WHERE NO OTHER HAS GONE BEFORE: HOW ACURA, LEXUS, AND INFINITI SUCCESSFULLY ATTACKED THE U.S. CAR MARKET UTILIZING ANCIENT CHINESE MILITARY PRINCIPLES

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This paper discusses the Japanese automakers Honda, Toyota, and Nissan, and their successful penetration into the American luxury car market. Particular emphasis is paid to those pricing strategies that enabled them to open a market heretofore considered the American and German automobile companies' exclusive territory. We discuss how the ancient Chinese warrior, General Sun Tzu's classical warfare theories may provide insights into interpreting the success of the Japanese strategies. Modern day business imitates many ancient "Arts", war and politics being two of the most predominant. Sun Tzu has been acknowledged as a significant model in modern business' attempts to be successful. It is our premise that the Japanese auto manufacturers have been inspired by such a model, and have used Sun Tzu's lessons to achieve success in the U.S. market. For the purposes of this paper, we look into the past to understand Sun Tzu's principles, and to see how the car manufacturers have adopted these principles over the past two decades.

DISCUSSION

The Japanese success in penetrating and capturing new markets has become a major topic of interest to industries throughout the world. This paper discusses the successful penetration into the American luxury car market by the Japanese automakers (JAMs); it relates this success to the ancient Eastern warfare philosophies of Sun Tzu, a general from the Chinese province of Ch'i who lived about 2400 years ago. He was born during the Warning States Period, 473-211 B.C. (Ho and Choi 1997)

Japanese tradition and history are two prevalent factors in Japanese business culture. Therefore, it stands to reason that the teachings of the Eastern master, Sun Tzu, have infiltrated business strategies. Sun Tzu's military successes are repeated in the business strategies used by the Japanese auto industry to penetrate the U.S. luxury car market. We will first present a brief background of Sun Tzu's philosophy and how he teaches us rational and effective ways to resolve complicated problems to the greatest advantage.

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Three specific points capture Sun Tzu's philosophy and his strategic thinking:

1. His is an *offensive* strategic model, and Sun Tzu describes no specific defensive warfare strategy. In Sun Tzu's opinion, strategy requires an assertive spirit. Defensive strategy is considered a contradiction in terms, because plunging one's own territory into battle is not considered a good strategy. The ancient Chinese used to say, "When the enemy stronghold crowds the borders, this is

to the officials' shame." Applying this philosophy to business means that strategies should be designed to lead to positions where one is an invulnerable target for the competitor's offense, i.e., defense through a properly designed offense. (Huang 1993)

2. The purpose of strategy is not conflict, but advantage. Conflict is a tactic that only serves as a strategic tool. "Neutralize an adversary's military power, but not through battles." (Huang 1993).

3. Armed conflict should never be initiated without forethought. It must have unequivocal strategic value. "Not battling" should be considered a serious form of strategy, since it is possible that some conflicts do not end in victory, and not all victories are necessarily advantageous; as an example, "winning the battle, but losing the war". Due to the strategist's resourceful deliberation, the decision not to enter the conflict should not be considered cowardice (Huang 1993).

Sun Tzu's Classical Warfare Theory as it Relates to Global Trade and the Luxury Car Market

The U.S. luxury car market once seemed impregnable; each major automotive group appeared so entrenched that many experts, even the most optimistic ones, had very little to say about the Japanese opportunities for profit and success. Yet, the Japanese auto industry has been so successful that it has nearly caused the German car manufacturers to vacate the $30-50,000 segment. Indeed, it is only recently that the Germans began making a push in the lower ranges of the luxury market, ranges which have been dominated by the Japanese since their introduction of the Acura, Lexus and Infiniti brands (Marber 1996).

The strategic vision of the JAMs and their highly effective offensive maneuvers into a new price segment was the beginning of a well-orchestrated use of Sun Tzu's principles. To communicate an understanding of this philosophy, we apply classical warfare principles to international trade, and to the luxury auto market in particular. This offensive strategy, as Sun Tzu would advocate, is tantamount to an export-oriented strategy. Honda, Toyota, and Nissan applied this offensive strategy to the U. S. automobile market.

Our study reviews Japan's trade successes in the automobile industry over the last two decades. In fact, the United States' trade deficit is partly due to Japan's successful use of this offensive, export-oriented strategy. Threatened by this strategy, the U.S.' initial reaction, especially pertaining to the auto industry, has been the employment of various defensive, protectionist measures, such as tariffs, taxes, subsidies, and quotas, with little attention or resources devoted to enhancing the U.S. auto industry's competitiveness through strategic thinking. These protectionist measures aided the Japanese considerably in their attack on U.S. market share, because the U.S. auto industries did not embrace any of Sun Tzu principles during this period (Marber 1996).

The Japanese achieved their enviable position through the intelligent use of a product diversification and pricing strategy at the introduction stage and a product strategy of line stretching to acquire, hold and expand its market share as the market began to mature. The Japanese were able to enhance their products with what consumer behaviorists call a "tangible value." Later, once these values were established, they were able to impart to their products those "intangible values" that allowed them to further expand their share of the U.S. luxury car market. Hence, the automakers' success lies in following Sun Tzu's classic warfare strategies, i.e., using export-oriented strategies, rather than a defensive policy of tariffs and subsidies (Kooros 1996, Marber, 1996).

Principles of Sun Tzu's Classical Warfare

Sun Tzu's principles of classical warfare can be broken down and summarized into ten steps which are categorized into three groups (Table I).

Table I
Principles of Sun Tzu's
Classical Warfare Strategy

Group I - Strategic Deliberation
1. Survey the situation
2. Design the strategy
3. Plan the offense

Group II - Application of Force Capabilities
4. Control the situation
5. Apply combat power through flexibility
6. Dominate through superiority

Group III - Conduct Operations and Tactics
7. Armed contention (engage prepared)
8. Apply proper tactics
9. Use proper espionage/surveillance
10. Win the war

Group I - Strategic Deliberation for Penetration and Product Strategy

In determining whether or not to enter the U.S. luxury auto market, the JAMs applied Sun Tzu's first group of principles, Strategic Deliberation, which includes: survey the situation, design the strategy, and plan the offense. Sun Tzu regards strategic deliberation as essential. The planning that occurs during this phase is actually regarded as competitive intelligence, and without knowledge of one's competitor or market, a proper battle cannot be fought, let alone won (Sawyer 2001).

Sun Tzu regarded principle I-1, surveying the situation as an assessment of geographic conditions or, in our case, the enemy, such as the U.S. automakers (USAMs), as well as the German automakers (GAMs). Gathering complete information on both of these is considered to be a vital first step. Proper assessment of one's competitors' strengths, weaknesses, market position and probable strategies is imperative in preparing one's company to capture market share (Sawyer 2001).

Sun Tzu advises that designing the strategy can be undertaken only after one has completed gathering competitive intelligence. The mission and the goals must be completely thought out and understood prior to actually planning the offense. But, when planning the offense, principle I-3, one must begin to think about tactics. In warfare, this means deciding which maneuvers in battle will achieve the goal. We will illustrate how Japanese automakers translated these principles into business tactics regarding product lines, timing, pricing and distribution. To apply Group I principles, it would be useful to first examine the JAM's product diversification strategy (Sawyer 2001).

Product Diversification Strategy

Product diversification is usually recommended when the firm has reached the life cycle stage of maturity (Kooros 1996). Generally, diversification makes strategic sense, especially when it fills a void, reinforces the company's core business, contributes to the growth and profitability of the organization or serves a larger spectrum of customers' needs (Thompson and Strickland 1998). The danger of not diversifying at appropriate times is enormous: superior financial performance is much harder to achieve; lack of technological innovation can drastically reduce the demand for the product; and the probability of the economic cycle adversely affecting the business is high. Diversification in a product class provides growth opportunities (Ball and McCullogh 1999). General Motor's product diversification ranges from Chevrolet Cavalier to Cadillac Fleetwood and Limousine. Product diversification in the automobile industry has several advantages. It utilizes the same resources, and thus gains both scale and scope of economy. It can also utilize similar technologies, capitalize on existing know-how, and thus expand the business through the firm's competencies (Parahalad and Doz 1987).

Sun Tzu would regard such diversification decisions as a crucial pre-cursor to beginning a combat strategy. Now, Group II can begin.

Group II - Application of Force Capabilities as a Means to Introduce Product Diversification

In Group II, Application of Force Capabilities, the Japanese are still not ready to enter into battle. Timing and preparation are stressed at this phase. Having the upper hand or control of the battle is not only essential to assure a victory; it is paramount in preserving one's troops and kingdom or, in our case, the company. At this point, it is essential to keep in mind principle II-4, controlling the situation, which really means being prepared for battle. The business world is full of examples of failed attempts to launch products. If the company were lucky, this resulted only in the failure of that particular product or line. Sometimes, being unprepared for battle has resulted in the eventual failure of the entire company (McNeilly 2000; Gagliardi 1999).

Sun Tzu's principle II-5 stresses that combat power must be applied through flexibility. Not being able to have one's troops react swiftly to changes in the battle, weather, and other unforeseen events, may result in a lost war. For the purposes of this paper, we will show how the automakers were able to constantly and consistently assess the situation and react with the proper response to change in the following areas: consumer preference, competitive marketing strategies, and pricing. Change does not mean failure. Both Lexus and Infiniti lost battles yet re-thought and adapted strategies and tactics to again place themselves in control of the situation. In business and in warfare this can be done by use of "what if" scenarios, a form of Sun Tzu's principle II-5, combat power through flexibility (McNeilly 2000; Michaelson 1999).

Properly determining and analyzing all plausible outcomes of an action is essential in preparing for battle. Competitive advantage requires efficiency and effectiveness in responding to significant environmental change. Companies which use scenario analysis in their planning have been successful in weathering market shocks and changing business conditions better than competitors who did not use scenario analysis, or in other words, did not apply the flexibility principle (II-5). In the luxury auto market, Lexus and Infiniti successfully analyzed changing scenarios and were able to react quickly; thus minimizing what might have otherwise been a costly "battle" loss. But only by making a comprehensive analysis of the competitive situation in the first place were these automakers able to control the situation and, hence, the market (McNeilly 2000; Goldenberg 1997).

In the final principle of Group II, dominating through superiority (II-6), Sun Tzu stresses establishing sustainable competitive advantages through the superior use of planning and operations, and by identifying opportunities with little or no competition. The Japanese did this by correctly identifying an elasticity in the demand within the luxury auto market, an issue which had previously gone unnoticed (Marber 1996; McNeilly 2000). This will be discussed later in more detail.

Dominating through Flexibility and Shaping – Enhancing Consumer Demand

The Japanese automakers had been extremely effective in anticipating the demands of their target customers in the U.S. market. This important point achieves both principles II-5, flexibility, and II-6, superiority, and is known as "shaping one's opponent". Shaping your opponent, by holding strategic positions within an industry, is critical in Sun Tzu's scheme. By holding strategic positions, you effectively limit the moves your competitor can make. In the case of penetrating the U.S luxury auto industry, the "shaping" principle was applied quite appropriately to American consumers.

Knowledge about the customer, including his/her income and preferences, is extremely important. The Japanese spent substantial time studying the U.S. consumer and the American automobile market. In Sun Tzu's methodology, such knowledge must occur prior to any military/business activity taking place. Conducting extensive market research and understanding the nature of the market helped the Japanese "reach" the U.S customer by appropriately meeting customer standards and expectations (Gagliardi 1999).

A thorough study of the market is what Sun Tzu would consider a final phase of the planning process. Note that Sun Tzu believed that one should not actually employ tactics until ready to engage in battle, as doing so might give the opponent advanced knowledge of your battle plan. In the case of the luxury auto market, "battle" tactics were not applied until the JAMs were ready to launch the product. Once the Japanese automakers were assured, to a reasonable degree, that they possessed a superior position of dominant knowledge (through market research), they were then prepared to move to the next phase. In other words, when all the above steps have been completed, one can then assess whether or not a superior position has been established. If not, the firm must go back to step one and reassess each step. If, and only if, a superior position has been achieved can the company then proceed to the next phase of actually conducting operations and tactics. Sun Tzu believes that dominating one's competitor through established superiority will lead to victory, and superiority is reached only if steps 1-6 have been accomplished. One of the most significant forms of achieving dominance through superiority was recognizing a trend in the preference demand curve. The Japanese tactic in utilizing this proved invaluable to the strategy as a whole (Huang 1993).

Group III - Conduct Operations and Tactics: The Japanese Enter the Market

Sun Tzu's final group of principles addresses the actual implementation of operations and tactics. Here all the foreknowledge, planning, and preparation are combined into tactical decisions. In the U.S luxury auto market, this means the Japanese automakers were now ready to launch their new products, penetrate the U.S market and attack both the U.S. and German automakers' market share. In short, they were ready to achieve their stated mission. Sun Tzu's theory on conducting operations and tactics includes: principle III-7, engaging in battle with proper preparation, principle III-8, applying proper tactics as planned, and principle III-9, the use of clever and appropriate espionage, research and study - proper applications of these three techniques will ultimately win the war (McNeilly 2000; Burgess 2001).

Principle III-7, armed contention, indicates the idea of entering the battle, or market, fully prepared both mentally and physically, for what is about to occur. The Japanese achieved this by properly applying principles II-5, power through flexibility, and II-6, dominance through superiority, and by using shaping as described above. The Japanese were now prepared to apply all this planning and preparation to actual tactical maneuvers. Principle III-8, applying proper tactics, means implementing the offensive plan through use of force capabilities. Principle III-9, use of proper espionage and surveillance, means both understanding the essence of new markets, and consistent awareness of market surroundings. The combined use of these principles and strategic tactics will ultimately reach one's strategic goal, i.e., principle III-10, winning the war (McNeilly 2000; Sculli 1998).

The U.S. Luxury Car Market: The Mid 1980's

A study of the 1986 U.S. luxury car market allowed the Japanese to make several general observations that appear relevant to this paper. The 1986 luxury market was dominated by the American brands such as Cadillac, Lincoln, Buick and Oldsmobile, which comprised up to 70 percent of all luxury car sales. The German automakers Mercedes-Benz, BMW, Audi and Porsche, known for their long tradition of producing top luxury and performance cars, accounted for the other 28 percent, leaving a tiny share to the British and the rest of Europe (Wall Street Journal, August 1989).

The German brands, in particular, carried huge intangible values, such as their status and prestige, as well as tangible values such as excellent performance. Producers of these cars were mainly involved in non-price competition, and emphasized their cars' distinctive attributes or qualities, rather than their prices. For the most part the German companies targeted customers who were highly interested in status and/or performance, and were enjoying sales of almost 100,000 units annually.

Unusual Revealed Preference in Demand Curve

Several factors made the Japanese automakers Honda, Toyota and Nissan, seize the opportunity to make solid inroads in the U.S. marketplace. These were the Westernization (or adoption of Western paradigms of behavior and values) of Japan, the success of the German automakers, and the oil crises in the 1970s, thus making the American cars less popular due to their heavy gas consumption. In the pre-1972 marketplace, the Japanese automakers proved themselves to be excellent high quality small car producers, with a respectable share of the U.S. market.

Honda research revealed that at the lower end of the luxury price range, the demand for luxury cars in the U.S. turned out to be surprisingly elastic, i.e., the lower the price in this segment, the more cars were actually purchased. This phenomenon revealed new possibilities for price competition and the expansion of this "low-end" luxury car market segment (Wall Street Journal Sept., 1988). For the situation just described, pricing theory suggests a penetration strategy that might be employed by a newcomer, endeavoring to command its own share of the market. Basically, the strategy entails setting the lowest possible price for a product supplied in large quantities. Such a strategy discourages potential competitors thereby enabling the company to attract many more potential buyers (Marber 1966; Evans and Berman 1995).

In recognizing the elasticity of the demand within this "lower-end" luxury auto market, the Japanese automakers were exhibiting the use of several Sun Tzu principles. The recognition of such price elasticity was the result of good research and principle I-1, surveying the situation. This was exactly the type of preparation criteria that Sun Tzu himself would engage in prior to entering battle. The Japanese used this simple premise to apply principle I-2 and I-3, design a strategy and plan an offense, respectively, which put them in excellent position to move into Group II, Application of Force Capabilities.

Honda Challenges Upscale Market Through Penetration Strategy

The first challenge to the U.S. upscale market was made by Honda in 1986 when it opened its new division called Acura (Ad Week's Marketing Week, February 1986). The new division introduced two luxury models, the Legend and the sports coupe Integra. The Legend, with a $19,298 price tag was set at lower end of the upscale market, and was designated as Acura's flagship. Prices were set at least $13,000 below the German cars, and $6,000-8,000 below the American cars in order to offset their initially low "intangible" value (Industry Week, March 1986).

The ads claimed that purchasing a Legend was almost the same as buying a BMW, because the new V-6 had the same performance features (Automotive Industries, April 1986). Honda targeted consumers who were "moving up" from small cars, but still unable to afford the luxury German or American car prices. For young status seekers, Acura introduced the Integra sports model. Acura emphasized that the Integra had many of the characteristics of the German or American luxury cars, but at a price of $9,300 to $10,400, was quite affordable (Automotive Industries, April 1986).

Honda also understood how the oil crisis of the 1970s affected the auto market. Sun Tzu would view this as properly surveying the terrain in preparation of battle (principle I-1), an essential step prior to initiating combat. Knowledge of the situation is a must in designing a successful strategy. Honda acknowledged, reviewed and learned from the success of the German automakers in both the U.S. and Japanese markets. A successful strategy cannot be designed without foreknowledge of one's competitor, and an understanding both the tangible and the intangible value of German autos. Once this was understood Honda was better positioned to plan their offense, principle I-3. Honda decided there existed a significant opportunity in the luxury car market and designed a diversification strategy to expand their product line and now move into the lower end of the luxury auto market.

To accomplish its penetration strategy, Acura kept adding more dealerships. The number increased from 150 on the day of entry in 1986 to nearly 300 by 1988 (Wall Street Journal, March 1989). After a slow start, Acura almost reached its targeted sales of 55,000 during its first year, (52,869 cars were sold in 1986). This number was doubled in 1987, reaching a peak of 143,708 units sold in 1991 (Automotive News, July 1993).

To satisfy the American customers, Acura used a "price haggling" approach, giving room for some price negotiation. It also attempted to vary the price even in this narrow range ($19,200-21,400 for the Legend, and $9,200-11,000 for the Integra). This allowed for the inclusion of luxury elements such as CD players, leather seats, etc., if buyers wished.

As one can see, Honda controlled the situation through flexibility principle II-5. At this point, Honda's aggressive offensive strategy had allowed Acura to be introduced ahead of Toyota and Nissan, thus giving Honda a coveted "first-mover advantage". Much of Honda's ability to move so quickly was due to the less bureaucratic nature of their organizational structure. The other Japanese auto manufacturers had a much more formal organizational structure in place; thus, decision-making and formal planning were tedious events. These companies adopted much more conservative strategies, which Sun Tzu would classify as "defensive," and not conducive to superiority. Sun Tzu would also acknowledge Toyota and Nissan's actions as a neglect of principle II-6, successfully dominating through superiority, thereby leaving Honda well prepared to move to Sun Tzu's Group III (principles) well ahead of both of the other Japanese automakers. At the outset of Honda's Acura introduction, the German and American automakers did nothing, hoping consumers would believe Acura to be an "expensive Honda". Later, the German and American manufacturers went on the defensive, offering deals and promotions, in an attempt to stay ahead of the Japanese. Sun Tzu would certainly not approve of such defensive tactics, believing them to be in violation of principles II-4, controlling the situation, and II-6, dominating through superiority.

Acura's New Skimming Price Strategy

Acura's management realized that their new products had already obtained a strong foothold by the end of 1986, and a slight increase in price would not hurt the demand. In addition, it was argued that higher price tags would contribute to the image of luxury. Therefore, Acura started in 1987 with a 2.3 percent price increase on its cars. By 1988, Integra had been selling for $10,915 (+3.5 percent), and the flagship Legend carried the price of $23,675 (+2.5 percent) (Wall Street Journal, March 1987). However, sales data indicated that this price increase did not hurt sales. In fact, through the entire period of the late 1980s, prices kept rising, bringing additional revenue and profit to Acura. At the end of 1989, after some product modifications, Legend carried the nominal price of $30,840; yet sales remained high. Acura's initial penetration pricing strategy gave them a solid market share. By 1988, Acura already had a 7.2 percent share of the regular luxury car segment (Wall Street Journal, August 1989). Now that they had this foothold, their pricing strategy changed. With the introduction of the new model in 1991, Acura moved away from a penetration pricing strategy to a skimming price strategy. It positioned itself as the "ultimate" luxury car, and used TV ads depicting "luxury." Acura becomes the number one imported luxury car in the U.S., surpassing Mercedes-Benz. Thus, Acura in its pricing and promotion strategy, attempted to convey those intangible consumer behavior values of prestige, status and pride. Acura also introduced a sports model NSX at the price of $70,000 plus. This model only enhanced the product line.

The success of Acura in the upscale car market segment was clearly noted by its competitors, Toyota and Nissan. Before entering this market segment, these automakers, too, had performed their market research. This research showed the promise of meaningful profits and respectable market share. For the next ten years (1986-1996), Infiniti (Nissan's brand) projected a 60 percent increase in $50,000 and up households, while Lexus (Toyota's brand) was looking for a 90 percent increase in those households, which at that time (1986) numbered ten million. The $30,000+ market was expected to grow about 14 percent over the first half of the 1990s (Advertising Age, July 1989). In other words, a potential market clearly existed.

A recession, the strong dollar, and changing consumer tastes had already walloped the German's in the late 80s. The Germans market share of the U.S. car market had dropped from 4.5 percent in 1986 to 3.2 percent in 1989. Mercedes-Benz lost over one billion dollars in revenues during these three years. The Japanese were entering the auto market at a time when buyers were already ridiculing the price/value relationship of German cars (Ad Week's Marketing Week, January 1990). A demand analysis suggested success for Toyota and Nissan if they could market high performance cars presumably equal in quality to Mercedes and BMW, but priced at the lower end of this luxury range. This combination of price and quality was supposed to attract the owners of the cheaper Nissan and Toyota models who were now ready to trade up. In addition, they hoped to attract the affluent buyer "put off" by the high prices for Mercedes and BMW brought on by the strong German mark (Business Week, January 1990). In other words, Toyota and Nissan believed that the American consumer was ready to react to their entries in the same manner they did to Honda's Acura.

This now uncertain price/value relationship for German autos revealed what Sun Tzu would refer to as a weakness in the competition. Thus, Sun Tzu would recommend employing and capitalizing on the strengths that the attacker possesses. Using principle II-6, dominating through superiority, Toyota and Nissan chose price as their major strength and set their strategies accordingly. Toyota and Nissan's mimicking of Honda's successes in this new market segment would be classified by Sun Tzu strategy as effective use of principle III-9, proper use of espionage. Espionage, when applied to business strategies, implies not the acts of spying and covert activities, although this is sometimes the case, but, more accurately, a use of intense observation and an application of acquired knowledge.

The Lexus Launch

Toyota managers had announced that they expected as many as half of the potential Lexus buyers would be Toyota "trade up" customers and/or individuals between 40-45 years of age with a household income of $100,000 a year (Economist, December 1989). In order to fulfill its goals, Lexus introduced two models in September 1989. One was the flagship LS400 priced in the range of $35,000-40,000, depending on the accessories included. The base price of $35,000 was about $10,000 less than the competitive BMW 535i and Mercedes 300E, and some $6,000 higher than the Lincoln Continental. Another model, the sports sedan ES250, carried a price tag of $21,050. This price was close enough to Acura's Legend so that they felt they could compete effectively in the $20,000+ range.

Probably because of Toyota's lack of experience with their target market segment, sales for the ES250 did not go well. Among other factors, price was believed to be at fault. It was argued that the image of luxury created by Toyota was undermined by the low price. Consumers did not perceive the model as Toyota thought they would, because the price tag did not look "luxury". Taking these facts into account, Lexus had to cut its projected 1990 sales from 75,000 units to 60,000. The flagship model was also facing similar problems. Many buyers were opting for pricier, fully loaded versions of the LS400, whereby the dealers had waiting lists for cars with leather upholstery and CD changers. At the same time, the $35,000 stripped down, cloth seat model was collecting dust in the dealers' lots (Business Week, January 1990). By means of using a price haggling strategy and model/option variations, Lexus eventually managed to fulfill its revised goal and sell 63,534 versus the 60,000, expected in 1990. Sales reached a peak in 1992 with 92,890 sold. It was a mark that even BMW, with all its prestige and experience, never managed to attain (Automotive News, July 1993).

Lexus' dealerships expanded, thus increasing market penetration as well as revenue. But Toyota was very concerned about profit margins, thus resulting in gradual price increases. It was believed that higher prices would not push the demand down, but, on the contrary, they would contribute to the image of "luxury". In May 1990, Lexus announced a 2.9 percent base price increase ($1,000) on the flagship LS400, while leaving the ES250 price unchanged. The $36,000 price tag still separated Lexus from its closest competitor, the Mercedes-Benz 300E, by almost $10,000 (Wall Street Journal, May 1990). By 1994 the LS400 model carried an approximate price of $55,000. However, through popularity and image, i.e., the intangible values, there was no drop in sales. "We introduced the U.S. car at $35,000 in 1989, and now it sells at $51,500," a Toyota official said, "Our job was to make it worth the additional $16,500" (Automotive News, October 1994).

But Sun Tzu would not be entirely pleased with the Lexus philosophy. The "offense" Toyota planned was to market to its own customers who were ready to trade up. Toyota actually controlled the situation, principle II-4, by "shaping" those customers ready to trade up, but not willing to jump to the price levels of the European cars. Toyota provided them an alternative - in the form of two new Lexus models. At this point, however, there was a flaw in Toyota's strategy, at least according to Sun Tzu' principles. The pricing strategy for the Lexus base sports model produced indirect competition because the two versions of the LS400 being offered belonged to different price classes, hence violating Sun Tzu's principle of maintaining flexibility, principle II-5, and of controlling the situation, principle II-4. In Sun Tzu's philosophy, a competitor should always be faced head on; indirect competition invites a playing field that is not level and, hence, the battle is much more difficult. The LS400 flagship had waiting lists for the upper end version, while the lower priced version was over-stocked. This lower price did not convey luxury, thus violating Sun Tzu's principle II-6, of dominating through superiority.

However, Sun Tzu's insistence that "a war is not necessarily lost due to a lost battle" prevails, as Lexus went back to the "drawing board". The expansion of Lexus dealerships exhibited a return to Sun Tzu's methodology by now embracing his principle II-5, combat power through flexibility. The higher profit margins and gradual increases in price demonstrated the principle of dominance through superiority, II-6. Lexus maintained the strategy principles of Sun Tzu from this point on, and was successful in, not only maintaining the higher pricing structure, but also increasing its market share. After establishing this superiority, Lexus was able to implement the operational tactics of Group III to eventually "win the war" (Huang 1993).

The Infiniti Launch

Three months following Lexus' launch in the U.S., another Japanese automaker, Nissan, introduced its own models in the upscale market under the Infiniti brand. Infiniti attempted to define "Japanese luxury," with "Zen-like" advertisements that included nature scenes. It entered the market with two models, a flagship Q45 and a sports coupe M-30, priced at \$38,000 and \$23,500 respectively (Advertising Age, July 1989). Infiniti set fixed prices, thus avoiding Toyota's tactics of price haggling and model variations. At these prices, the cars looked like bargains next to the Mercedes-Benz 420SEL, which had a smaller V-8 engine than the Q45 and had a list price of more than \$60,000. The Jaguar XJ6 had a price tag starting at \$48,000. The BMW 3 series that competed with the M-30 started at \$24,650 and ranged up to \$30,000. It was believed that one price deals made customers feel more confident when making a purchase by removing the need to negotiate with salespeople (Wall Street Journal, July 1989).

In contrast to Lexus, Infiniti raised its prices very little, endeavoring to emphasize "more luxury" built into its models, therefore learning from the mistakes of the ES250. The number of dealerships on the day of entry was limited to 65, in contrast to Acura, which initially had more than twice that figure and Lexus which had over 80 at its launch. However, Infiniti sales were lagging 25 percent to 35 percent behind Nissan's initial goals and Nissan, too, revised their goals (Business Week, January 1990). However, this new goal wasn't met either.

It is argued here that the reason for the weak sales at Infiniti was not the Nissan pricing strategy but the type of advertising pursued in its early years. Another factor that contributed to weak sales was Infinity's resemblance in its front and side view to a Ford Taurus. Why pay twice as much for an Infiniti! In 1991 Infiniti raised its price on the Q45 for the first time by 2.6 percent to \$39,000. Thirty-one thousand, eight hundred and ninety (31,890) units sold compared to 23,960 in 1990. As expected, a large proportion of the customers were the "trade-up" owners or those who selected the Q45 as a better value when comparing it to the Mercedes-Benz or BMW (Wall Street Journal, September 1990).

Infiniti was attempting to dominate through price superiority, by using what it considered "upscale" advertising and fixed pricing, but it missed the market by neglecting certain Sun Tzu principles, i.e., by using a limited number of dealerships, it violated principles II-4, controlling the situation, and II-5, power through flexibility, just as Lexus did. But, Nissan also strayed from another of Sun Tzu's principles. For example, the original advertising did not focus on superior performance and affluence, opting instead for the simple but elegant philosophical pleasures of the Far East. The appeal of the advertising was lost on the American consumer; this illustrated a lack of flexibility in attacking a target. In other words, Nissan did not change the ad quickly when it failed to resonate with the consumer. The resemblance to the Ford Taurus (the car to which Infinity was claiming to be superior) also showed a clear lack of adherence to Sun-Tzu's theory that one must dominate through superiority. Infiniti realigned with Sun Tzu's principles by raising price, to clearly demonstrate principle II-6, dominating through superiority, and reinforce the upscale image in the marketplace. As we saw in the Toyota/Lexus strategy, this adherence to Sun Tzu methodology resulted in placing Infiniti in a position of strength so that proper operational tactics could then be utilized.

Acura, Lexus, and Infiniti Pricing Strategies

It is worthwhile to compare the pricing strategies undertaken by each brand: Acura, Lexus and Infiniti. Our analysis allows us to identify two general strategies that the Japanese automakers employed in order to succeed in the upscale market: a penetration pricing strategy employed by Acura, and the demand-based pricing strategy used by Lexus and Infiniti. The difference between the two is apparent. Honda introduced the lowest possible prices and the largest possible distribution system when its Acura models hit the market, counting on mass sales and an eventual appreciation in image that would lead to higher profit margins in the future. This was based on its research of an "unusual revealed preference in the demand curve."

Lexus and Infiniti, on the other hand, started with a limited number of dealerships, 80 for Lexus and 65 for Infiniti, and more upscale prices. Their prices fell into the range between the Cadillac and the BMW 500 series and Mercedes 300 series models. The two Japanese divisions believed they understood the changing tastes in the American society as well as the devastating effect that the newly introduced "gas-guzzler" tax had on the German models. This tax was an important factor in making the Japanese cars more attractive to consumers. Unlike Acura with its mass invasion, Lexus and Infiniti started very carefully, just "nibbling" at the market.

Although Lexus and Infiniti were initially in the same price range, they used different approaches when promoting their brands. Advertising its Q45, Infiniti tried to create the Japanese image of luxury by exhibiting rice paper screens and nature scenes in its showrooms. Lexus, on the contrary, was much less psychological. They emphasized excellent performance, showing the superior handling of the LS400 on highways and sand roads, as well as wealthy couples enjoying the comfort and luxury of the LS400. Toyota also allowed for more price variation, using price haggling deals and equipping models with additional luxury accessories, while Infiniti stuck to a one-price strategy with no price haggling.

Acura, Lexus and Infiniti were similar in their overall pricing strategies. The three transformed from market-share-oriented pricing policies to higher profit margins, as practiced by a skimming strategy. The early successes of Acura and Lexus enabled them to start moving in this direction after they had been on the market for only 3-4 months, whereas Infiniti raised the Q45 price one year after its entry into the market. Eventually, all three divisions increased the base prices of their flagships by an average of $13,000 to $16,000 in the four-five years after their entry into the U.S. market.

For smaller companies or those with a weaker initial market position, as in the case of the Japanese automakers, using offensive, attack strategies can lead to niche strategies in business applications. By attacking weaknesses and avoiding strengths when confronting one's competitors, it is possible to develop markets by establishing relative superiority. It is this relative superiority that matters most (McNeilly 2000). Consider the U.S luxury auto market in a similar way. The Japanese auto industry, realizing their resources and limited comparative advantages, chose to attack a smaller, weaker, and in this case, unrealized segment of the U.S auto market. Knowing what markets to enter by determining a company's relative superiority is essential in creating effective entry strategies. Many niche market strategies have proven not only highly successful, but also have led niche market companies to eventually challenge industry leaders (Ho and Choi 1997). An illustration of this occurrence is demonstrated by the significant growth of the luxury auto market segment in the U.S., and the Japanese auto manufacturers' ability to profit within it. Each Japanese company was able to expand from its original niche. However, Honda's marketing approach thus differed from Toyota and Nissan. Hence, it could be said that, in Sun Tzu's eyes, Toyota and Nissan both made the same mistakes, even if they made them differently (Huang 1993).

The penetration strategy initially undertaken by Honda would be viewed by Sun Tzu as a monopolistic approach to the battle. Sun Tzu would define this as gaining a competitive advantage over opponents you wished to conquer, in order to increase your territory and gain political power. Hence, enlarging an empire is the key to creating monopolistic control over a region. If successful, he creates an expanded empire - in a sense, a monopoly, whose boundaries might again be expanded with proper future strategies. Honda exhibited this by entering the U.S. marketplace with lower prices and many dealerships, hence boldly attacking the market and creating more of a monopolistic condition than their competitors in their segment. This gave Honda a reasonably large base on which to expand. Honda viewed the U.S. luxury auto market not as a niche, as their competitors did, but as a world to be conquered, as Sun Tzu might have. This gave them an early advantage. Toyota and Nissan, on the other hand, viewed the U.S. luxury auto market more as a segment or niche market, and tailored their advertising, pricing and distribution strategies accordingly. Only when Toyota and Nissan realized Sun Tzu's philosophy that a niche segment is in actuality an important market waiting to be conquered, and then realigning their pricing and distribution strategies to reflect such monopoly tactics, did they gain their eventual success (Huang 1993, Rarick 1996).

CONCLUSION

The Japanese were able to penetrate the U.S. luxury car market through the use of pricing and diversification strategies as well as by having a clear understanding of American consumer behavior. Their market research confirmed a heretofore unrecognized elasticity existing at the lower end of the U.S. luxury car market, which had been considered by all producers to be inelastic. In other words, their studies confirmed the existence of a "close to luxury" segment.

This "glitch" in the demand curve enabled Honda's Acura to use a penetration pricing entry strategy, coupled with an intensive dealership program which maximized distribution. Toyota's Lexus and Nissan's Infiniti, introduced a few years after Acura, chose a more selective distribution pattern as well as a more upscale pricing strategy. Once the market was established, all three exhibited a similar skimming pricing strategy. They were all successful with this strategy, not only because they understood American consumer behavior, but also due to an adherence of Sun Tzu principles. The Japanese Big Three provided the luxury car buyer an excellent value—that was their "edge".

Sun Tzu's strategies from millennia ago can be effectively applied today. The Japanese auto industry has given us a prime example of this. By applying Sun Tzu's principles of strategy each of the Japanese automakers were able to be ultimately successful and "win the war". It is Sun Tzu's belief that wars are fought to correct or change an unsatisfactory condition, otherwise there would be no reason for battle. In this example the unsatisfactory condition was an unfulfilled consumer need. It is important to note that the achievement of winning the war has produced the best possible outcome for the consumer, at least for the time being.

In the case of the U.S. luxury auto market we see three Japanese automakers challenge the "rulers" of the luxury auto territory. As in Sun Tzu's day, winning a war does not necessarily mean that the territory ends up with a single ruler. In most cases it means only that the territory is divided differently. However, unlike battles for geographical territory, the marketplace is not finite. By viewing the U.S. luxury auto market as a viable and growing segment, the Japanese were able to reach a large portion of the market. Using the creative strategies of Sun Tzu, they were able to develop a larger "pie" for all to share, rather than having competitors fighting to take away "pieces" from each other.

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