CHAPTER

1

The Art of War . . . and Money

What the ancients called a clever fighter is one who not only wins, but excels in winning with ease.

—Sun Tzu, *The Art of War*

The Art of War is an ancient Chinese military treatise created over 2,500 years ago by Sun Tzu. Translated many times over the years, and garnering more popularity in the West over the past couple of centuries, *The Art of War* emphasizes the importance of positioning in military strategy. Its tactics and strategies have more recently been extrapolated into business applications.

Sun Tzu maintained that decisions about positioning an army must be based on both objective conditions in the physical environment and the subjective beliefs of competitive players in that environment. He advocated planning a strategy but also acknowledged that unexpected situations arise—and held that the need to adapt is crucial.

The quality of being fluid and adapting your strategy based on your competitor and changes in the environment is one key element that you will take away from this book.

Knowledge is another key *Art of War* principle. By sharing the background of what has taken place in the global marketplace and by analyzing the tactics of emerging entrants, we aspire to contribute to the success of your global expansion strategy.

China Has Risen and Is Here to Stay

Let's take a look at the state of the world today: that is, the conditions as they relate to the social and economic trends that involve and affect China and the West.

China Has Grown into a Formidable and Undeniable Force

There has been much speculation as to whether this rapid growth by China is sustainable or whether that growth has just been a lucky blip. In other words, is China's recently rediscovered success temporary? This question has been discussed again and again by anxious Westerners, along with what China's growth implies for the financial markets.

We see headlines about China's financial results moving global markets and we increasingly hear about China's rapid wealth creation among its newly forming middle class.

It has become clearer that the so-called new China is here to stay and will only continue to evolve and grow in different dimensions. And let us not forget the strength and dominance of the Chinese empire of only a couple of centuries ago.

Societal Shift

China's domestic economic shift has created a more abundant society and accelerated wealth accumulation. The Chinese middle class has grown rapidly and now has the means to acquire the same luxuries as the West, and more. This economic shift has engendered such an increase in consumer consumption that it is difficult for suppliers to keep up. At the same time we see headlines about newly wealthy women paying $16,000 for 10 days of finishing school in order to learn social graces and upper-class cultural practices. Another proof point of this upward societal and economic shift is that poultry had become hard to come by because of the exponentially increasing demand.

Because of this disconnect between supply and demand, the Chinese are acquiring natural resources from around the world and building infrastructure to support the rise of its new middle class. A new, desirable consumer base has been created that everyone—especially foreign investors—wants access to.

A Wake-Up Call for the West

> *"Wow, how did this happen?" says the United States. "China has all of my money, but I can't afford to stop buying from them, as our consumer demand is insatiable."*
>
> *"The Chinese are here on my home turf, buying up our assets and setting up their own businesses."*
>
> *"These new competitors are winning over my customers in ways that I can't compete with or by using tactics and approaches that I'm unfamiliar with."*
>
> *"And they're establishing themselves in markets that I haven't yet fully penetrated or dominated. . . . I feel my advantage slipping."*

And so the West finally pops its head up from the hammock, takes a look around, and wonders how all this happened so quickly. How did they arrive at this current state of affairs? How bad is it really? And what should they do next?

Many say that China ostensibly owns the United States because China is the largest foreign holder of U.S. debt. The United States (and perhaps the greater West) also finds itself to be economically dependent on China in order to feed its gluttonous need for consumer goods. They can't afford to stop buying from China. They took advantage of China's cost-effective and efficient manufacturing capabilities, asked few questions, and did not consider the consequences.

Meanwhile, China continues to seek expansion into the United States as well as into the rest of the world. Investment constraints (i.e., regulations in China) are causing Chinese investors to come to the United States, Canada, Australia, and numerous other Western countries to buy real estate, which drives prices up.

China is also excelling abroad and growing in new areas, including in the emerging markets, where the United States and other Westerners have historically been less focused (Africa is a particularly good example). And the West is encountering new competitive pressures and tactics from Chinese competitors that they have not experienced before. While some Chinese business practices have been challenged by the WTO (World Trade Organization), the Chinese have new ways of doing business that are winning over customers and blindsiding Western companies.

Despite the West's innovation advantage, which China and other countries are still striving to acquire, Western companies are quickly losing their grip on their competitive edge. While China still has a shortage of professional expertise, it is now developing engineering talent better and more quickly than the United States and other countries in the West; companies like Google and Yahoo are setting up sites in China in order to have access to these resources.

As Michael Porter, professor at the Harvard Institute for Strategy and Competitiveness, highlights in a Harvard business report entitled *Competitiveness at a Crossroads*,[1] "America has lost the ability to compete in the international marketplace." The historical strengths of the U.S. "are in decline, including our infrastructure and stock of skilled labor. And America's strengths are weighed down by worsening, self-inflicted weaknesses: a paralyzed political system, a convoluted tax code and regulatory framework, a costly legal system, weak K–12 education, and poor fiscal policy."

One of the primary causes of weakening competitiveness is *short-term versus long-term* thinking and strategy. Innovation has been focused on efficiency and cost reductions because Western business leaders are rewarded for short-term performance and creating shareholder value.

Writing about the report in 2013, *Forbes* contributor Steve Denning notes:

> *By contrast,* value adding innovations, *particularly game-changing innovations, are often viewed as too risky and expensive to invest in. Corporations will consistently gravitate to safer cost-saving innovations, even if this approach will set the company on a track that consistently leads to loss of global competitiveness and eventually corporate death.*[2]

And that is what has happened. As Allen Murray writes in the *Wall Street Journal*, "market-leading companies have missed game-changing transformations in industry after industry—computers (mainframes to PCs), telephony (landline to mobile), photography (film to digital), stock markets (floor to online)—not because of 'bad' management, but because they followed the dictates of 'good' management"—in other words, these companies took only very carefully calculated risks or were risk averse.[3]

Essentially, by failing to take a longer-term view on strategy and investments and by being reluctant to take sufficient risk, Western companies are experiencing innovation gaps and lagging in global competitiveness.

And this is not just an issue in the United States—Canada and Western Europe also suffer from similar challenges.

A New Global Paradigm of Business

The truth of the matter is that it is no longer business as usual. It is not about product superiority—my box is better than yours, as in the high-tech world—or feature-function parity, as demonstrated through a two-page data sheet.

There are now dynamics at play that are more ambiguous, and there are complex political considerations to deal with, from the micro/organizational level up to the national/political level.

New entrants are hungry and are in it to win—at whatever cost—so they pull out all the stops and push boundaries, which sometimes results in the West claiming unfair practices. For example, the Chinese government is subsidizing the global expansion of its companies by helping to subsidize or finance new customer acquisitions when possible.

Market penetration strategies for new entrants who are lacking in competitive product advantage often include heavy price-cutting and discounts, in order to gain the attention of prospective customers. This allows new entrants an opportunity to get their feet wet and gain experience that will eventually lend them credibility in the marketplace. We will discuss this in more detail in later chapters.

In the meantime, let's take a look at the progression that led to the economic state that we are in today. It is important to understand this for a couple of reasons. It will never be as it was, so we need to understand where the economy is going in order to continue to thrive. This understanding is critical to figuring out your competitors' strengths, as well as their strategies and future goals. Likewise, it is also important to understand your own strengths, as well as areas requiring improvement, in this new arena of global competition.

Furthermore, this same pattern of global emergence will be repeated and encountered with other new entrants (for example, those coming from Vietnam) as they emerge and advance up the economic ladder as China has. The West's rules no longer rule.