

# **HARDBALL**

## **Are You Playing To Play or Playing To Win?**

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The Web site for this book is at [www.bcg.com/hardball](http://www.bcg.com/hardball).

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**MAIN IDEA**

Companies that play business hardball aren't content with just having a competitive advantage. Instead, they work hard to create a virtuous cycle that will take them far beyond the reach of their competitors. In practical terms, hardball companies focus on turning a competitive advantage into a decisive advantage that will neutralize, marginalize and ideally punish their rivals.

More than anything else, hardball players play to win. They use their decisive advantage to set the agenda for their industries. They don't do anything illegal but competitors realize hardball players will do everything within their power to exploit their competitive advantage to the maximum degree. If this approach to business attracts some negative publicity because the weaker or marginal competitors get squeezed out of the marketplace, hardball players don't lose any sleep over it.

In essence, hardball is all about playing the game of business at a professional level. It's all about seizing and then finding ways to enhance a competitive advantage. It's about responding effectively to the moves of competitors and others who are scheming ways to take a piece of the action for themselves. Hardball is the game of business the way it should be played.

*"The winners in business have always played hardball. In the next ten years, companies are going to move more quickly, act smarter, and battle more fiercely than ever before. There will be the leading players and lots of niche players, but very few, if any, players in between. The softball players – those who fail to fully exploit any competitive advantage they do have – that have survived until now (many airlines, certain automakers, plenty of health-care providers) don't have long to live. Only the hardball players will survive. Only the hardball players should survive."*

– George Stalk and Rob Lachenauer

**1. The Five Principles of Business Hardball . . . . . Page 2**

The distinguishing characteristics of hardball players are:

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|-------------------------------------|--|
| The Principles of Business Hardball | 1 Intensive focus on competitive advantage.          |
|                                     | 2 Turn competitive advantage into decisive advantage |
|                                     | 3 Use of indirect attacks                            |
|                                     | 4 Hire people who have the will to win               |
|                                     | 5 Know where to draw the line                        |

**2. The Six Hardball Strategies . . . . . Pages 3 - 5**

The classic hardball strategies in business are:

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|--|--|
| The Classic Hardball Business Strategies | 1 Unleash massive and overwhelming force             |
|  | 2 Exploit anomalies to discover growth opportunities |
|  | 3 Go after a competitor's profit sanctuaries         |
|  | 4 Take a good idea and assume ownership              |
|  | 5 Lure competitors into retreating                   |
|  | 6 Break compromises and erase concessions            |

**3. Using mergers and acquisitions to become a hardball player . . . . . Page 6**

Many times, when a company seeks to harness one of the classic hardball strategies, it finds it is not properly prepared to do so, or does not have the requisite resources. In those circumstances, sometimes the best way to move forward is to acquire or merge with a company that does have what's needed. Mergers and acquisitions can be used to enhance ability to use hardball strategies.

**4. Potential Changes in the Hardball Field of Play . . . . . Page 7**

The one sure thing in business is that nothing stands still. The game of hardball is dynamic and constantly evolving. Therefore, it makes sense to always keep an eye on the major global trends which will alter how the game of business hardball is played in the future.

**5. The Hardball Mindset . . . . . Page 8**

More than anything else, those who play business hardball successfully have a particular mindset – they get to the heart of the matter and stay there no matter what. To do this day-in and day-out requires an intellectual toughness and an emotional awareness combined with an unwillingness to accept the status quo. To play hardball in the future successfully, focus on developing a similar mindset.

## 1. The Five Principles of Business Hardball

The distinguishing characteristics of hardball players are:

1. Intensive focus on competitive advantage
2. Turn competitive advantage into decisive advantage
3. Use of indirect attacks
4. Hire people who have the will to win
5. Make a deliberate attempt to draw the line

### 1 Intensive focus on competitive advantage

Hardball companies work every day to build and enhance their competitive advantage. They talk about it, develop metrics to track and measure it, and relentlessly take action to enhance and build their competitive advantage. In practice, for a hardball company, everything they do is focused on stretching and enhancing their competitive advantage. They're zealous and passionate about winning.

### 2 Turn competitive advantage into decisive advantage

Hardball players are never satisfied with maintaining a competitive advantage. Instead, they aspire to build a decisive advantage – something that will put them out of the reach of competitors. Decisive advantage is self reinforcing – the better they get at what they do, the harder it becomes for competitors to take it away or match it.

Decisive advantage may come from:

- *Economies of scale* – being able to buy materials at a lower cost because of high volume, and passing those cost savings on to customers.
- *Establishing an exclusive relationship* – with a big or influential customer or with a supplier.
- *Developing a unique capability* – such as faster new product development, superior customer knowledge, better manufacturing systems or a combination of factors.
- *Harnessing a virtuous cycle* – greater market share leading to larger revenues allowing costs to be cut more and systems to be improved which in turn leads to above-average margins and the development of new products, leading to even greater market share as the cycle repeats again and again.

*“When companies play hardball, it means 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 can continue this virtuous cycle of activity for a prolonged period, they can transform their competitive advantage into a position more powerful and desirable – they can achieve decisive advantage. With that, they can put themselves into a far more powerful and influential position than that of just the market leader. They can bring about fundamental change to an entire industry, put their competitors into a reactive position, and deliver so much value to customers that their market share grows larger still.”*

– George Stalk and Rob Lachenauer

### 3 Use of indirect attacks

Hardball players avoid direct head-to-head confrontation with established competitors. Instead, they present the market with different value propositions. For example, Southwest Airlines typically starts operating from secondary airports in major markets. The major carriers are then forced with a difficult choice – should they try and compete directly against Southwest and in the process steal business that would otherwise have gone to their major hub where these airlines already have major competitive advantages?

### 4 Hire people who have the will to win

Hardball companies place a high emphasis on recruiting people who are passionate about winning. They look for people who are impatient with the status quo and who are action-oriented. They purposefully find new people who will rally around a challenge and who will respond positively to the challenge to excel.

### 5 Know where to draw the line

In every industry, there is a “caution zone” – an area full of rich possibilities which lies somewhere between what society says is acceptable corporate behavior and what is clearly illegal. Hardball players expect to be in this area frequently, and therefore a high emphasis is placed on drawing a bright line beyond which the company will not go. For hardball companies, their leaders have to draw this line and make it very bright and clear for employees.

Obviously, there are numerous business practices which will need to be avoided entirely:

- Antitrust practices.
- Paying kickbacks.
- Using bribes, smear tactics or threats.
- Predatory pricing.

Hardball players never engage in these activities. There are numerous activities, however, which fall into a kind of gray area which less aggressive competitors don't use. This would include things like:

- *Fakes or feints* – announcing the imminent release of new products to discourage others from developing their own competing products. Or sending out phony prototypes for testing, causing competitors to be misled.
- *Bundling products together* – in an attempt to entice rivals to invest in an area where they have no hope of winning.
- *Lobbying a regulatory body for changes* – which would reduce the power of special interest groups while at the same time providing benefits for consumers.

Hardball players do their homework and know their industries inside-and-out. They get legal and accounting advice so they understand what behavior is acceptable and what is unethical. Their leaders know where the bright line needs to be and they let everyone know when they're getting close to it. Counterintuitively, hardball players also take corrective action whenever they find any of their employees have stepped over that line. Since they understand they are operating in a caution zone, hardball players take extra care to ensure people know they cannot move beyond the limits set.

## 2. The Six Hardball Strategies

The classic hardball strategies in business are:

1. Unleash massive and overwhelming force
2. Exploit anomalies to discover growth opportunities
3. Go after a competitor's profit sanctuaries
4. Take a good idea and assume ownership
5. Lure competitors into retreating
6. Break compromises and erase concessions

### 1 Unleash massive and overwhelming force

Generally speaking, hardball players prefer to attack indirectly. There are times, however, where a bold and decisive marketplace move is called for. When these moments arise, hardball players organize themselves effectively to put everything they have into the attack. This may even involve completely overhauling the business so as to put all available resources and energy to good effect. If this is what's needed, hardball players are perfectly willing to do this. Often this will take vision and courage.

Examples of these types of moves include:

- On September 18, 2001, General Motors announced it would offer zero percent financing on all its vehicles. This caused GM's sales to rocket and forced its competitors to match the offer. GM had stronger financial resources than the other companies and they were seriously weakened by having to match GM's move. GM also launched this initiative when it could be pitched patriotically as a way to "keep America rolling" which just happened to be when the company had launched eighteen new models – double the number of new models offered by Ford and Chrysler combined.
- By 1991, Anheuser-Busch's Eagle brand had grabbed 6-percent of the salty snack market dominated by PepsiCo's Frito-Lay. Frito-Lay knew if Eagle could reach 10-percent, it would be difficult to dislodge so Frito-Lay employed a hardball strategy. The company worked first on enhancing its production quality. When its processes were fine-tuned, Frito-Lay cut prices aggressively and attacked Eagle's distribution system to supermarkets – where it had traditionally earned the bulk of its profits. Eagle was unable to match Frito-Lay's overwhelming attack and within a few years exited the industry.

The use of force has to be carefully weighted. If taken too far, a competitor may be forced into bankruptcy only to emerge leaner and better able to fight for market share in the future. In addition, overwhelming force often attracts bad press, legal investigation and possible competitive protest. The use of force can also backfire if the company deploying this tactic does not have a cost advantage over its competitors. Otherwise, a competitor can blunt the attack by offering more attractive customer offers, better products or price cuts.

*"Using massive and overwhelming force is not as sure a bet as it may sound. 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. It is one thing to have money in the bank, quite another to write a big check."*

– George Stalk and Rob Lachenauer

### 2 Exploit anomalies to discover growth opportunities

From time to time, business anomalies arise:

- A product may find an unanticipated use amongst consumers.
- Employees may behave in unusual ways because of marketplace pressures and concerns.
- The insights from one industry may have a surprise application in an entirely unrelated field.

Softball companies dismiss these anomalies as aberrations that can gum up their business systems. Hardball players, by contrast, pick up on these anomalies, and actively look for ways to exploit them to the fullest. Their approach is to ask:

- "What's really going on here?"
- "What can we learn from this?"
- "How can we take this insight and use it to drive our business to a whole new level of achievement?"
- "How can we adjust our business strategy to take full advantage of this opportunity?"

Most mature businesses are fertile grounds for anomalies but few get picked up on. For example, a company which has a higher market share in one particular area than anywhere else may simply assume this is due to random factors when in fact, there are concrete reasons for this achievement. Their desire to stay set in their ways with established processes may outweigh their desire to grow the business. This is never the case for hardball players, however. For them, anomalies are indicators of potential business opportunities.

Hardball players look for anomalies in an organized way. They set up scouting teams to spot anomalies, analyze their causes, estimate the profit potential they represent and develop recommendations for the best way to take advantage of them on a larger scale. Typically, these teams are cross-functional, with people from finance, business development, sales, marketing and operations being involved. These teams differentiate whether the anomalies they uncover are one-time events or are caused by definitive issues that can be replicated successfully elsewhere.

More than anything, uncovering anomalies is driven by management. They must be active in asking "Why?". Why has a customer been so loyal over an extended period? Why has the company been successful in one application? Why is the business growing faster in one area than another?

*"Business unit personnel may be closest to the details of the anomaly in question, but they are usually too caught up in the day-to-day demands of their jobs to recognize the strategic significance of unusual patterns and practices. It often takes someone who is one step removed to notice and act on anomalies. It also takes an appreciation of differences, a lively sense of curiosity, and a willingness to play with the taken-for-granted rules of the business."*

– George Stalk and Rob Lachenauer

*"Taking advantage of an anomaly is an opportunity to inject into your company some of the vitality, excitement, and spirit of experimentation that is characteristic of start-ups. By capitalizing on anomalies, you can harness an entrepreneur's creative energy and put growth back on your company's agenda."*

– George Stalk and Rob Lachenauer

**3 Go after a competitor's profit sanctuaries**

A profit sanctuary is that part of a business where a company makes the bulk of its money. As a retaliatory strategy, hardball players can sometimes attack their competitor's profit sanctuaries to send them a message – such as encouraging a competitor to back off and not enter a segment of the market that is attractive or to encourage them to slow down their investments in product development or production capacity.

An attack on your competitor's profit sanctuary can take many forms:

- You can compete aggressively on price for selected products in selected geographies alone.
- You can offer products with new features at prices that will take volume away from your competitors.
- You can increase the value of service offerings while holding prices steady.

Note the goal here is not to put your competitor out of business entirely. That risks creating a monopoly, which will attract the attention of the regulators. Instead, you're attempting to choke off your rival's cash flow so as to force them to change something they're doing which is detrimental to you.

The classic example of this type of hardball strategy is the Japanese automakers attack on the traditional profit sanctuary of American automakers – light trucks. By the late 1990s, the Big Three sold more light trucks than they did cars in North America. Some of these trucks generated more than \$10,000 in profit for each vehicle sold. In the early 2000s, Toyota, Nissan and Honda all started selling trucks that went head-to-head against the best sellers of GM, Ford and Chrysler. Within the space of a few years, the Japanese automakers have managed to secure a 25-percent share of the market, choking off the profit streams of the American automakers.

Attacking a rival's profit sanctuary is, however, a high-risk strategy, even for a hardball player. In particular:

- Your rival may reciprocate and go after your own profit sanctuaries in return.
- Your rival may have greater financial strength than you estimate, meaning they can ride out your attack and grow leaner but stronger in the future.
- A "white knight" or "sugar daddy" may show up unexpectedly meaning you have to exit the market before your attack backfires and drains your own resources excessively.
- Your competitor may make anti-trust allegations against you so you have to devote considerable management time and attention to defending yourself, even if these allegations ultimately prove to be false.
- You may not know as much about your rival's business model as you thought you knew.

*"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. 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. And it is essential that you have good legal counsel throughout the process of planning and executing your strategy."*

– George Stalk and Rob Lachenauer

**4 Take a good idea and assume ownership**

Softball players typically think their own good ideas are sacred. Hardball players are much more agnostic. They will take any good idea they see – regardless of who developed it – make some tweaks and then run with it to create a competitive advantage for themselves. Put differently, hardball players couldn't care less whether or not they are accused of being copycats. All they do care about is finding what works.

Hardball players never fall foul of the NIH (not invented here) syndrome. Quite the opposite. They are continually on the lookout for great ideas they can adopt, adapt and improve upon. They look at what their competitors are doing and find ways to build on that. They look in other industries for innovations that can be adapted. Hardball players are perfectly happy to copy the practices of well-known rivals if that's what's required to build a competitive advantage.

For example, Ford noted that Honda's service operation was far more widely used than their own. Less than half of Ford's new car buyers had their cars serviced at Ford dealerships whereas more than 70-percent of Honda's new car buyers went back to their dealership for their service needs. To rectify the situation, Ford cloned many aspects of what Honda was doing right:

- Combine all the maintenance requirements into service bundles which were offered at specific mileages as a package.
- Send out notifications to customers reminding them their cars needed servicing and encouraging them to have it done at the dealership.
- When cars reach a specified mileage, have someone from the sales department start communicating with the customer about new models and finance options.

Ford also added its own twists so as to make its program its own. It simplified the service schedule across the entire vehicle range, from Mustangs to trucks. The company added tire replacement to its service schedule successfully. And it developed ways to get dealers onside by showing them they were leaving money on the table in annual service revenue which could be secured for almost no additional expense. The result of all this work was Ford's service division achieved double-digit growth for four straight years.

Of course, copying ideas is no panacea. It makes sense to copy an idea only when it will enable you to gain leadership and only when you truly understand everything that's required to make it work. Unless you commit fully to implementing and executing an idea well, it's not going to make much of a difference. But if you can make the copy your own and give it a distinct flavor and orientation, it's impressive just what can be accomplished with a little bit of business cloning.

*"Hardball players are not afraid to pick up on what others have done. And it's a good thing. Steve Jobs knew he was looking at a good thing when he saw an early version of a Graphical User Interface at Xerox Palo Alto Research Center. If he had ignored it, would Apple exist? What if Kiichiro Toyoda had not applied the just-in-time techniques he learned from Ford? 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."*

– George Stalk and Rob Lachenauer

**5 Lure competitors into retreating**

Perhaps the ultimate hardball strategy is to entice your competitors to do something that they assume is beneficial but which turns out to be detrimental in the long run. Presumably, this will be based on understanding your industry and its dynamics better than your competitors do. This strategy is very risky and often requires a bet-the-company commitment, but if successful can produce impressive results.

Most often this will arise in complex businesses. You're trying to lure your competitor to compete in an area that they believe will be highly profitable but which you already know will actually be much less profitable when everything is taken into account. Japanese manufacturers used a version of this strategy in the 1970s and 1980s to gain power in many industries in the Western markets, such as motorcycles, ball bearings, machine tools and photocopiers.

The pattern they used was:

- The Japanese company would start with low-priced products at the volume end of the marketplace.
- The Western companies would assume the low-end of the market was not worth fighting for, and would add features to their products so they could charge higher prices.
- The Japanese companies would then use their manufacturing volume to add higher-range products with more features but still at lower prices than the offerings of their Western competitors.
- Even as the Western companies were giving up segment after segment of their markets, they deluded themselves into thinking the Japanese were limiting themselves to unprofitable portions of the market.
- Eventually, the Japanese used their experience to reduce costs and enhance quality, allowing them to offer superior products right across every market segment.
- The Western companies exited the business or retreated to specialist niches.

These opportunities to entice your competitors to retreat generally only arise when specific market conditions exist:

- Your competitors offer a broad range of products and services.
- It's difficult to allocate indirect costs to specific products.
- The costs of creating customer relationships are high.
- Employee bonuses are revenue-based, not margin-based.
- Competition is based primarily on price.
- The industry is growing rapidly, so cost accounting is minimal.
- There are enough competitors to create complexity.

At any time, this hardball strategy will be high risk. You're intentionally giving up some market segments in order to build other competitive advantages. Get it wrong and it will be you that's hurting rather than your competitor. You then risk becoming irrelevant in your own core markets, which cannot be a good thing. Or even worse, you might gift your competitive advantage to your competition. You'd better be right before employing this hardball strategy.

*"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."*

– George Stalk and Rob Lachenauer

**6 Break compromises and erase concessions**

Sometimes hardball players achieve explosive growth by breaking an industry's unwritten compromises or the accepted practices it forces customers to endure. There are many examples of companies which achieved runaway growth by going against accepted industry practices. One of these is CarMax, which offers a better way to buy a used car by having 1,000 to 1,500 vehicles available on the lot, each with a fixed no-haggle price backed by a five day return guarantee. In 2002, CarMax generated \$3.9 billion in sales and \$94.8 million in earnings. The company is on track to do \$8 billion in sales by 2007.

*"Customers are surrounded by compromises. Why should a home owner have to go through a costly remortgage when his mortgage holder lowers interest rates? They shouldn't; it's a compromise created by the industry to keep customers locked in to high rates and reap fees when they switch. Why can't washers and dryers do a good job of doing laundry and also look nice as part of home decor? Most compromises don't have to be. There is no law of nature that says cars can't be fixed on weekends or that hotel rooms can't be ready before 3 P.M. When some smart company comes along, sees the compromise, and finds a way to break it, and customers suddenly see the compromise, they become delighted they now have a choice."*

– George Stalk and Rob Lachenauer

So how do you identify and find customer compromises you can break and ride to impressive growth? Some ideas:

- Shop the way your customer does rather than having an assistant do it for you. Experience the frustrations of doing business with your own company first-hand.
- Go beneath the surface and find out what potential customers are genuinely thinking. You may be surprised to hear they would happily pay more if they could configure your product or service to better suit their needs. Don't automatically assume everyone is looking for the lowest possible price.
- Try to look for ways to change your product/service delivery mechanism so you can provide what customers want within a shorter time frame. Be the first to offer this reliably and impressive things can happen.
- Use your imagination. Look at how many features of your current product or service are designed for simplicity of manufacture rather than for ease of use. Challenge these compromises and see where your thinking takes you.
- Find ways to execute faster. All other things being equal in an industry, who can deliver the fastest always has the front running.

*"Breaking compromises is a powerful organizing principle to motivate people to find major growth opportunities. If you can break one compromise, you may create a competitive advantage. If you roll out the concept rapidly enough, you can create decisive advantage. If you can break several compromises at once and roll them out quickly, you may revolutionize your industry and become an icon."*

– George Stalk and Rob Lachenauer

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

– George Stalk and Rob Lachenauer

3.

Using mergers and acquisitions to become a hardball player

Many times, when a company seeks to harness one of the classic hardball strategies, it finds it is not properly prepared to do so, or does not have the requisite resources. In those circumstances, sometimes the best way to move forward is to acquire or merge with a company that does have what's needed. Mergers and acquisitions can be used to enhance ability to use hardball strategies.

A good merger or acquisition will allow a company to turn competitive advantage into decisive advantage by:

- Locking up the key strategic assets which will be required.
- Adding new strengths and capabilities.
- Building superior economics.

Always keep in mind that mergers and acquisitions are tools to be used in support of a strategy rather than a viable business strategy in and of themselves. If a company carries out a series of unrelated or non-strategic acquisitions, it will be no further ahead than if it had attempted to grow organically. It may, in fact, weaken the entire company because of the costs involved in any merger or acquisition.

Examples of companies which have used the merger and acquisition route to achieve decisive advantage abound:

- Partners Healthcare was formed by the merger of Brigham and Women's Hospital and Massachusetts General Hospital in 1994. Partners Healthcare was then able to make a series of acquisitions which made the company the highest-quality provider in a wide variety of specialties. The company has grown its market share significantly as a result of the application of the combined resources.
- Cisco was founded in 1984 as a provider of data routers. The company has become the major player in the data networking industry and expanded its business by making eighty-two acquisitions. Cisco excels at integrating the companies it acquires into its business well – which is a valuable skill in and of itself.
- Newell has grown its business from \$20 million in revenues in the late 1960s to more than \$2 billion in the mid-1990s by making more than one hundred different acquisitions.

Hardball players generally follow a few key principles in making mergers and acquisitions that are straightforward to understand but difficult to actually execute:

- *Make an acquisition only if the opportunity fits with your business strategy* – that is, only if the acquisition will help strengthen your competitive advantage. Don't make acquisitions for any marginal business purposes.
- *Never give in to the temptation to step outside your proven process* – but instead stick with the business model you're most familiar with. Don't make any exceptions, even if the opportunity looks tempting.
- *Anytime you do change your acquisition criteria, make sure you also adjust your acquisition process accordingly.* If you've made successful acquisitions in the past, don't fall into the trap of thinking that empowers you to take on bigger challenges in the future. Stick with what you do know rather than straying off into marginal areas where you have no experience base.

- *Carry out your own due diligence* – and don't succumb to the unsolicited proposals put forward by investment bankers. You should be perfectly capable of generating your own ideas, evaluating them for competitive advantage and negotiating a deal. Don't think you have to hire outsiders to handle these needs. Their aims are too different to yours to be objective and helpful.
- *If you do seek the help of outside advisers, hire people who don't stand directly to gain from the transaction.* The only time outside advisers should be used is if they have knowledge and skills you don't have in that specific field. Pay for their time and expertise, not on the outcome of your analysis.
- *Be rigorous when valuing a potential acquisition target* – and analyze how much the acquisition will impact on the value of your company compared with what it would be worth on the open market. Also think about whether a competitor would gain a sustainable competitive advantage if they made the acquisition rather than you. Try and look down the road some way before making your decision.
- *Make certain you invest enough resources in making the acquisition work* – because this is where the majority of acquisitions struggle. Too many executives focus on doing the deal in the assumption everything will work out later on. Don't fall into that trap. Focus intensively on execution issues, because that's where value is made or lost.

*“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 a 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.”*

– George Stalk and Rob Lachenauer

*“Playing hardball is the toughest game in the world. Don't try to play if your management practices are sloppy. Don't expect to stay on the field long if you don't keep your edge sharp by constantly increasing your knowledge. For that, make sure you have a professional set of hardball equipment – including cost benchmarking tools, competitive tear-down skills, and a customer compromise analysis kit – to help you determine your best hardball move and develop a good sense of how your competitor might move against you. Finally, don't think you can play the game by yourself. Hardball is a team sport. You need a network of customers, suppliers, employees and advisers whom you trust to tell you the truth.”*

– George Stalk and Rob Lachenauer

*“Although the rules of hardball apply in every industry, companies are most successful with these strategies in industries where significant cost and capability advantages can be established. In capital-intensive industries – such as airlines, paper and steel – achieving an advantage in cost or capability is very difficult. In expense-intensive industries, however, companies can invest ahead of their competitors to achieve a genuine advantage that is very difficult and expensive to replicate, if it can be replicated at all. You cannot simply buy several large stores with large parking lots and match Wal-Mart's cost and capability advantage.”*

– George Stalk and Rob Lachenauer

4. Potential Changes in the Hardball Field of Play

The one sure thing in business is that nothing stands still. The game of hardball is dynamic and constantly evolving. Therefore, it makes sense to always keep an eye on the major global trends which will alter how the game of business hardball is played in the future.

The major issues which will affect how the game of hardball is played in the future are:

1. *The China Card* – having tough competitors materialize from China who have access to a huge emerging consumer market that is denied to non-domestic companies. The ways hardball players will respond to these new competitors will include:
  - Drive down your own costs faster than your competitors can. Move your manufacturing to China earlier than your competitors and use the money saved to fund other ideas that will help you create competitive advantage.
  - Start finding ways to sell product to the Chinese domestic market. Do whatever it takes to access this market, or you leave this as a profit sanctuary for your competitors.
  - Use time wisely. If your competitors rely on Chinese suppliers, their supply chain is very stretched. Small changes in demand can generate huge distortions at the other end. Take advantage of that potential weakness.
  - Bluff. Announce you're going to China, but then drag your heels. Watch as your competitors rush to line up hasty supply deals, and learn from their mistakes.
2. *Getting bogged down in the middle of the market* – which means you're not going after the high-end consumers, nor are you going after the value shoppers. All markets have become polarized in the shift from being producer-driven to consumer-driven. You're in danger of getting stuck in the middle of the market if:
  - Your product is undifferentiated, but sells at a higher price.
  - Your product is only mediocre in features and quality.
  - You don't offer exceptional value, features or attachment.
  - You're an anonymous company with no real story.
  - Consumers don't think your brand name is worth anything.

Softball players will respond to this by:

- Counting on customer loyalty to get them through.
- Leaving everything to sharp advertising & clever marketing.
- Attempting to copy what the market leader does.
- Failing to really understand the customer experience.
- Ignoring any anomalies that make them uncomfortable.
- Refusing to acknowledge changing customer tastes.
- Hoping everything will work out.

Hardball players, by contrast, will know the middle of the market is no place to be. They'll learn as much as possible about the customer and then make a deliberate decision whether they will move up or down in the market. They will face up to the fact customers are no longer loyal to undeserving brands and will move aggressively towards becoming more deserving. Hardball players will then look for ways to either offer premium goods that consumers are willing to pay extra for or they will find ways to be the low cost providers in their markets.

3. *Having to deal with legacy assets which become stranded on the balance sheet* – meaning their costs of operation are higher than the prices consumers are willing to pay for their products. Forces like globalization, technology change and even corporate self survival have stranded all kinds of assets on balance sheets waiting for the inevitable write-downs which must surely come. Stranded assets come in various forms and types:
  - Physical – old shopping malls, manufacturing plants, under utilized retail space, disused rail lines, etc.
  - People – who have work skills that are no longer in demand, coupled with substantial healthcare and pension liabilities.
  - Suppliers – who have geared up to meet manufacturing demand that is now outsourced overseas.
  - Customers – who don't want to migrate to state-of-the-art technology or change their current practices.

Softball players try and delay the inevitable by seeking government aid or public help. Hardball competitors acknowledge reality and try to repurpose their stranded assets, and if that fails, eliminate them and move on.

4. *Being "Wal-Marted"* – deciding whether you'll do business with the largest retailer in the world or not. If you decide to sell to Wal-Mart, they expect you to stick to the Wal-Mart way of consistently lower prices and an efficient supply chain. That won't leave much money for innovation or the other things your brand stands for at present. In effect, suppliers sacrifice some of their individuality and vibrancy for exposure and an increased customer base. You have three choices:
  1. Don't sell to Wal-Mart at all.
  2. Create two brands, one for Wal-Mart and one of your own.
  3. Sell new products outside, old products inside Wal-Mart.

So how do you play hardball against Wal-Mart (who are already very accomplished hardball players themselves)?

- *Exploit Wal-Mart's customer compromise* – where customers have to drive a long distance and then roam around a huge retail space helping themselves. Offer customers a better customer experience and charge accordingly. Some people will be happy to pay the difference.
- *Offer premium products with personalized service* – which means to provide the emotional engagement a discount store simply cannot deliver. Your prices will still need to be competitive but not absolutely rock bottom.
- *Find ways to raise Wal-Mart's costs* – by publicly identifying an area where Wal-Mart performs badly and raise consumer awareness. In recent times, Wal-Mart has been accused of pressuring employees to work unpaid overtime, offering meager health benefits, damaging small business and polluting the environment.

Eventually, some other competitor will arise who will successfully challenge Wal-Mart's competitive advantage built around the efficiency of its supply chain activities. Nothing obvious is on the horizon at present, unless it is a more engaging form of online retailing that would dwarf even the size and scope of a Wal-Mart store. Eventually, something or someone will dethrone Wal-Mart. History is full of "undefeatable" business models that have eventually become obsolete.

More than anything else, those who play business hardball successfully have a particular mindset – they get to the heart of the matter and stay there no matter what. To do this day-in and day-out requires an intellectual toughness and an emotional awareness combined with an unwillingness to accept the status quo. To play hardball in the future successfully, focus on developing a similar mindset.

Playing hardball effectively is much more involved than simply having the right strategy. You have to be prepared to play – to be serious about your business but at the same time genuinely enjoy what you're doing. And you'll need to be so passionate about winning that attitude rubs off on everyone in your organization.

The most important task for any hardball player is to face facts, get to the heart of the matter and stay there. For any business, the heart of the matter is identifying whatever issues are limiting growth and fixing those choke points. This will usually be emotionally taxing and difficult. It will take guts, but that's what hardball is all about.

Leaders who are able to play business hardball generally have three traits in common:

1. *They live at the rock face* – that is, they personally come face-to-face with customers, consumers, competitors and suppliers. These responsibilities are too important to be delegated. Hardball leaders talk with customers, visit their distributors and experience everything customers do.
2. *They have the courage to ask very simple yet potentially profound questions* – like:
  - “Who are our customers?”
  - “Why do these people buy from us?”
  - “How can we build that into a competitive advantage?”
3. *They build a truth-telling network* – made up of a mix of colleagues, customers, advisers, friends and family members who will tell it like it is rather than how they think you want to hear it.

Hardball leaders never get complacent. Instead, they visualize their businesses as constantly being in turnaround mode. They stay focused on the key business objectives that will actually impact on the performance of their firms:

- Rationalizing their portfolio of business activities to be fully engaged in only those business lines where value can be created.
- De-averaging costs and prices so as to unbundle opportunities for growth.
- Focusing on key products, services and customers.
- Finding creative ways to turn the strengths of key competitors into marketplace weakness or irrelevancy.

Any good management team which is in turnaround mode won't allow themselves to get distracted from these central objectives. They will encourage their people to come up with ideas and initiatives for change and improvement in these specific areas of the business.

Business leaders, along with their management teams, will set priorities and decide which initiatives to pursue by some key hardball-style guidelines:

- *Focus on surviving first, then on attaining and retaining a competitive advantage* – because a company has to have the money available to make the investments that will lead to competitive advantage. Therefore, all surplus cash must be directed first to survival and then towards creating and building competitive advantage.
- *Make sure every project undertaken has a demonstrable and quantifiable payback* – so it becomes possible to tell within 12- to 18-months whether the project is focused enough on the key issues.
- *Don't allow the alarmists to hold center stage* – but insist that everyone who articulates problems also suggests at least one way to solve or bypass that problem.
- *Be decisive* – say “yes” or “no” but never “maybe”. Provide clear and unambiguous direction. Don't continue existing programs in the hope they may come right. Give an answer right away and make it clear all resources will be directed towards the goal of achieving and then pressing home a competitive advantage.
- *Communicate continuously with your key people* – employees, customers, suppliers and financiers. Tell these stakeholders how the turnaround effort is going so they will see everyone is serious and get onboard. This will take quite a bit of repetition.
- *Have a very low tolerance for failure* – and don't allow people to fail more than once. Build an organization wide expectation for successful execution. Make it clear there will be casualties moving forward and then be consistent in the way you act.

*“Getting to the heart of the matter is not easy, and it requires doing more than just identifying what the heart of the matter is. Confronting the heart of the matter and fixing the issues there, especially in fiercely competitive markets, can be physically and psychologically taxing. It is much easier to make the small, incremental actions than to make the tough decisions necessary in the heart of the matter.”*

– George Stalk and Rob Lachenauer

*“People and organizations can come up with many excuses for avoiding heart-of-the-matter issues, and they all sound plausible. Popular ones are, ‘That’s not my problem,’ even when it is. Or, ‘We’ve tried to solve this problem a thousand times before,’ even when they’ve never really committed themselves to any of the initiatives designed to solve it. Or, ‘I’m waiting for some leadership,’ when, in fact, it’s their job to provide it. The only way to get the organization to focus on the heart of the matter is for the senior leader to define the issues, talk about them, and attack them first.”*

– George Stalk and Rob Lachenauer

*“There are many ways to win at hardball, and every winner has his own style of play. We wish you success as you work to create competitive advantage, shake up your industry, strengthen the economy, and make the business world a place where the game is played hard but true.”*

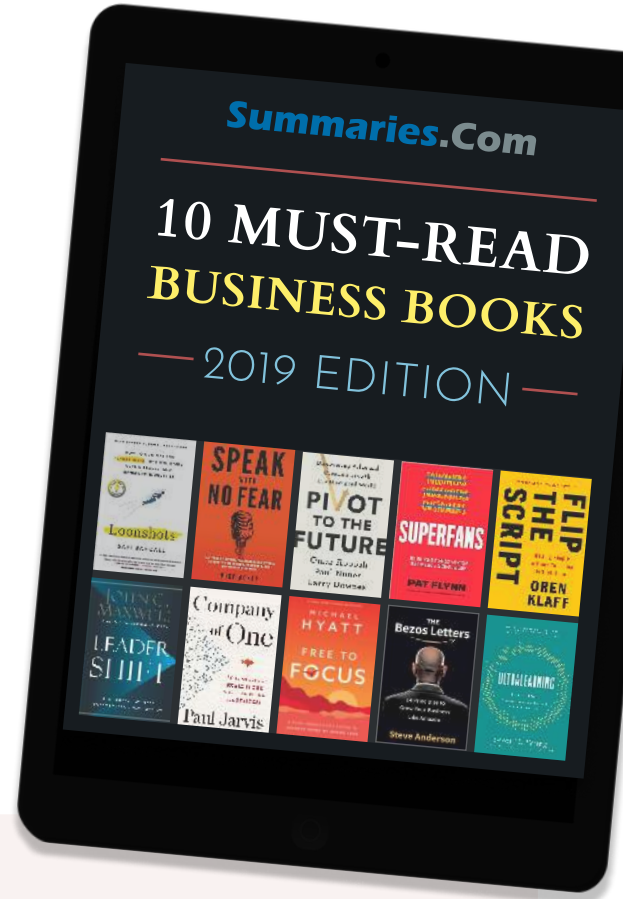
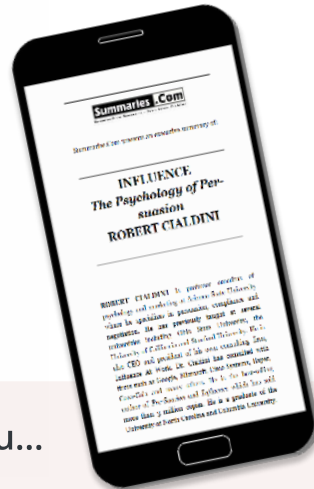
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