantage or competitive leadership. Too often, serial acquisition becomes a game, a way to gain the appearance of growth, hike share price, exploit tax loopholes, chase nonexistent synergies, gain political or social favor, settle a personal score for the CEO, or avoid fixing chronic or fundamental problems in the acquiring companies. The house built on a stack of unrelated or nonstrategic acquisitions will eventually topple.

Hardball serial acquirers — such as Partners Healthcare, Cisco, Newell, and Premdor (now Masonite International) — have a clear idea of how to build competitive advantage, and have the capabilities to consummate deals and digest

acquisitions for maximum strategic benefit. Companies often begin their M&A activity as a way to pursue a modest strategic goal, but end up achieving decisive advantage.

Cisco Acquires Capability

Cisco Systems is one of the best examples of an accomplished hardball player that uses M&A to acquire capability.

Cisco was founded in 1984 as a provider of data routers but, early on, made a decision that enabled it to quickly become a major player in data networking. Cisco decided that it would purchase any capability it needed and that it could not quickly develop internally. Cisco became expert at the process, acquiring and integrating 82 companies (and shutting down a few that didn't work out) and dramatically expanding its business. Each of the acquisitions was undertaken to support a strategy that would strengthen Cisco's competitive advantage. Cisco has been successful at hardball M&A for several reasons:

- **The thoroughness of its search.**
- **The expertise and skill of its M&A team.**
- **The speed with which it executes deals.**
- **The intensity of its efforts to integrate acquisitions.**
- **Its willingness to “cut bait.”** Cisco will quickly dump an acquisition or terminate an operation that does not help create or build competitive advantage.

Cisco has used its ability to identify, close deals with and integrate companies to build worldwide leadership in computer networking.

How to Win at Hardball M&A

Hardball players apply focus, speed and intensity to all stages of M&A. They are better at identifying the specific asset or capability needed to achieve competitive advantage and deciding whether it is best to develop it internally or obtain it externally. They excel in identifying and assessing targets, calculating the maximum price to be paid, negotiating deals fast in a disciplined fashion, and then integrating acquisitions quickly and efficiently in order to achieve strategic objectives.

The lessons from serial acquirers that use M&A to carry out their hardball strategies are straightforward in concept but difficult to execute:

- **Acquire only if the opportunity fits with the strategy.** Mergers and acquisitions should be pursued only if they will help you attain or strengthen competitive advantage.
- **Do not be tempted to step outside your proven process.** When the business model based on acquisitions works, especially when it has continued to work through a series of acquisitions, be wary of deviating from it.
- **If you're going to change the acquisition criteria, you might need to change the acquisition process, too.**
- **Build an internal M&A capability.** Develop your

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Hardball M&A

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own M&A capacity, build a team that can generate M&A ideas, explore and analyze them, do your own due diligence and negotiate the deals.

- **Seek outside advice and assistance.** Companies contemplating an acquisition can often benefit from the assistance of outside experts in a particular industry or business area, or from the counsel of an adviser who does not stand to gain from the acquisition.

- **Take a rigorous approach to valuation.** When assessing the value of a proposed acquisition, analyze how the purchase will affect the value of your company as well as how much it is worth on the open market.

- **Invest in post merger integration capability so you have the capacity to successfully integrate acquisitions.** ■

Changes in the Field of Play

The game of hardball is dynamic and always evolving. New barriers to achieving competitive advantage emerge and new roadblocks to building decisive advantage are erected. There are several issues that will affect the way the game of hardball must be played in the future and that change the rules for players who wish to be winners, especially on the global field:

Playing the China Card

China will be the biggest and most contentious issue in the next decade for hardball players, even if they are not global companies themselves. China will be the source of tough competitors, and as thorny an issue for all companies as Japan was in the 1980s. Now is the time for business leaders to recognize that they will have to play the China card or be played by it. Here is how hardball players will do so:

- **Drive down costs.** The first move is to drive down your costs faster than your competitors can, and use the cost saving to upset their strategies.

- **Win the Chinese domestic market.** The leaders will be those companies that are not just the leading suppliers to Western brands but are also the leading brands in the Chinese market itself.

- **Use the supply chain wisely.** Time is the greatest trade barrier of all. When U.S. companies rely on Chinese suppliers, they are stretching their supply chain over the greatest possible distance the world allows.

- **Bluff when you have no China card to play.** If you have developed a competitive advantage with customer-driven products in the U.S. market, and believe that your business will not benefit by playing the China card, you may be able to strengthen your advantage by influencing your competitors to source their products in China. ■

The Hardball Mindset

Hardball players possess a number of admirable characteristics. They have an intellectual toughness that enables them to face facts and see reality. They have an emotional awareness that means they know themselves, and their people, well. They are always dissatisfied with the status quo, no matter how fine things might seem, and they have the will to catalyze change. They're tough, but they're not bullies. They're serious about their business, but they also have fun playing the game. They have such an intense passion for winning that it rubs off on others.

The hardball player needs all of these qualities and more to accomplish its most important task: to get to the heart of the matter and stay there. The heart of the matter is that set of fundamental, often systemic, issues that is limiting the growth and success of the business.

The only way to get the firm to focus on the heart of the matter is for the senior leader to define the issues, talk about them and attack them first. Leaders who personally live in the heart of the matter have three common traits:

- **They live at the rock face.** They are physically and personally connected to the market — to customers, consumers, competitors and suppliers. Hardball players love being their own customers.

- **They have the courage to ask simple questions.** Saying "I don't know" can lead to breakthroughs. Leaders lose their edge and value when they assume too much.

- **They build a truth-telling network.** Hardball is a team sport. To play hardball you must develop your own truth-based network, or you will never be sure what the heart-of-the-matter issues really are. ■

Don't Tolerate Failure to Deliver More Than Once

A great threat to a turnaround comes from people who fail to deliver anything but excuses. Many a turnaround has been slowed or derailed because a key player fails to deliver, not just once, but two or three times. Hardball leaders in a turnaround have low tolerance for failure. Time is too precious. One failure may be understandable, even unavoidable. Two or three failures to deliver suggest a lack of will, incompetence or even subversion. This expectation for successful execution must be stated and made painfully clear to everybody at the beginning of the turnaround effort; they should understand that there may well be casualties. People who don't deliver need to be counseled, cautioned, moved or fired. Colonel John Boyd, head of the U.S. Air Force Weapons School for many years, is famous for criticizing his top officers in Europe for their low casualty rate during training. He believed it indicated that the pilots were not being pushed hard enough.