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PART **ONE**

basic training

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CHAPTER **1**

appraise yourself, the landscape, and your opposition

You already know much about the basics of the e-business world and how it evolved, if not firsthand, then from watching and hearing about the strategies and stories of countless companies—both Web-based and brick-and-mortar. What is not so intuitive, and therefore requires closer examination, is how Internet *business* operates.

Whether you are a successful brick-and-mortar company looking to add a Web-based component to your business, or are already operating in the online world, you need to closely examine yourself, the landscape, and the opposition in order to correctly judge how to gain the upper hand and face what is now a fierce fight for the survival of the fittest.

Remind yourself that business is different online and that, in order to make your business succeed, you must know and accept your weak-

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nesses while leveraging your strengths. You must listen to and follow the new rules, understand the new ways of dealing with your competition and the new method to develop your business.

Answer these questions to figure out where you stand in terms of knowledge: Do you understand how content distribution through online partnerships works? Do you know how content and branding opportunities can be traded or purchased to extend your online presence? Do you know how to optimally transform your content into data feeds sent to remote-hosted sites, and make this process pay? Should you pay a slotting fee to feature your company's goods and services on a major Web portal? Is it better to be located in the portal's shopping area, or to have a more ubiquitous presence in specialized search results or vertical content areas? Whether you know the answer to one, all, or none of these questions, you need to dig deeper and learn how to make this consolidating industry work for you, revisiting what you thought you knew. This book shows you the more subtle aspects of making these decisions. In order to understand how the online business environment works, you must take 10 steps backward and survey the whole battle map.

Basic but valuable information includes, for example, the role of search engines and portal sites, and what they are becoming. Other essentials include knowing how market spaces are created online and how they are accessed, and a familiarity with the new currencies that drive this burgeoning economy. Simple examples of innovative business methods include obtaining an equity position in a company you're partnering with, or establishing content distribution mechanisms (i.e., getting your products featured on other people's Web sites). These new methods are sometimes as profitable as traditional product promotions. In-depth examples are outlined later in the book.

This is an environment where everyone does everything; be prepared to wear many hats.

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So on we move to the starting point for learning the art of .combat. You are about to embark on authentic basic training. **Know what you *do* know about the fundamentals of technology. Realize what you *don't* know about new business models. And be aware of the huge terrain between the two.**

In this relatively new territory, everyone, from the biggest corporations to the kid next door, has access to the same market space as you. You must pitch your flag and mark your turf as well as understand this terrain consists of fluid boundaries. Your trick is to provide value to your limited tract so you can first insert yourself in the .com traffic and money flow. After that, you can extract your profit.

One sexy cutting edge of the Internet is the entertainment world, with its online video streams, music broadcasts, and networked gaming. This book looks at these businesses and what you can learn and gain from them. In comparison, a study of how product flows to and from any business, online or not, may not seem as exciting, but understanding how the old models have changed is crucial.

Reexamine the Business Model

In a generic sense, businesses obtain raw or refined materials from others, add value to the materials, and then sell them to others. This means, on the most basic level, that all businesses are in the service industry. They provide a service that enhances a product, and other people pay for that service.

A basic example is a mining company that provides a service by removing iron ore from the ground. They then send the ore to a smelter (within the same company, or a separate company) that provides the service of refining the iron into a usable metal. For example, carbon and other elements are added to produce steel. From there, the material is sent to forges, foundries, and factories where other value and services are added along the way. Eventually, the metal ends up as the fender on your car and the fork in your hand.

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Steel is a great example of a vertical industry. In a vertical industry, you can track the flow of products from raw material to finished goods. If a shortage develops at any level, all the downstream operations in the vertical industry feel the pinch. If the price of iron ore rises, the price of its products responds in kind all through the vertical.

In any industry, manufacturers are at the mercy of both their upstream suppliers and downstream customers. This is true even in the entertainment and software industries. What could a movie director accomplish if she couldn't find cameras, film, lights, actors, costumes, production facilities, and a distribution company for the finished product? How could a software developer succeed if he can't find computers, programming tools, technical support, and someone to buy his creations?

No matter what business you're in, think of it as a manufacturing process. Supply and demand exist at every level of every industry. **Today, the larger your scope of supply and demand and your role in it, the better foothold you will have in the e-business world.** No matter what your industry, the Internet is a key tool to broaden that view, redefine your scope, and extend your reach not only to new suppliers and new customers, but to the information they possess about pricing, inventory, and shipping.

"No one yet does this exceptionally well," said Ron Sege, CEO of Ellacoya Networks. "The paragon for this is probably Cisco. It's difficult to do it well because it's tough to get the right philosophical approach among all the participants. The reason Cisco did it well is they had no legacy system, they became big very fast and they could direct their suppliers and control how they would share their data. Wal-Mart is another company that's good at this. Information is power, and being able to share information with your suppliers and distributors, as Wal-Mart and Cisco have done, drives costs down. It makes you more flexible and responsive to your users, which creates more customer satisfaction."

This is what you must do to survive. Learning *how* now, while everyone else is also learning, keeps you in the game. "The competitive imperative will force companies who can afford to do this to move

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aggressively," Sege said. "Companies who don't move aggressively, because they can't afford it, or because they aren't insightful enough, will be less competitive and will eventually go away."

Look Closer at the *New* Supply Chain Management

Supply chain management (SCM) is a rather dry term for a fairly exciting phenomenon, and its role in the new business revolution is downright thrilling. Every product you touch came from a supply chain. There are many examples besides steel. The paper in a book passes through many businesses and many hands during its production from trees in a forest to paper rolls on a printing press. Magnetic tape in an audiocassette and the plastic case that houses it come from dozens of different starting points. The people who assemble these parts need continuous access to every piece required to build the final product. When a person or machine reaches back to grab the next piece on an assembly line, the piece had better be there.

One key way to add value to a manufacturing process is to analyze a supply chain and squeeze out some costs. Your supermarket does this all the time to shave a few pennies off the cost of apples or milk. That's why you see apples from Washington State one week, then New Zealand the next week. The store's purchasing agents buy in bulk from several sources to play one supplier off the other and keep prices low. You likely see multiple brands of milk, too, but with milk, even big supermarket chains tend to buy from a few local suppliers. Because the product has a shorter shelf life, it's more important for the supermarket to reduce shelf time and spoilage. It's a different sort of cost-cutting measure, which leads me to a key tactic for assessing your business.

Successful businesses must use the Internet to get a much broader view of their supply chain and the inventories of their trading partners, so they can identify new places where costs can be contained.

Progressive businesses increasingly use Net-based tools to control their supply chain. Such duties used to be handled by conscientious purchasing managers. These managers may still track this information, but their talents and duties have changed remarkably. For example, a fall 1999 survey by *Purchasing* magazine showed that 38 percent of purchasing managers now place major orders over the Internet. Also, half of those surveyed who do not presently, planned to start focusing their purchasing via the Net over the next three years. What does this mean for you? It means you must develop a new skill set for gathering and comparing online data, working with online order forms, and using the Web to find new supply sources. Larry R. Smeltzer, professor of supply chain management at Arizona State University's College of Business, recently wrote, "The forthcoming issue will be how to use technology to a strategic advantage. Pushing the buttons is not the issue . . . strategy and competitive advantages will be the focus." For this reason, data gathering and analysis via the Net is fast becoming a required skill for purchasers. The actual purchasing is secondary.

A seismic shift in many roles is the norm; even the role of the storefront has been transformed. In the future, regional retailers may use their stores as service bureaus rather than as sales points. For example, car dealers may only deliver and service autos that are ordered online rather than guiding visitors through car showrooms where they push existing inventory. Local car dealers won't go away, but their duties and profit centers will shift. More of their profits will come from warranty repair work, handling vehicle leasing contracts (and eventually selling the used car once the lease ends), and parts distribution.

A crucial part of analyzing your business is assessing possible future scenarios causing profit centers to shift and the component parts of your business to likewise shift.

New market advantages and disadvantages arise from this shift. Local merchants, for example, won't compete against the price and selection of national online megastores. How could they? They'll never reach the level of volume and discount that the big online merchants can establish. But local stores will continue to enjoy the advantage of proximity. People want the involvement of a local merchant when their products need service. Plus, customers perceive value in the live assistance and personal contact that local businesses provide. There are also cost advantages in the regional location of inventory. A used car for sale down the street may be cheaper than a used car located in another state simply because it doesn't have to be transported to you. Likewise, appliance manufacturers will likely always maintain regional warehouses for their goods so orders can be distributed quickly and efficiently.

Face the Extreme Competition

Virtually any business process involves an exchange of information and some level of product marketing. These are two key functions that the Web was born to handle.

> **Failure to implement a strategy that takes advantage of the communications, commerce, and reach of the Net could be the first step toward ruin for an otherwise successful and prosperous company. Your opponents count on that. They hope you botch this important transition. You must disappoint them.**

No matter what market space you want to carve out, how well-honed your supply chain is, or how perfectly positioned you are in the brick-and-mortar universe, a tremendous amount of competition challenges your move into the online business world. This is especially true as the early waves of online merchants are shaken out through stock-price drops and the consolidation that started in spring 2000. It's survival of the fittest on a vicious battlefield. You're competing with hungry, low-budget operations maintained by stock-option-holding

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staffers willing to work far into the night. Like the North Vietnamese Army of old, they travel light and are confident they can defeat larger, better-equipped, and more experienced opponents. Why? Because they are willing to work harder, risk more, and do whatever is necessary to succeed, no matter how absurd and futile the effort may seem to others. And, like the North Vietnamese Army, they may never have to face the full fury of their enemy. They may compete with sprawling businesses that are too busy with other interests and projects to focus all time and energy into winning a specific online battle. The single-mindedness of these small, rogue corporations is their greatest asset.

How will you compete with that?

A shrewd understanding of the opponent's motivation, strengths, weaknesses, and needs, an understanding of their supply chain, and yours, and any possible differences, gives you the upper hand.

This is your answer. The competition tactics as laid out by Sun Tzu have now been adapted for battle both offline and online. Wise observers adapted the analytical part of his road map, and understood how to exploit their link in the supply chain, over the length of the industrial age. They were able to see new opportunities as they developed. The Internet is the new tool you must use to capitalize on such information. The Net is the weapon you must use to streamline your own business process.

Armed with this understanding, you can leverage your assets in a way that makes you and your company as productive and efficient as any hungry power user who does his best work in the glow of a computer monitor at 3 A.M.

You are now engaged in battle against a very different sort of opposition that moves over a different sort of battlefield. **To survive, you need a combination of instinct, business skill, technical knowledge, and a good battle plan. But more than anything, you need to know your enemy.**

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Assess the Five Factors

After you assess your own strengths, you need to discover the strengths and weaknesses of your opponent, and you need to know the look and feel of the field where you will compete. This is easier than you might think. It's a matter of knowing the right questions to ask and where to find answers.

Sun Tzu says it is important to appraise an impending battle through five fundamental factors—politics; climate; terrain; commander; doctrine and vision. This still holds true. Don't make any strategic decisions until these five factors are known. Once the appraisal is made, the leader can then compare various scenarios between the two sides to figure what the results of a war might be. Only then can the leader decide whether to stand back or join the battle and win the war. Here are the five factors, adapted for modern businesses, and why they're important.

1. Politics. Including government rules, internal company politics, and technology prejudice among both your customers and your employees. It also includes understanding the leadership and politics of archrivals who might become your allies at a moment's notice. When Vivendi, a French water utility that branched into telecommunications and Internet services in the late 1990s, made its 2000 bid for Seagram, an entertainment and spirits company, it looked like an ultimate clash of cultures. Leadership and employees were from different countries and spoke different languages. But the differences ran even deeper. Though a publicly traded company, Seagram was still a family operation at heart, like Ford Motor Company has been for years. Samuel Bronfman founded the forerunner to Seagram in 1924; Edgar M. Bronfman was chairman at the time of the Vivendi merger. Vivendi, however, was an aggressive growth, investor-driven company.

Their views on which entertainment spaces to target differed, too. Seagram was Hollywood-oriented, through its ownership of Universal Studios. Vivendi was interested in print publishing and online content,

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viewing that as the future of multimedia. Only the test of time can prove how this clash of cultures will play out. The combined company could enjoy many synergies, if it can overcome its potential political land mines. Luckily, both sides seem committed to deal with the differences and find common ground through the creation of Vivendi Universal.

2. Climate. In classic battle situations, this comprises the weather and the overall environmental factors of the city or countryside where a battle will take place. If you attack, will your troops become mired in snow? Overcome by heat? Dizzy from lack of air at high elevations? But on the Internet, this factor means your business climate plus the business climate in which your opponent operates. This also includes the status of the current economy and the mood of customers, as well as internal factors. Are you a shirt-and-tie operation like IBM used to be, or are you a shorts-and-T-shirts company with a Ping-Pong table in your lobby? Does your opponent have a huge marketing budget that can plant its company logo and a smiling face at every major trade show?

Climate can also mean the state of the Internet—the existing and emerging online technologies, and the public's willingness to accept certain changes. Online trading centers created by companies such as Datek and Ameritrade are prime examples of tools, and even full businesses, that evolved as the competitive climate changed toward online self-directed investing. As more people used the Web to collect business information and analyze their personal finances in the late 1990s, the opportunity arose for trading as they read news and stock charts. This happened as the general public became more at ease with finding business news and making financial transactions online. Business developers who correctly read that climate change became the first movers to win this new market. This forecasting ability allowed companies like E-Trade and Datek to quickly steal business from monolithic investment firms that once totally controlled their industry. The newcomers gained distribution for their services via icons on investment news sites. These links took customers directly to the new stock-trading tools they could use.

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3. Terrain. In the classic sense, this factor asks, Are you going to do battle from high ground or low? In a swamp? Far away, or near home? In Internet terms, it asks, Do you have the connectivity you need? The bandwidth? The machines? Will you own or lease machines, software, and office space? Will you outsource minor functions or entire departments? Are you operating mostly in Windows, Unix, Mac, Mainframe, or some custom-built flavor? In modern business, terrain comprises the wires, gigabytes, and mindshare of your customers.

If you're an established company, you may have a full-scale business process already in place, and you may have already moved your existing Oracle database and order-entry forms online using special Oracle Web tools. If you're a start-up, perhaps you prefer to build a rapid prototype of your information flow, using something like Allaire's Cold Fusion to construct a quick online catalog of products, and build the associated order forms virtually overnight. Your approach depends on your current terrain and position.

Other terrain issues include the speed of the Internet connections at your offices and at the homes or offices of your customers. What technologies or products do your business partners use, and are you compatible with them? What technologies do your opponents use? Your customers? Your opponent's customers? If you don't know all the complexities of your playing field, you are not properly oriented for the contest. Understand this terrain before making business decisions with far-reaching consequences. Remember the original Boo.com's decision to spend millions building a stunning shopping site with sharp colors and rotating 3-D product pictures. Their efforts resulted in an enormous visitor dropout rate because pages loaded slowly and many customers didn't have the plug-in software necessary to view the 3-D images. The original idea was to target Web-savvy customers, so Boo assumed speed and plug-ins weren't an issue. But they misjudged the terrain. The original effort ended in bankruptcy, and the site was shuttered. The name was sold, and the site now lives on with a much more plausible design.

4. Commander. Is the leadership of your company and your opponent's company Internet savvy and equipped for key roles, like forming alliances? Does the leader understand the new economy and the Net-based marketplace? Will the CEO receive support from stockholders and the board of directors if major organizational changes are needed to compete on the Internet? Cahners Business Information, then called Cahners Publishing, moved aggressively into the Internet in 1996. The Net seemed a perfect match for this organization that specializes in quality business magazines distributed free to qualified readers. Cahners had a leg up on other publishers who were nervous about offering content for free on the Web. Since Cahners already gives away its content and makes its money from highly targeted advertising, why wouldn't the Web be an obvious extension? But infighting about how the new online versions of the magazines should be structured compared to the print versions caused friction amongst publishers of the individual titles, which led to development delays and revenue-sharing issues. Some projects were started, then abandoned as publishers claimed to own certain turf within the company.

The initial investment was made to establish Web versions of several of its industrial magazines, but Cahners management delayed investing in newer technologies such as dynamic content delivery and active server pages. They ended up with a very maintenance-heavy site, and leaner operations like VerticalNet began to ramp up and steal some of their business through competing sites that were easier to build and maintain.

Perhaps Cahners' biggest blunder was its hesitancy to move from a pure subscription model to a free (or at least cheaper) Web-based model for its crown jewel, the massive Lexis-Nexis online archive of news articles and legal information. Managers resisted allowing free access because the traditional subscription model generated lucrative returns. They initially resisted setting Lexis-Nexis up as a provider of news feeds to subscriber media sites. This foot-dragging through 1999

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created opportunity for companies like Brint.com and Internet Wire to gain a foothold in this market. Other competitors like Comtex, iSyndicate, and ScreamingMedia sprang up to provide news-content feeds to small- to medium-sized Web sites. These smaller companies' activities posed a serious challenge to Cahners, who might have been the reigning king in content-feed space for vertical industries had leaders moved more aggressively at the onset.

As you appraise the leadership of your organization and your opponent's, ask yourself, Does the leader understand the new currencies afoot, and that an exchange rate for traditional currency must be established before transitioning to the new economy? Does your CEO or business development staff realize when to give or take an equity stake in another company instead of cash, or trade your own equity for eyeballs that will see your product or service? Does your board of directors have a mind of its own, or is the board a rubber stamp for CEO decisions? Do leaders know which markets are growing and which are shrinking, and can they develop appropriate products for these markets? Are the leaders players? Or do they mostly play catch-up?

5. Doctrine and Vision. This is the organization and belief system of the group. It's the structure of the organization and its system of accountability so that work actually gets done. It's about the discipline to make things happen, and not blaming others for failures. It's also a sense of buy-in from those who must do the work to keep things on track and an understanding, throughout the ranks, of the logistics needed to make any process happen. It's building a real team, not a group of individuals biding time and polishing their resumes. Builders of personal empires sometimes have a tough time working within an Internet-savvy organization, even if they are brilliant MBAs with superior knowledge of specific markets. The Net is all about breaking down walls, sharing information, and multitasking.

Vision is about keeping one's eye on the ball. But more than that, it's a company-wide standard, almost a code of ethics, that says team-

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mates will not let each other down, and they will not build second-class products. Few companies work from a doctrine and a vision that they use to make this type of commitment. Those that do, succeed.

In its early days, Apple Computer had such a doctrine. Its commitment to build "insanely great" products was evident from leader Steve Jobs, who would scream when prototypes failed to meet expectations. It was evident in engineers who worked all night to build graphical interfaces that blew away the competition. It even gave rise to the concept of a product evangelist, in the days when Guy Kawasaki would traverse the tech world to convince others to participate in technology development for the Macintosh. But the doctrine seemed lost by the mid-1990s when Apple diverged into too many projects and lost not only market share but a perceptible path for remaining creative and profitable. Apple finally regained its original sense of uniqueness and electricity when Jobs returned to the helm after several years, but its struggle continues.

Those who master the facts and nuances of these five factors own the knowledge to win. But this does not mean that a person or organization with the clear advantage in any one of these categories will automatically be the winner. It's a matter of honest appraisal and educated decisions based on whatever advantages or disadvantages you perceive. Timing and industry acceptance of your efforts are paramount.

KPMG International working with Benchmarking Partners recently defined four types of e-commerce companies. Where does your company fall on this scale?

- **Players** are those who are active in e-commerce and consider e-commerce projects to be highly important. Chemical, consumer goods, and retail industries are often players. Mostly, the top players are companies whose products are considered commodities. They're forced to use the Net to gain every possible advantage, to shave points off their costs and improve their supply chain.
- **Planners** are companies who will increase e-commerce activities in the future. Some of their projects are already in the e-commerce

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planning stages. Transportation and third-party logistics providers (people who handle product logistics issues between two other companies) fall into this category. Ironically, although the transportation industry practically invented online tracking of inventories and orders, many in this industry are still in the planning stage. Perhaps the reason is because the most difficult piece is to develop full end-to-end systems that include every aspect of a purchase, right down to its delivery.

- **Planters** are those who give e-commerce a low priority rating, but who have some initiatives underway. They don't necessarily recognize the strategic importance of e-commerce, but they're investigating it because they feel they should. Some wholesale and retail operations are planters. Local stores with a solid customer base don't see a reason to migrate to Internet sales anytime soon. Local furniture or music stores probably have Web sites and vague ideas that they'll sell things through that Web site eventually, but business isn't bad so, hey, what's the hurry?
- **Plodders** are companies with both low e-commerce activity levels and low importance ratings for online transactions. Utilities and old-style industrial products companies tend to be plodders. Your local convenience store is a plodder. A large canning factory or a piano manufacturer are probably plodders. The reason isn't that they lack a competitive nature, it's that online sales are not a major attraction for these businesses. A convenience store is in business because it's convenient. You're not going to order a cup of coffee online from a convenience store and wait two days for delivery. A canning factory that worked with the same suppliers and distributors for years doesn't need to branch out quickly. And who's going to buy a piano online? The manufacturer may offer an online catalog with nice pictures of its products, and it may take a trickle of orders via the Net. But most people want to play a piano, feel its keys, and listen to it before purchasing.

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Sometimes plodders are very happy being plodders, and they'll remain prosperous even if they don't change. But if you're a plodder who should strive to change because your business could benefit from online sales, it's best to make an aggressive move into Internet marketing and sales. It's also important to make sure your e-commerce strategy solidly matches your overall corporate strategy, with long-term plans in place. Another study conducted by Benchmarking Partners found that most companies who moved into e-commerce did so for specific and limited applications without a strategic e-commerce initiative. They lacked a centralized e-commerce director, they could not list company-wide e-commerce spending, and they could not assure that various e-commerce platforms within the company were compatible and capable of sharing crucial data. Without such knowledge, you are a plodder, even if you don't intend to be.

Hard Questions to Ask about Yourself in Relation to *Them*

Answering the following questions will help you build a knowledge base and dig deeper into where you stand on the five factors previously outlined.

1. Leadership
   - Which CEO or president is more talented, cunning, and hardworking? Who can best establish a vision and motivate employees?
   - Who on the board of directors is more wise, able, and experienced? If you are competing with a small private company that lacks a board, ask these same questions about the major investors and advisors.

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2. Positioning
    - Which company has, or is likely to obtain, a distinct advantage in business climate or operating terrain? Who has the best working situation, the best hardware and software, and the best resident skill set? Would you rather work with them or compete with them?
    - Is the company's business plan and corporate life-cycle plan short-term (develop a technology and market advantage, then be acquired) or long-term (be a viable, growing business with plans to stand alone as long as necessary)? Neither is the wrong approach. Knowing what their plan is can help you make the right strategic decisions.
    - Who operates from the most attractive location that appeals to the best workers and offers the best lifestyle?
    - Who can pay more or offer the premium stock-option package?
    - Is there a heavy reliance on contractors and temporary workers? That can be good in some circumstances and bad in others, depending on the company's long-term prospects and expenses, and how it operates from contract to contract.
    - Is your company built to last, or built to flip? In other words, do you want to have a long-term presence, or do you want to be acquired? What about your competitor? What about the partners who help your company succeed? How could the flipping of other companies affect you?
3. Skill and discipline
    - In which organization are the instructions of management best implemented? In which organization are the processes of product development most efficiently executed?
    - Which company's workers are more educated, talented, and hardworking? Note: compensation can play a big factor here. Judge carefully—in some cases workers are overeducated and ill-suited for their jobs.

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- What is the employee turnover rate? Low is good as long as the company isn't stodgy. High is not necessarily bad if new, talented workers are acquired in a steady stream and salary costs are reduced.
- Are there ongoing training and educational development opportunities for all workers? If not, is that something you offer that could draw employees away from a competitor?
- Which company administers rewards and punishments in a more enlightened and correct way? For example, are salary increases and stock options based on performance? How are unproductive workers reassigned or handled? How are layoffs conducted? Are significant bonuses awarded for products that are delivered beyond spec, ahead of time, and under budget?

If you can answer these questions honestly and correctly, you can attain a complete picture of the competitive landscape, which is essen-

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tial for any battle. You can predict who is likely to gain or lose market share. Go to trade shows. Read trade magazines. Pore over full-blown analyst reports. Talk to ex-employees of your competition. The information is out there. Collect it. Discover what works for others and absorb their process and technology, then leverage it with your own special flavor.

Not So Covert Operations—A Case Study in the Power of Analysis

In later chapters that prepare you for battle, you learn how spy operations can benefit your company. IBM was known to do fantastically detailed competitive analyses on Sun Microsystems and Hewlett-Packard. The level of specifics is astounding but provides a good blueprint for how thoroughly you should understand your competition today. One IBM report details Sun's influence in seven market segments—enterprise resource planning for large companies, supply chain management, front-office systems, data warehousing, design automation and engineering, software development, and e-commerce. The report continues by showing Sun's influence spread across five industry segments—retail, energy, healthcare, publishing, and service providing. It drills all the way down to detailed percentages of business in certain sectors and then for specific accounts in which it believes Sun has focused extra energy.

The report goes on to discuss Sun's foray into advanced disk arrays for data-storage systems, and predicts Sun will initially try to capture the storage associated with Sun's own server sales, then branch out from there. (Many companies have matched other manufacturers' storage systems with their Sun servers for big applications, so this is a logical place for Sun to steal back some business.)

The detailed IBM reports are a classic example of one competitor knowing the exact strengths and weaknesses of another competitor, complete with a prediction of how marketing muscle and developmental limits will prompt the competitor to its next step.

Great to have, but how should one actually use such elaborate knowledge?

One use is to know when and where a competitor will be ready for a fight, and to know where they feel vulnerable and likely to avoid a fight. IBM leaders can read these reports and decide if they should challenge Sun's strategy of selling storage units to current customers, or allow Sun to focus on that specific market segment while IBM concentrates on a different segment.

This is a good time to introduce one other key point that many great leaders know: **One of the best ways to win a battle is to make your opponent choose not to fight.** They will not fight you if they believe they will lose. When Microsoft Corporation reached its zenith, you didn't see many other companies stepping forward with a new word processor or spreadsheet product. Microsoft Word and Microsoft Excel were the acknowledged kings in this arena. End of story. Few dared challenge them.

That's the easiest battle to win—the one that the enemy avoids.

Surprisingly, where a Microsoft challenger did appear was to the Microsoft Windows operating system. But why would anyone tackle the firmly entrenched, dominant OS?

The challenger dared to make its claim by initially focusing on a different, albeit smaller, market space and business model. The upstart Linux operating system was aimed at users who preferred Unix and who wanted to run Unix on Intel-chip PCs. In this case, Linux did not establish a new market space per se. It attacked a tiny fraction of a huge market and focused on people who wanted free software. It gained a foothold with some loyal followers before it ever appeared on the radar as a threat.

The distribution model for Linux was far different from Microsoft's, even downright radical. Linux is distributed as free software. Because Linux didn't directly challenge Microsoft, but rather a small segment of the overall OS market, it was able to continue building on

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that foothold. It then grew to the point where it became a true challenger, slowly intruding into Microsoft's turf at a vulnerable time when the giant was busy with a massive federal investigation.

Find and take over a space where your opponent has no allies. Grab a position that your opponent isn't sure is worth fighting for. Work when your opponent is distracted elsewhere. Pick a vulnerable time.

Analyzing Linux in recent years, it also was difficult to predict that this upstart with no clear leader at the helm would someday rise to challenge Microsoft as a dominant OS. Linus Torvalds may have started Linux, but its open model, allowing anyone to offer additions and modifications, makes Linux effectively leaderless. Linux hasn't won yet. It likely will not win in the classic sense of total market domination. But it survives and prospers because it owns its space, shows no fear, and sets the rules for battle.