

## ***THE LENS: AN EYE ON COMPETITIVE DYNAMICS & STRATEGY***

**Vol. 1, Issue 1**

Welcome to the first issue of *The Lens*, Strategy Dynamics Group's commentary on competitive strategy. Every day we read the news, observe the actions of competitors and companies in other industries but don't have time to think about the implications for our own companies, or how we carry out our professional activities. And because of the busy schedules we keep, we certainly don't have time to think about the deeper meaning of events around us, let alone how they might be relevant to our jobs.

While we will not be so presumptuous to assume that *The Lens* will solve this challenge, we do hope that it simply brings to your attention issues, events and ideas that contribute to your strategic thinking. If we do that, we will have been successful.

Please let us know what you think (at [info@sdg-strategy.com](mailto:info@sdg-strategy.com)), what we could do differently, issues you'd like to see addressed, etc. If you'd like to know more about Strategy Dynamics Group, please visit our web site at [www.sdg-strategy.com](http://www.sdg-strategy.com). And, if something sparks your interest that you think others should know about, send it in so we can share it. Thanks for reading.

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Bill Miller  
Fund Manager  
Legg Mason  
Value Trust

### **Portfolio Management Lessons for Competitive Intelligence**

Whatever field you're in, track record is what it is all about. The Legg Mason Value Trust mutual fund, which is managed by Bill Miller, has beaten the S&P 500-stock index for 14 consecutive years. When you consider that the overwhelming majority of fund managers under-perform the market, that's a pretty impressive record. Clearly, Miller is doing something different than other fund managers.

Bill Miller was recently interviewed in the Wall Street Journal and I was struck by several of his comments, which have direct relevance for competitive intelligence managers.

#### **Take A Long-Term View**

When asked what surprised him most about other fund managers and that might explain his relative success, Miller noted that the way others constructed their portfolios “has some flaws.” What were they? Miller said, “People reacted to information as opposed to anticipating it. More importantly, they tended to spend too much time thinking about businesses via simple-minded, short-term factors...The biggest opportunity... is really thinking out longer term.”

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If you think about the typical activity of CI managers, this hits the nail on the head. Most CI managers react to today's news, about yesterday. This is a necessary activity and an important part of the monitoring function, but clearly reactive. CI managers receive some type of news feed every morning. They review the contents. And then, either sort and file away articles of interest for another day, forward a particular article to some people on their distribution list, or perhaps write a quick brief, examining the potential implications of the news. Necessary, but reactive.

More important is Miller's statement that the "biggest opportunity" is "thinking out longer term." There are numerous articles about doing this utilizing scenario planning and other future-oriented brainstorming tools. However, few CI managers find the time to build this into their regular activities, let alone embed this longer-term outlook into the very structure of CI in their company. As a result, more often than not, CI managers tend to look in the rear-view mirror, rather than over the horizon.

### Correctly Define Your Industry

Another of Miller's comments spoke directly to the issue of industry definition. He was asked to illustrate his approach with one of the "growth" stocks he owns, Amazon.com.

How we define our competitors is typically limited to those currently doing the same thing. If you sell things to end-consumers, you're in retail. If you manufacture things, you're in manufacturing. Speaking about Amazon, Miller noted, "People think about Amazon as a retailer because it does in fact sell products like a retailer. What they don't understand is that retail is the business they're in, but it's not their business model. They're in the

retail business with a model similar to Dell – both are direct-to-customer purveyors of goods."

How we define the industry we are in also defines our competitor set, and most likely the focus of CI activities. One way to identify non-traditional and emergent competitors – the ones not in your space today but which may be eating your lunch tomorrow – is to play with redefining the business and industry you are in.

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- Which companies have a similar business model?
- Which companies have similar core competencies?
- Which companies define customer needs in a similar way?
- If you are a manufacturer and redefined yourself as a services company, what would that be?

The point is, you have to be forward looking in your orientation and, as the Apple tag line stressed, "think different" about who you are and what you do.

### Focus on The Important Stuff

The last thing of note in Miller's interview was his comment about how he views Fannie Mae and its recent accounting and PR troubles. He notes that, "The issue with Fannie is not the economic reality of their business, but how it was portrayed... I think all of that is noise obscuring the important facts that the stock has a low valuation and a significant competitive advantage... There's a whole coterie of people shorting Fannie Mae and worried about it. That's typical when you have controversy and uncertainty like you have today."

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Bottom line? You can't let yourself fall into the latest "groupthink." There is a tendency for all of us to follow the crowd. And when you read secondary materials all the time in your competitor monitoring, you can be pulled along by the latest common wisdom.

That is why it is so important to test assumptions that are suggested in your reading. Engage in independent analysis and critical thinking. Force yourself always to ask, "If I were to explain this differently, how would I do so?"

### Conclusion

- *Be future oriented.* Don't get stuck in rear-view mirror monitoring and analysis. Look at the long term. Don't pursue single-future and single assumption analysis. Test your assumptions. Consider alternative scenarios.
- *Redefine the terms of competition* to your advantage, both with regard to the competitor set and the business model. Consider

alternative definitions of the company, its industry and the issues.

- *Don't fall for the common wisdom.* Consider alternative explanations. Consider whether you are focused on the "right stuff" or a distraction. Consider whether you are underestimating your competitor.

When combined with the usual scope of activities of most strategy and CI managers, the above guidelines should contribute to some needed out-of-box thinking, which is precisely what strategy and CI managers should do.

*Jody Holtzman*

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If you'd like to read the WSJ interview with Bill Miller, check out the Mutual Funds: Quarterly Review, Fourth Quarter 2004, published on January 6, 2005.

## Upcoming Events with Strategy Dynamics Group

*April 6, 2005 – Pre-Conference Workshop: The Who, What, Where, When, Why and Wow of Actionable Intelligence*, with Jody Holtzman, President of Strategy Dynamics Group and Scott Leeb, Senior Director of Business Intelligence, The McGraw-Hill Companies, SCIP Annual Conference, Chicago, IL

*April 7, 2005 – Innovation in Practice Session: CI Blindspots*, with Jody Holtzman of Strategy Dynamics Group, SCIP Annual Conference, Chicago, IL

*May 26, 2005 – MindXchange: From Good to Great: Creating Linkage Between CI, MR and Strategy*, with Jody Holtzman, President of Strategy Dynamics Group and Scott Leeb, Senior Director of Business Intelligence, The McGraw-Hill Companies, Frost & Sullivan Annual Executive Summit – Naples, FL

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