

THE LENS: AN EYE ON COMPETITIVE DYNAMICS & STRATEGY

Vol. 1, Issue 2

Welcome to the second issue of *The Lens*, Strategy Dynamics Group's commentary on competitive strategy. This issue is called *Every Tool Box Needs a Monkey Wrench*. The title refers to recent events in which several companies demonstrated a real skill in throwing competitors off balance. I don't know if the actions described below were in fact the result of scenario planning, wargaming, and/or competitor response modeling. But, they certainly could have been.

Each of these examples demonstrates ways to gain advantage by preempting and/or undercutting your competitors. And they confirm two other facts about the market and competitive strategy:

1. The status quo is not set in stone, and
2. A bodacious move – as Snuffy Smith used to say – can change the game on your terms, achieve strategic objectives, create significant obstacles in your competitor's path, and raise their costs of competition to your benefit.

EVERY TOOL BOX NEEDS A MONKEY WRENCH

Changing the Game: Grand Theft ESPN

Those of you with teenage gamers in your house will likely be familiar with top selling video games, such as the Grand Theft Auto franchise of Take-Two Interactive Software and Madden NFL 2005 by Electronic Arts (EA). Competition between EA and Take-Two has been fierce. It started last year with Take Two's effort to diversify its video offering by partnering with Sega, which had a highly rated football game and relationship with the ESPN brand.

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Take-Two came out punching, by launching ESPN NFL 2K5 with a low-ball price of just \$20, undercutting EA's Madden NFL 2005 by \$30. The effort worked. Gamers jumped to get the new game, motivated by price and very positive reviews in gaming mags. What could EA do? First, EA discounted the price on Madden NFL 2005, offering a free game with every two purchased. Then it dropped the game price by \$10 to \$40 – still twice the price for Take-Two's ESPN NFL 2K5.

But rather than play the price game, EA took a lesson from Take-Two's most popular game franchise, Grand Theft Auto. It "jacked" both the NFL *and* ESPN relationships from Take-Two, signing exclusive multi-year deals. With EA's NFL deal, Take-Two saw its stock price drop almost seven percent, with a similar rise in price for EA. Then, EA locked up the ESPN brand for 15 years, for almost \$800 million.

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highly valued product lines on which it had spent millions and had a key strategic move to diversify blocked by its principal competitor. But the game goes on. In February, Take-Two bought the exclusive rights to Major League Baseball's video game market. It then bought from Sega the development company that created ESPN NFL 2K5 with a plan to continue to build its sports franchise, albeit without the ESPN or NFL brand names.

Timing the Monkey Wrench Throw

For those of you who aren't football fans, the New York Jets play in New Jersey. This is clearly an affront to Big Apple Chauvinists. To remedy the situation and return to its city of origin, the Jets have targeted a little bit of land (13 acres) on Manhattan's far West Side to build a new stadium along the Hudson River. Bolstering their plans has been none other than the mayor of New York, Michael Bloomberg, who sees this new stadium as the centerpiece of his bid to attract the Olympics in 2012.

The land is currently a rail yard owned by the Metropolitan Transportation Authority. For the past year, negotiations have been going on between the Jets and the MTA with the Jets offering \$100 million for the land, which was valued by the MTA at around \$900 million. The MTA countered and demanded the Jets up their offer to \$300 million – still a fraction of the valuation.

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Until recently, the Jets were the only players in the game for the MTA land. However, opposition was vocal and orchestrated by owners of Madison Square Garden (MSG), who view a stadium within walking distance of their arena as a competitor

they would just as soon squash. To do that, these purveyors of civic virtue have been funding a major ad campaign noting that the city would be spending scarce resources on a stadium rather than schools, education, fire fighters and police.

There are multiple reasons to oppose the stadium, including the lack of planned parking lots for the traditional pre-game tailgate party. But it did appear that despite the volume level of opposition, the Jets, with both the mayor and governor in their corner, would win the game for the land. Easy to do when you don't have a real competitor.

But, competitors can arise quickly. With two weeks to go before a visit from the International Olympics Committee, during which the mayor planned to show off the design for the new stadium, MSG upended everything with a \$600 million offer for the MTA land and a commitment to build new housing and commercial space. It's not clear if the MSG offer is genuine or simply a spoiler, as claimed by the Mayor and Jets. But, it doesn't matter. In February, the Jets thought they were headed for binding arbitration and a deal with MTA. Now, the bidding is open to all comers. As for MSG - it achieved its aim, took serious yardage from the Jets and possibly scored a touchdown.

Playing From Strength

First, Sprint got Nextel. Then SBC got AT&T. In just two months the face of telecom competition changed drastically.

For Qwest, a regional Bell company with few growth opportunities, \$17 billion in debt, a money-losing fiber-optic network, no cell phone business of its own and a shrinking pool of local customers being targeted by cell phone and cable

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companies, opportunity took the form of MCI; the second largest long-distance company in the country with a clean balance sheet, \$5 billion in cash and thousands of corporate customers. If only they would return Qwest's calls.

With an initial bid of \$6.3 billion, Qwest began what has become a bidding war with Verizon, which undercut Qwest with a similar bid of its own. Qwest countered with an additional \$1 million. And before the details of a slight sweetening by Verizon became public, Qwest raised its offer to almost \$8 billion. On top of that, Qwest's CEO even raised the possibility of adding more stock in the event Qwest's price dropped before the deal closed. It is clear which player at the table is playing from weakness and is more desperate to win.

Despite Qwest's higher bid(s), MCI accepted Verizon's offer, noting its stronger financial position, among other things. But as Qwest continues to increase its offering, some MCI shareholders have begun to chime in and question MCI's decision.

No doubt that Verizon would be well served by a successful acquisition of MCI. It has long tried to attract large corporate customers and MCI would provide those. But Verizon will still be in a

relatively strong position if it loses to Qwest. In the meantime, if nothing else, Verizon has forced Qwest into a bidding war that will certainly raise Qwest's costs and reminded investors of the desperate competitive position it is in.

Conclusion

As I noted above, I don't know that these companies engaged in formal strategy exercises that identified competitive response actions. What I do know is the following: Companies that conduct scenario planning, wargaming and other formal strategic thinking exercises on a regular basis will be much better enabled to both preempt and quickly respond to competitor actions, than those that don't.

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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