



August 2006 Issue

As usual, we've assembled a number of high-quality articles designed to tickle your brain: Get to Know goes global with John Lichtenberg of Kelly Services; corporate image and name identity expert Naseem Javed speculates on the future of Google™ and "google"; in The Download, another fascinating geopolitical report on the Middle East from Stratfor; and more. Enjoy!

Editor's Cut

Given that it's 100 degrees outside, and I'm able to easily snag a morning parking spot at my Metro-North train station...

MarketingSherpa's Practical Stat of the Month

Top 44 US Business Software Firms' Search Engine Optimization Effectiveness

Get to Know: John Lichtenberg, VP of Global Marketing at Kelly Services

John Lichtenberg has the gargantuan task of overseeing marketing efforts in 30 countries-a number that will rise to 40 in 2007.

When Will GoogleT Become Generic?

Today, there are hundreds of once highly protected famous name brands.

Fed Focus: Create a Marketing Intelligence Dashboard For Higher ROI in Your Public Sector Channel

If you are the chief marketing officer of a successful technology company (product or service), chances are that your Public Sector Channel is doing well.

Dropping the Ball

When it comes to marketing, most CEOs at B2B companies make lousy catchers.

The Download

From Stratfor: Cease-Fire-Shaking Core Beliefs in the Middle East

An extraordinary thing happened in the Middle East this month. An Israeli army faced an Arab army and did not defeat it.

Editor's Cut



About every other weekend our family makes a 20-minute trek down to Yonkers, NY to stock up on groceries at Stew Leonard's, which bills itself as the World's Largest Dairy Store. Normally shopping for anything gives me a headache, but there is something about Stew's that puts a smile on my face instead of making me feel ill. I've been thinking about why this happens, and two words come to mind: customer engagement.

Stew's makes shopping for groceries a fun experience for the whole family: from the petting zoo out front, costumed characters and animatronic displays around the store (the dancing Chiquita banana lady is a favorite) to numerous food sampling stations (I've eaten my lunch in there for free several times), a friendly, helpful staff, fairly short checkout lines and fresh, fresh products.

The most interesting thing about Stew's is the store layout. It's like walking through a line for a ride at Disney World. There are no aisles, just a maze you go through with a start and a finish. This irks some friends of ours, because it's not easy to go to Stew's to pick up a loaf of bread—but you don't go to Stew's to buy three items or less. Within the maze are some 2,000 high-quality but not overly priced products, far from the average grocery store offering of 30,000. Many of these products are made by Stew's themselves. And did I say the food is fresh? Never have I munched on a Stew's product that didn't taste great. This is just one reason that Stew's three stores generated \$300 million in sales last year.

Bottom line: Stew Leonard's knows its customers and what they want in an in-store experience. Which brings us to our **North American CMO Summit** in San Francisco on Oct. 4-5., themed "The Power of Engagement: Gaining Customer Intimacy, Influence & Inspiration." While petting zoos probably won't be high on your list, we're determined help you optimize your customer acquisition and retention strategies through a compelling Summit agenda. Here are just a few of the highlights:

- Keynotes from top marketers at Best Buy, National Hockey League and Feld Entertainment (Ringling Bros./Disney On Ice)
- A special channel marketing session on Oct. 4 that kicks off the Summit
- Highly interactive discussions covering the Summit theme, "The Power of Engagement: Gaining Customer Intimacy, Influence & Inspiration" led by marketers from brand name companies

To register for North America, or for information on our upcoming Summits in London or Tokyo, go to www.cmosummit.org.

We'll conclude the North American Summit by announcing the winner of the **Yahoo! Big Idea Chair Award** that honors the best integrated, multi-channel marketing campaign in the tech and telco spaces. There is still time to **submit entries** for the competition, which is open to member companies and their agencies. For more information go to: www.cmosummit.org/2006/sf/yahoo/.

It's hard to believe that school is just a few weeks away, which means our **Mastering MPM Certificate Program** is nearly in session. This online program, sponsored by the Marketing Performance Measurement (MPM) Forum, will assess and certify MPM competencies, as well as provide leading-edge knowledge and best practices that can help establish an MPM program at your own organization, or improve your existing one. The Fall 2006 Mastering MPM Certificate online program is a three-month semester beginning September 11, 2006 and running through November 17, 2006. The cost is very nominal at \$395. To take advantage of this program and the

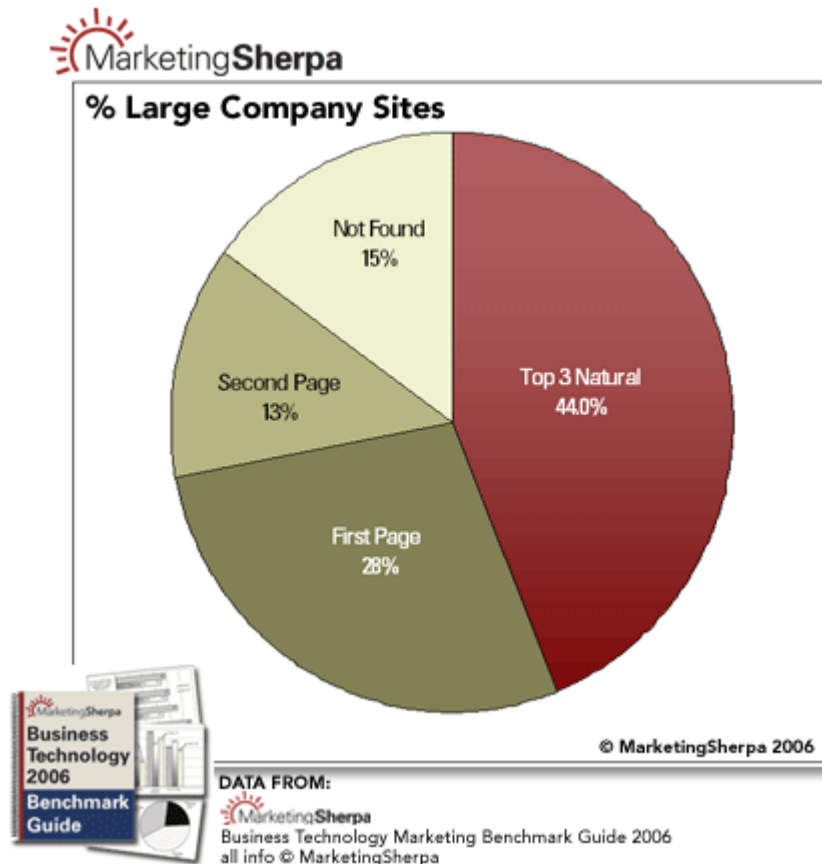
savings you must register by August 31 at <http://www.mpmforum.org/register.asp?pid=magn>.

Enjoy this issue and the rest of the summer!

MarketingSherpa's Practical Stat of the Month

Top 44 US Business Software Firms' Search Engine Optimization Effectiveness

In June 2006, MarketingSherpa's research team conducted an observational study of the 44 largest BtoB software firm Web sites. The goal: To determine how these firms' online presence compared to their peers in other industries, as well as to smaller software and ASP firms.



Our expectation was that these Fortune 500 technology companies would have a very strong presence in the search engines for terms directly related to their software. However, 28% were not ranked on the first page of search results. In other industries, such as ecommerce, such a failing would be unthinkable among major players.

A complete copy of this observational study is included in MarketingSherpa's Business Technology Marketing Benchmark Guide, available for download at:
<http://www.sherpastore.com/home.html?8895>

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Get to Know: John Lichtenberg, VP of Global Marketing at Kelly Services



As vice president, global marketing at Fortune 500 firm Kelly Services, the No. 2 staffing company in the U.S. and No. 5 worldwide, John Lichtenberg has the gargantuan task of overseeing marketing efforts in 30 countries—a number that will rise to 40 in 2007. Lichtenberg began his marketing career in real estate, working at the Century 21 corporate office for 10 years. He then switched to Kelly Services, and after a short stint away, returned to Kelly's Troy, Michigan corporate headquarters to head up marketing for its new specialty divisions, such as engineering and IT, for example, new brands that helped propel Kelly Services to a record \$5.3 billion in revenue in 2005. While firmly entrenched in global marketing, Lichtenberg also directs brand and national advertising in the U.S. We recently spoke about the challenges of global marketing, and Lichtenberg's plans for his organization going forward.

MM: What are the challenges of going global?

JL: First, as a company, we've invested a lot into infrastructure and the branch networks, so when it comes down to marketing we have to do it on a smaller budget. The challenges really depend on the region. In some we go into, the whole temporary staffing idea is new, so there's the challenge of education. Then there are markets that are already saturated. Japan, for instance, is a mature market and very expensive. In that case we do very targeted marketing.

So what types of marketing work for you?

Well, this isn't fancy stuff that will impress Ad Age. We're out looking at vertical trades and trade shows. We do a lot of research in the marketplace, trying to keep the pulse on the HR audience while positioning ourselves as experts. It's not rocket science, but it is a challenge. We're also extending our specialty brands into existing markets.

How is your global organization structured?

It's broken into regions. So I have a regional marketing director, and then them a country marketing manager. There are a few exceptions in larger markets. For the most part the marketing manager is a real generalist. The higher-end strategy is formulated by regional marketing directors who report to me.

What about working with outside agencies?

We don't have agency of record, so we work on a project basis. It's been pretty healthy for us, because we can pick and choose the best resource at the time. It's allowed us flexibility. I work with some strong agencies around the globe.

How much marketing ROI can you measure?

We measure when we can. We can track job postings all the way to placement and revenue generated by that placement. Some things are a little more fluffy, such as using PR to brand. We can track the impressions and key messages within those impressions.

Are you able to make quick adjustments to the marketing mix?

Yes, we're getting there. But I would like to be stronger in some areas. When we launch a brand in another country, for example, I'd like to be a little more regimented about what we do and how we do it. What are our goals? Then again, we have small budgets and sometimes it costs more to measure than the actual program.

How does marketing fit in with Kelly's other business groups?

Very well. Here marketing is considered the most global of the staff functions. We've been ahead of the curve in getting a strong team in place. We're a well-functioning unit. As a result, other departments have looked at us to see how we've done it and adopted similar methodologies.

The one thing we are working on is better alignment with sales, especially at the branch level. Take our sales staff in Kuala Lumpur, for example: How do they determine what they are going to sell, how they are going to sell it, and what tools they will use? And how can they help us understand what is working and what is not? It's getting a lot better, but we still grapple with those questions.

What about marketing from a regional vs. local perspective....

When I started in global marketing four years ago, if you took samples of our stuff and put it up on a wall, it looked like my kids' artwork. Each piece was great but there was no linkage at all. So we needed to align ourselves from a strategic and messaging point of view. The other important step is getting a graphic standards program installed. Now I can take just about anything we've done and put it up on a wall and it links together.

Even though people talk about the differences in the market, at the end of the day there are similarities, too. My job is to keep everyone talking and sharing because there probably is a program out there that someone can take and modify slightly and localize to their market. Now that local marketer becomes the hero, and it's more cost effective and time efficient. Our strategy is to focus on the largest customers in the world, and it does matter to them that they have the common brand experience when they walk into a branch in Paris, Singapore, or Detroit.

The key is allowing flexibility to make Kelly relevant in different markets. For instance, the UK is really saturated. It's a difficult market for all staffing companies. Yet it's also a very mature marketplace, and there's some great advertising produced there. In that kind of environment, we give our staff a little more latitude to make an impact.

How do you differentiate Kelly Services from your competitors?

Good question. If you look at all of the brochures, many of us are saying the same thing! Our focus is the service that we deliver. There is still a role for a face-to-face contact between the customer and the job candidate. So it all comes down to that experience on the front lines. That backs up our messaging. We are also strong on being ethical—not that our competitors aren't, but there are some rules you can get around, and we don't do that.

Can you name some of the 10 new countries Kelly will be moving into?

We're looking at Eastern Europe and South Asia. We've got a nice footprint in Western Europe. We've also seen a lot of growth in India, Singapore and Malaysia.

What are your top three objectives going into next year?

We're working with an agency to deliver a fresh campaign that will launch in the fourth quarter. We're also taking a new look at our graphics standards program. It's been the same for four years and it can be better. And third, I'd like to grow our research-based PR efforts. We've got a strong program called "The World at Work," which surveys every candidate that goes to our Web site. We're going to continue to build that out.

When Will GoogleT Become Generic?

By Naseem Javed

Today, there are hundreds of once highly protected famous name brands, which were backed by multi-million dollar promotional budgets, now commonly used in daily lingo as generic names, as it was their huge popularity that made them lose their trademark protection. So why is the use of famous trademarked names as “verbs” in our daily language feared by the attorneys representing that mark? This calls for a closer look.

When you open your fridge, have an aspirin, use a kleenex, watch the kids in spandex jumping on the trampoline, go out rollerblading, spend time xeroxing, then fedexing, have a granola and later googling on the Net - all these highlighted names are generic, and their respective owners try very hard to keep them unique by means of graphic logos for better identification.

Currently, the term “to google” is in Oxford English Dictionary with a lower case “g”. This is indicative that the word “to google” has entered the English language as a word, and therefore makes it very difficult for the originators, Google™, to keep it exclusive for themselves. Today, anyone can manufacture a fridge, trampoline or a rollerblade, so does this mean that there will be googling devices, googling software or google kits produced by others?

Now the giant of the search engine universe, Google™, flares up and warns media to back off from using its most powerful moniker, Google™, as a “verb.” This calls for an even closer look.

First of all, it is all about our cultural transition surrounded by today's Novo-Psycho-Cyber-Dependency-Behavior...i.e. an uncontrollable and unstoppable compulsion disorder to become fully symbiotronically attached oneself to various access devices with the body, and to search the Net for hidden secrets and hidden bargains in the farthest and darkest corners of the world. This cultural revolution and cyber-dependency behavior embrace the centrality of “googlization” as its main force. The popularity of Google™ is awesome, and soon historians will refer to our current times as the Search-Craze Era. Well done, Google™...viva le search.

Like Netsurfing or E-Mail and many thousands of other brand names that became common generic terms, Google is now swimming in the same soup, and if you google today or talk about googling, watch out, as you are seriously upsetting this monster search engine. To many, this may sound like free advertising, though in reality this is a corporate nightmare—a code-red alert strikes the boardroom. Legal SWAT teams swing into action to protect their successful global brand, and an aggressive policing of corporate name usage kicks in. Who knows, with so much technology available, imagine if you typed in an e-mail: “honey, I just got tired of googling...” Bang. A stern message will pop up on your screen lecturing you on generic name rules 101, or even better, your system will simply crash and only re-open after you fax a signed and notarized apology.

Normally, lawyers can issue fancy memos on embossed stationery designed to force people and media to always refer to a brand name as a registered trademark of the company. They also instruct their advertising and branding agencies to avoid making creative uses and plays on the name when it is used in commercials or general promotional copies of ads. If a name is too playful then it also quickly becomes adopted in the language as a word like rollerblade.

Right now, even on the Google™ site itself, the use of the word “gooooooooooogle” to represent the number of results pages is more dilution of the mark, and so is the weekly cartooning on their homepage that can lead to “folklore” content designation. However, this is a long and a painful process and in the end, it is the public that decides when and how a name will become generic, and when will it lose its trademark powers.

Fortunately, studies have shown that certain alpha-structures do not easily lend themselves to verbing. Despite their fame and popularity in daily language, these types of names survive over time and remain powerful corporate brands while enjoying a proprietary status. Some examples are Yahoo!, Apple, Netscape, Telus, Microsoft, Sony, Rolex and Nintendo. Have you ever heard, "I Rolexed and realized I was late?" or, "Leave me alone, I'm Appling"? How about, "I just Nintendozed off" or "I was depressed and very Microsoftish"? Kindly let me know if you ever come across such "google de gook."

As a result, finding great corporate name identities has become a very scientific process and is no longer a hand holding creative exercise. To most, corporation naming is treated as a last-minute casual process led by some big ad agency. Naming is a black and white exercise and not to be confused with logos and graphic designs. Under The Laws of Corporate Naming, all such issues are explored in advance so that a brand name will be engineered for durability and survive the test of time. The days of accidental business naming are over.

Google™ has a big battle ahead of it, and the fights will take place on two fronts. First, the company still has the best search engine to date, and as a result acquired too much global attention too quickly, so the name will get deeper into the language. Second, as a borrowed word from the mathematical section of the English dictionary, the word "google" does have an alpha-structure that easily lends itself to cute verbalization. In time, it appears to have all the necessary ingredients to become generic. Right now, Sir Isaac Newton is simply googlified.

Naseem Javed, recognized as a world authority on corporate image and global name identities, is a harsh critic of casual and accidental naming. He is a dynamic speaker on corporate image and branding issues, and is also the author of *Naming for Power*. He founded ABC Namebank International (www.abcnamebank.com) an image and branding consultancy over 25 years ago. Naseem can be reached at: nj@njabc.com.

Create a Marketing Intelligence Dashboard For Higher ROI in Your Public Sector Channel

By Gal S. Borenstein

If you are the chief marketing officer of a successful technology company (product or service), chances are that your Public Sector Channel is doing well these days. With billions of dollars being poured into improving government IT infrastructure, everything from software to hardware is in demand, being driven by the underlying supposition that technology empowers higher efficiencies and cut workforce overhead. That's the good news.

The bad news is that as a CMO, one struggle with the strategic anomaly in benchmarking and measuring what constitutes success in federal marketing. We find that often, ROI reports received by federal channel folks are either misunderstood or misinterpreted by corporate in ways that create domino-effect on the company sales projections, branding messages, as well as developing strategic R&D decisions that ultimately decide the difference between a market leader to a market laggard. Worse, by the time its get to the CEO's desk, it's too late. How does one understand the snapshot of what constitutes success in public sector marketing?

If you tried to apply the traditional marketing dashboard of lead-to-close ratio, proposal funnel and number of responses from your latest direct mail or ad campaign, you will be DEAD WRONG. None of them is a valid performance indicator of a public sector channel. It is because you are dealing with a prospect/customer that has one of the most complex decision making processes in the universe.

The Borenstein Group, (<http://www.BorensteinGroup.com>), a member agency of Global Fluency, has developed a Public Sector Marketing Performance Dashboard to help CMOs outside Washington DC bridge the gap between perceptions and realities by cutting the clutter of "traditional marketing benchmarks" and "public sector specific benchmarks." If you are determined to build one for your organization, here are several Key Performance Indicators that gives you the real deal on how your company is really doing in the Public Sector marketplace.

Benchmark and Measure the Quantity and Quality of Strategic Alliances and Subcontracts in Place or in Development:

To win business in the federal space, the predominate efforts must be focused around creating win-win strategic alliances and teaming agreements with players that have the ability to supplement your company's weakness. Often, corporate CMOs receive rosy reports about the numerous teaming agreements in place between your company and another one. The truth: signing Teaming Agreements in the Washington DC area is the equivalent of an after-hours martini in Silicon Valley: they both expire once the specific opportunity for action is gone. Therefore, probe the nature of each teaming agreement and the quality of the relationships by examining the type of joint opportunities pursued, and performing gap analysis on what the competition is doing.

Benchmark and Measure the Quantity and Quality of Competitive Technical Certifications:

To win business in the federal space, your marketing intelligence must account for having the proper procurement vehicles in place. For example, your report may indicate that your company is competitive because it is on the GSA Schedule (the largest procurement schedule). But alas, little did you know that billions of dollars are spent in other contract vehicles at which your company has not been certified. The result could be loss of insight and tangible opportunities. Therefore, conduct quarterly reviews to assess the competitive positioning of your workforce certifications. Failure to do so and relying on your "old competitive edge" could cost you the channel.

Benchmark and Measure the Quantity and Quality of Proposals to Incumbents Vs. New Prospects:

To win business in the federal space, your marketing dashboard must distinguish and measure the quantitative and qualitative difference between new business and proposals to incumbent clients. They are not the same. There are various statistics that suggest that in government, unseating an incumbent is difficult because of past performance and inside knowledge of the “right price at the right time.” So this means that for every reported new business proposal in the funnel, your chances of winning have just been dramatically reduced unless you’ve done your homework or it is a new requirement with no incumbents. To the average CMO, all proposals have same “win rate.” With the average marketing cycle between 90 days to 3 years in some cases, it is imperative that you make sense of what is a “real opportunity” and what is a “snow ball chance in hell” as it relates to the overall corporate objectives.

Gal S. Borenstein is CEO and Chief Strategist of The Borenstein Group, (www.BorensteinGroup.com), a Global Fluency agency member, that specializes in Business-to-Business and Business-to-Government branding, marketing communications, and public relations support programs in the areas of Defense, Government, Information Technology & Telecommunications and Global Marketing. The Borenstein Group trusted client history features market leaders such as ADT, IBM, Marconi, Nextel, Airbus North America, Northrop Grumman Information Technology, Pragmatics, Serco, Booz Allen & Hamilton, CALIBRE Systems, and CR Software, as well as major government agencies such as U.S. Department of Defense, U.S. Army, U.S. Navy, U.S Air Force, U.S. Department of Commerce, and U.S. Department of State.

Dropping the Ball

By Michelangelo Celli

"We believe that the quality and nature of the customer relationship and experience is going to be the next competitive battleground." - Michael Dell, CEO, Dell Computer

When it comes to marketing, most CEOs at B2B companies make lousy catchers, and even worse pitchers.

It's tough to find a CEO that really loves to talk about marketing. Business owners, presidents, and CEOs pack into sales seminars, but similar marketing events are filled only with marketing directors and marketing VPs, with few CEOs in sight. And yet, in which area of the business do you think the CEOs are dumping more money without a measurable return, marketing or sales?

Typically, most CEOs have solved the sales puzzle to some degree or they wouldn't still be around solving problems. But many CEOs of private B2B companies get sales to a certain level and then see only minor fluctuations. Annual sales of \$18 million might dip to \$17 million, for example, then go back up, but no further. After several years, the CEO concludes that new sales hires, training, and coaching aren't making that sales figure budge, so maybe they should try some of that marketing stuff.

When sales start to stagnate in a service-based B2B company, the CEO is coming face to face with the truth about the forces of the marketplace: when you get out there and push on the market, the market pushes back. Your sales "force" can only generate so much power to move money in and out of your company. Enter marketing. Marketing is supposed to help you sell more of your products and services more easily, providing leverage for your business.

Yet, most CEOs of private businesses are frustrated with marketing, because they see it more as a waste of money than actual leverage. This might explain the surprising fact that most B2B businesses under \$30 million in annual revenues don't even have a marketing department, preferring instead to employ direct sales forces. They have well-developed management and sales teams, but almost zero marketing functionality, except perhaps a low-level coordinator to handle the website and direct mail. Often, they are outsourcing marketing and advertising efforts to a boutique design firm or ad agency that is supposed to be helping their brand.

The result is that between the strategic management team and sales team there is a huge resource gap where the marketing team normally would be, and the company drops the ball time and time again when it comes to designing, executing, and managing marketing programs that can activate sales. Whose fault is this?

The sales team is there to sell. Generally, this means engaging with customer opportunities and closing. Marketing is there to create a strong selling environment that will help that sale take place, which they facilitate through identifying market needs, and building strong promises, products, and promotions. But who tells marketing how they can or cannot go about creating this selling environment? You guessed it: the CEO.

Why are so many CEOs of private B2B businesses failing to solve their marketing challenge, and therefore dooming their companies to flat or incremental growth? They know what marketing is, and how they are using it, but the problem is that they have absolutely no clue why it works. When there's a failure, they can't correct it because they're unaware of their role in the marketing process.

The situation is similar to a homeowner whose refrigerator breaks down. Everyone has such an appliance, and knows how to use it, but most of us don't know why it works, so when it fails, we're stuck. When a repair service shows up, do they replace the whole refrigerator a single faulty part? Although it might appear that the entire fridge is kaput, it's more likely that only a new part is needed.

Similarly, most private businesses attempt to overhaul an entire system to market themselves, but without the understanding of the component parts and their functions. Making the situation worse is the tendency to skimp on internal resources to plan, execute, or measure outcomes.

When CEOs think they know about marketing, they might plow ahead and spend millions on an ad agency, and find that in return they have high turnover and demoralization in their sales force. Eventually, they'll likely cease marketing altogether, concluding that their business is all about relationships, and still have the problem of stagnant growth.

CEOs drop the ball on marketing for the same reason as kids in Little League. They take their eye off of it. The ball is the customer. When the company was small, the CEO could see their customer very well, but as a company grows, the CEO starts managing the sales team, and stops managing the customer relationship that they steward. They fall down on marketing because they see marketing as a program or promotion here and there instead of seeing it as a leveraged means to sell more of their products and services continuously.

Successful marketing is powered by a strong vision from the CEO. Strong visions lead customers to new destinations fully supported by the company's commitment to fresh areas like products, services, capabilities, policies, methods, and procedures. Instead of beating down their sales people, CEOs need to develop focus and vision where it makes the most sense, because it's impossible to catch a ball that you can't even see.

Michelangelo Celli is President of The Cornucopia Group, where he works exclusively with CEOs of privately-held b2b companies that sell expensive products or services and whose sales depend on strong customer relationships to allow them to systematically develop more predictable outcomes from their marketing and sales efforts. To find out more, visit The Cornucopia Group Web site at <http://www.cornucopiagroup.com> or email Mr. Celli at mcelli@cornucopiagroup.com.

From Stratfor: Cease-Fire: Shaking Core Beliefs in the Middle East August 15, 2006

By George Friedman

An extraordinary thing happened in the Middle East this month. An Israeli army faced an Arab army and did not defeat it -- did not render it incapable of continued resistance. That was the outcome in 1948, 1956, 1967, 1973 and 1982. But it did not happen in 2006. Should this outcome stand, it will represent a geopolitical earthquake in the region -- one that fundamentally shifts expectations and behaviors on all sides.

It is not that Hezbollah defeated the Israel Defense Forces (IDF). It did not. By most measures, it got the worst of the battle. Nevertheless, it has been left standing at the end of the battle. Its forces in the Bekaa Valley and in the Beirut area have been battered, though how severely is not yet clear. Its forces south of the Litani River were badly hurt by the Israeli attack. Nevertheless, the correlation of forces was such that the Israelis should have dealt Hezbollah, at least in southern Lebanon, a devastating blow, such that resistance would have crumbled. IDF did not strike such a blow -- so as the cease-fire took effect, Hezbollah continued to resist, continued to inflict casualties on Israeli troops and continued to fire rockets at Israel. Hezbollah has not been rendered incapable of continued resistance, and that is unprecedented.

In the regional equation, there has been an immutable belief: that, at the end of the day, IDF was capable of imposing a unilateral military solution on any Arab force. Israel might have failed to achieve its political goals in its various wars, but it never failed to impose its will on an enemy force. As a result, all neighboring nations and entities understood there were boundaries that could be crossed only if a country was willing to accept a crushing Israeli response. All neighboring countries -- Egypt, Jordan, Syria and Lebanon, prior to the collapses of central authority -- understood this and shaped their behavior in view of it. Even when Egypt and Syria initiated war in 1973, it was with an understanding that their war aims had to be limited, that they had to accept the probability of defeat and had to focus on postwar political maneuvers rather than on expectations of victory.

The Egyptians withdrew from conflict and accepted the Sinai as a buffer zone, largely because 1973 convinced them that continued conflict was futile. Jordan, since 1970, has been effectively under the protection of Israel against threats from Syria and internal dangers as well. Syria has not directly challenged the Israelis since 1973, preferring indirect challenges and, not infrequently, accommodation with Israel. The idea of Israel as a regional superpower has been the defining principle.

In this conflict, what Hezbollah has achieved is not so much a defeat of Israel as a demonstration that destruction in detail is not an inevitable outcome of challenging Israel. Hezbollah has showed that it is possible to fight to a point that Israel prefers a cease-fire and political settlement to a military victory followed by political accommodation. Israel might not have lost any particular battle, and a careful analysis of the outcome could prove its course to be reasonable. But the loss of the sense -- and historical reality -- of the inevitability of Israeli military victory is a far more profound defeat for Israel, as this clears the way for other regional powers to recalculate risks.

Hezbollah's Preparations

Hezbollah meticulously prepared for the war by analyzing Israeli strengths and weaknesses. Israel is casualty-averse by dint of demographics. It therefore resorts to force multipliers such as air power and armor, combined with excellent reconnaissance and tactical intelligence. Israel uses mobility to cut lines of supply and air power to shatter centralized command-and-control, leaving enemy forces disorganized, unbalanced and unsupplied.

Hezbollah sought to deny Israel its major advantages. The group created a network of

fortifications in southern Lebanon that did not require its fighters to maneuver and expose themselves to Israeli air power. Hezbollah stocked those bunkers so fighters could conduct extended combat without the need for resupply. It devolved command to the unit level, making it impossible for a decapitation strike by Israel to affect the battlefield. It worked in such a way that, while the general idea of the defense architecture was understood by Israeli military intelligence, the kind of detailed intelligence used -- for example, in 1967 -- was denied the Israelis. Hezbollah acquired anti-tank weapons from Syria and Iran that prevented Israeli armor from operating without prior infantry clearing of anti-tank teams. And by doing that, the group forced the Israelis to accept casualties in excess of what could, apparently, be tolerated. In short, it forced the Israelis to fight Hezbollah's type of war, rather than the other way around.

Hezbollah then initiated war at the time and place of its choosing. There has been speculation that Israel planned for such a war. That might be the case, but it is self-evident that, if the Israelis wanted this war, they were not expecting it when it happened. The opening of the war was not marked by the capture of two Israeli soldiers. Rather, it was the persistent and intense bombardment of Israel with missiles -- including attacks against Israel's third-largest city, Haifa -- that compelled the Israelis to fight at a moment when they obviously were unprepared for war, and could not clearly decide either their war aims or strategy. In short, Hezbollah applied a model that was supposed to be Israel's forte: The group prepared meticulously for a war and launched it when the enemy was unprepared for it.

Hezbollah went on the strategic offensive and tactical defensive. It created a situation in which Israeli forces had to move to the operational and tactical offensive at the moment of Hezbollah's highest level of preparedness. Israel could not decline combat, because of the rocket attacks against Haifa, nor was it really ready for war -- particularly psychologically. The Israelis fought when Hezbollah chose and where Hezbollah chose. Their goals were complex, where Hezbollah's were simple. Israel wanted to stop the rockets, break Hezbollah, suffer minimal casualties and maintain its image as an irresistible military force. Hezbollah merely wanted to survive the Israeli attack. The very complexity of Israel's war aims, hastily crafted as they were, represented a failure point.

The Foundations of Israeli Strategy

It is important to think through the reasoning that led to Israeli operations. Israel's actions were based on a principle promulgated by Ariel Sharon at the time of his leadership. Sharon argued that Israel must erect a wall between Israelis and Arabs. His reasoning stemmed from circumstances he faced during Israel's occupation of Lebanon: Counterinsurgency operations impose an unnecessary and unbearable cost in the long run, particularly when designed to protect peripheral interests. The losses may be small in number but, over the long term, they pose severe operational and morale challenges to the occupying force. Therefore, for Sharon, the withdrawal from Lebanon in the 1980s created a paradigm. Israel needed a national security policy that avoided the burden of counterinsurgency operations without first requiring a political settlement. In other words, Israel needed to end counterinsurgency operations by unilaterally ending the occupation and erecting a barrier between Israel and hostile populations.

The important concept in Sharon's thinking was not the notion of impenetrable borders. Rather, the important concept was the idea that Israel could not tolerate counterinsurgency operations because it could not tolerate casualties. Sharon certainly did not mean or think that Israel could not tolerate casualties in the event of a total conventional war, as in 1967 or 1973. There, extreme casualties were both tolerable and required. What he meant was that Israel could tolerate any level of casualties in a war of national survival but, paradoxically, could not tolerate low-level casualties in extended wars that did not directly involve Israel's survival.

Israeli Prime Minister Ehud Olmert was Sharon's protégé. Olmert was struggling with the process of disengagement in Gaza and looking toward the same in the West Bank. Lebanon, where Israel learned the costs of long-term occupation, was the last place he wanted to return to in July 2006.

In his view, any operation in Lebanon would be tantamount to a return to counterinsurgency warfare and occupation. He did not recognize early on that Hezbollah was not fighting an insurgency, but rather a conventional war of fixed fortifications.

Olmert did a rational cost-benefit analysis. First, if the principle of the Gaza withdrawal was to be followed, the last place the Israelis wanted to be was in Lebanon. Second, though he recognized that the rocket attacks were intolerable in principle, he also knew that, in point of fact, they were relatively ineffective. The number of casualties they were causing, or were likely to cause, would be much lower than those that would be incurred with an invasion and occupation of Lebanon. Olmert, therefore, sought a low-cost solution to the problem of Hezbollah.

IDF Chief of Staff Lt. Gen. Dan Halutz offered an attractive alternative. Advocating what air force officers have advocated since the 1930s, Halutz launched an air campaign designed to destroy Hezbollah. It certainly hurt Hezbollah badly, particularly outside of southern Lebanon, where longer-range rocket launchers were located. However, in the immediate battlefield, limited tactical intelligence and the construction of the bunkers appear to have blunted the air attack. As Israeli troops moved forward across the border, they encountered a well-prepared enemy that undoubtedly was weakened but was not destroyed by the air campaign.

At this point, Olmert had a strategic choice to make. He could mount a multidivisional invasion of Lebanon, absorb large numbers of casualties and risk being entangled in a new counterinsurgency operation, or he could seek a political settlement. He chose a compromise. After appearing to hesitate, he launched an invasion that seemed to bypass critical Hezbollah positions (isolating them), destroying other positions and then opting for a cease-fire that would transfer responsibility for security to the Lebanese army and a foreign peacekeeping force.

Viewed strictly from the standpoint of cost-benefit analysis, Olmert was probably right. Except that Hezbollah's threat to Israel proper had to be eliminated, Israel had no interests in Lebanon. The cost of destroying Hezbollah's military capability would have been extremely high, since it involved moving into the Bekaa Valley and toward Beirut -- let alone close-quarters infantry combat in the south. And even then, over time, Hezbollah would recover. Since the threat could be eliminated only at a high cost and only for a certain period of time, the casualties required made no sense.

This analysis, however, excluded the political and psychological consequences of leaving an enemy army undefeated on the battlefield. Again, do not overrate what Hezbollah did: The group did not conduct offensive operations; it was not able to conduct maneuver combat; it did not challenge the Israeli air force in the air. All it did was survive and, at the end of the war, retain its ability to threaten Israel with such casualties that Israel declined extended combat. Hezbollah did not defeat Israel on the battlefield. The group merely prevented Israel from defeating it. And that outcome marks a political and psychological triumph for Hezbollah and a massive defeat for Israel.

Implications for the Region

Hezbollah has demonstrated that total Arab defeat is not inevitable -- and with this demonstration, Israel has lost its tremendous psychological advantage. If an operational and tactical defensive need not end in defeat, then there is no reason to assume that, at some point, an Arab offensive operation need not end in defeat. And if the outcome can be a stalemate, there is no reason to assume that it cannot be a victory. If all things are possible, then taking risks against Israel becomes rational.

The outcome of this war creates two political crises.

In Israel, Olmert's decisions will come under serious attack. However correct his cost-benefit analysis might have been, he will be attacked over the political and psychological outcome. The

entire legacy of Ariel Sharon -- the doctrine of disengagement -- will now come under attack. If Israel is thrown into political turmoil and indecision, the outcome on the battlefield will have been compounded politically.

There is now also a crisis in Lebanon and in the Muslim world. In Lebanon, Hezbollah has emerged as a massive political force. Even in the multiconfessional society, Hezbollah will be a decisive factor. Syria, marginalized in the region for quite a while, becomes more viable as Hezbollah's patron. Meanwhile, countries like Jordan and Egypt must re-examine their own assumptions about Israel. And in the larger Muslim world, Hezbollah's victory represents a victory for Iran and the Shia. Hezbollah, a Shiite force, has done what others could not do. This will profoundly affect the Shiite position in Iraq -- where the Shia, having first experienced the limits of American power, are now seeing the expanding boundaries of Iranian power.

We would expect Hezbollah, Syria and Iran to move rapidly to exploit what advantage this has given them, before it dissipates. This will increase pressures not only for Israel, but also for the United States, which is engaged in combat operations in Iraq and Afghanistan, as well as in a vague confrontation with Iran. For the Israelis and the Americans, restabilizing their interests will be difficult.

Now, some would argue that Israel's possession of weapons of mass destruction negates the consequences of regional perception of weakness. That might be the case, but the fact is that Israel's possession of such weapons did not prevent attacks in 1973, nor were those weapons usable in this case. Consider the distances involved: Israeli forces have been fighting 10 miles from the border. And if Damascus were to be struck with the wind blowing the wrong way, northern Israel would be fried as well. Israel could undertake a nuclear strike against Iran, but the threat posed by Iran is indirect -- since it is far away -- and would not determine the outcome of any regional encounter. Certainly, the possession of nuclear weapons provides Israel a final line from which to threaten enemies -- but by the time that became necessary, the issue already would have shifted massively against Israel. Nuclear weapons have not been used since World War II -- in spite of many apparent opportunities to do so -- because, as a weapon, the utility is more apparent than real. Possession of nuclear weapons can help guarantee regime survival, but not, by itself, military success.

As it stands, logic holds that, given the tenuous nature of the cease-fire, *casus belli* on Israel's part can be found and the war reinitiated. Given the mood in Israel, logic would dictate the fall of Olmert, his replacement by a war coalition and an attempt to change the outcome. But logic has not applied to Israeli thinking during this war. We have been consistently surprised by the choices Israel has made, and it is not clear whether this is simply Olmert's problem or one that has become embedded in Israel.

What is clear is that, if the current outcome stands, it will mean there has been a tremendous earthquake in the Middle East. It is cheap and easy to talk about historic events. But when a reality that has dominated a region for 58 years is shattered, it is historic. Perhaps this paves the way to new wars. Perhaps Olmert's restraint opens the door for some sort of stable peace. But from where we sit, he was sufficiently aggressive to increase hostility toward Israel without being sufficiently decisive to achieve a desired military outcome.

Hezbollah and Iran hoped for this outcome, though they did not really expect it. They got it. The question on the table now is what they will do with it.