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—Margaret Peteraf, *Tuck School of Business at Dartmouth*

BIG WINNERS AND BIG LOSERS

THE 4 SECRETS OF LONG-TERM BUSINESS SUCCESS AND FAILURE

ALFRED A. MARCUS

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AND
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*To my mother's family, the Freeds; to my grandfather,
who came to the U.S. in 1913 at the age of 36 looking
for opportunity; to my mother who came to the U.S.
in 1924 at the age of 14 and escaped the inferno
that engulfed relatives, known and unknown,
in Europe; to my Aunt Kate and Uncle Milton,
to their children and grandchildren and to my children,
all of them winners in very different ways.*

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CONTENTS

PREFACE

Companies that keep winning are rare. What maintains their momentum and accounts for their ongoing success? This book compares firms that have achieved long-term success with firms that have experienced persistent failure. It provides four secrets that explain why the winning firms have done so well. From the history of the winners, I extract the critical attributes that contributed to their performance. Each firm had a distinct pattern. Being a big winner means carrying out (i) a well-executed niche strategy that achieves a balance between (ii) agility, (iii) discipline, and (iv) focus.

Managing the tension among such attributes is not easy. Big winners bring together opposing traits. Other firms can imitate the individual traits of winning companies, but they cannot match the overall pattern. Similarly, big losers do not fail because of one or two bad qualities. Their poor performance is a consequence of a combination of many bad attributes.

Each trait that this book brings to light provides a valuable lesson in itself. Practicing managers have much to learn from this breakdown of the qualities that contribute to the creation of long-term advantage and disadvantage. The main challenge that they face, however, is in managing the tension between contrasting traits—a sweet spot and agility on the one hand, and discipline and focus on the other. The degree to which you can manage this tension influences the extent to which you can achieve long-term success.

Being a long-term winner—a dynasty rather than a mere one-time victor—is hard. From 1992 to 2002, few firms hit this mark. Only about 3 percent of the 1,000 largest U.S. corporations outperformed their industry's average market performance. About 6 percent underperformed this average. More firms performed consistently poorly than consistently well. Companies that are big winners generally operate under the radar. They are relatively unknown. They include such firms as Amphenol, Ball, Family Dollar, Brown & Brown, Activision, Dreyer's, Forest Labs, and Fiserv. Their story has yet to be told. In comparison, companies that suffer from sustained competitive disadvantage are better known. They include such familiar names as Goodyear, the Gap, Safeco, Hasbro, and Campbell Soup.

This book reveals the secrets of the long-term better-than-industry performance of the winners. It shows distinct patterns in the 1992 to 2002 results. The differences in outcome are not random or a matter of mere chance. The circumstances that the big winners and big losers faced were similar. What explains the differences in performance is that the winners pursued and executed different strategies than the losers. In this book, I reveal how the traits of the big winners came together into larger patterns made up of a sweet spot, agility, discipline, and focus. Firms that achieved advantage wove together these elements into larger wholes. The positive aspects of the separate components supported and reinforced each other. Similarly, the negative traits of the losing firms supported and reinforced each other.

The takeaway for managers is to build your advantage one by one in a planned and logical way in which you start by understanding your company's existing traits. But you cannot stop there. You must continue with an awareness of how these separate traits fit together in broader and more comprehensive patterns. Do not lose sight of the fact that the more comprehensive patterns that create advantage and disadvantage bring together contradictory elements. You have to combine a sweet spot, agility, discipline, and focus, and you must avoid a sour spot, rigidity, ineptness, and diffuseness. This book highlights these patterns—on the one hand, a pattern of advantage that consists of a well-defined market niche achieved through agility, discipline, and focus; and, on the other hand, a pattern of disadvantage that rests on a poorly defined market niche sustained by rigidity, ineptness, and diffuseness.

How This Book Was Written

I enlisted the support of more than 500 practicing managers to write this book. They worked for such well-known multinational companies as Target, Best Buy, Guidant, Cargill, General Mills, Medtronic, Wells

Fargo, American Express, 3M, Ecolab, Boston Scientific, Honeywell, U.S. Bancorp, Piper Jaffray, Carlson Companies, West Group, Northwest Airlines, St. Paul Companies, Seagate, ADC, Intel, United Defense, Johnson Controls, Deloitte Touche, Supervalue, Polaris, Rosemount, Eaton, RBC Dain Rauscher, Unisys, Home Depot, Allina, Toro, United Health, Thrivent, Donaldson, and Ernst and Young.[1] The managers had more than seven years of work experience. Teams of five to six managers wrote reports on two firms. They compared characteristics of companies that achieved long-term success and companies that endured long-term failure. One of the companies substantially outperformed the average stock market performance of its industry for 10 years, and the other underperformed the average stock market performance of its industry for the same period. (See below for a list of these firms.)

Sector	**Winner**	**Loser**
Technology	Amphenol	LSI Logic
Manufacturing/appliance	SPX	Snap-On
Software	FiServ	Parametric
Food	Dreyer's	Campbell Soup
Drugs/chemicals	Forest Labs	IMC Global
Manufacturing/industrial	Ball	Goodyear
Financial	Brown & Brown	Safeco
Retail	Family Dollar	Gap
Entertainment/toys	Activision	Hasbro

The managers explained the reasons for the former company's sustained success and the latter company's sustained failure. To explain this difference, they examined the evolution of the companies' strategies. They obtained information from annual reports—in particular, the first section where executives discuss their strategy—and consulted other sources. A list of the sources on which they drew is found at the end of this book.

Five groups of managers were assigned to each of the nine company pairs. They addressed the following questions:

- What were the external challenges the companies faced?
- What were the internal strengths and weaknesses the companies had to meet these challenges?
- What moves did the companies make?
- Why were the moves of one of the companies more successful than the moves of the other?

The managers prepared 42 reports of about 30 pages each on nine company pairs. Following is an outline of a typical report.

Typical Report Outline

Explaining Sustained Competitive Advantage and Disadvantage: Strategies for Prolonged Business Success

- The Executive Summary states what you found. What distinguishes the companies? Why has one done so much better than the other?
- The Introduction should include a brief description of the companies, including details about their history, mission, goals, objectives, location, number of people employed, and main products and markets.
- Relevant performance statistics should be provided. Relevant is the important word.
- Identify the critical competitive challenges that the companies faced. How do the challenges differ?
- Identify the key internal strengths and weaknesses the companies had. How do these differ?
- Summarize the main moves the companies made. How did the companies choose to respond to the challenges they faced and why?
- Do an analysis of why, based on the strategies carried out, one company performed so much better than the other.
- Conclude and speculate on what you think will happen in the future.
- A reference page is required.
- Appendixes are permitted.

The managers made oral presentations based on initial drafts of their reports. During these sessions, they were subject to criticism. They were challenged to sharpen their conclusions about the traits that contributed to sustained competitive advantage and disadvantage.[2] Their reports were supposed to be analytical, not descriptive. The aim was to develop a theory of why some multinationals thrived in the long term, whereas others did not.

This project started in the fall of 2002. By the spring of 2003, I had listened to three rounds of oral reports and felt I was hearing similar themes—that the big winners did much better than the big losers because (i) they occupied sweet spots, (ii) they had the agility to move into these spots, (iii) they had the discipline to protect these spots, and (iv) they had the focus to exploit and extend these spots. The big losers had the opposite characteristics. (i) They were in sour spots, (ii) they were too rigid to move out of these spots, (iii) they were inept at defending positions in which they found themselves, and (iv) they were not able to extend and exploit positions they occupied. I asked the last two groups of managers for challenges to this theory so that I could fine-tune and improve it.

The reports the managers wrote were the raw material I used to write this book. I carefully read the reports again and again and searched for consensus views. Recall that for each company pair, I had five reports.[3] I considered the reports the managers wrote to be reliable because they were written by competent practitioners who had been trained in the concepts and methods of strategic management. As a check on the findings, I did not accept information from a single report as valid unless I had additional confirmation. Through these means, I tried to eliminate errors of fact or interpretation.

Most of the insights in this book derive from the reports that the managers wrote. Their names and the companies they analyzed are listed in the Acknowledgments. The reports pointed me in certain directions, but I take full responsibility for where I ended up. The conclusions are my own. I presented the results and obtained feedback at a number of venues: Business Policy division sessions at the Academy of Management and seminars at the University of Minnesota, Arizona State University, Hong Kong Technical University, Hebrew University, the Technion, and Tel Aviv University. Both Prentice Hall and Wharton provided detailed critiques of early drafts of this book, to which I responded with substantial rewrites.[4]

This book is organized as follows. The first chapter explains why some firms continuously win and others regularly lose. Chapter 2 gives details on how the winning and losing companies were chosen. Chapters 3 through 7 provide an in-depth analysis of the winners—the sweet spots they occupied and the ways in which they exhibited agility, discipline, and focus. Chapters 8 through 12 are a parallel analysis of the losers—the sour spots they found themselves in and how they showed rigidity, ineptness, and diffuseness. Chapter 13 summarizes the main lessons. It is a code of best practices. Chapter 14 is essential reading if you want to achieve a turnaround. It tells you what to do to start a take-off and avoid a nosedive.

All along, lessons are learned and specific advice is given on what a company can do to become a big winner and avoid being a big loser. This advice is concrete, specific, and actionable. It is among the most important takeaways you will get from this book.

ABOUT THE AUTHOR

Alfred A. Marcus is currently the Edson Spencer chair of strategic management and technological leadership at the University of Minnesota, Carlson School of Management, where he has been on the faculty since 1984. From 1995 to 2001, he was the chair of the strategic management and organization department. He is the author or coeditor of 12 books and numerous articles in journals like the *Strategic Management Journal, Academy of Management Journal, Academy of Management Review, Organization Science,* and *California Management Review.* Professor Marcus received his Ph.D. from Harvard and undergraduate and graduate degrees from the University of Chicago. He has consulted or worked with many major corporations including 3M, Corning, Excel Energy, General Mills, Medtronic, and IBM.

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2

COMPANIES THAT HIT AND MISSED THE MARK

To choose the companies that were big winners and big losers, I used the stock market as an indicator of performance (See Appendix B, "Using the Stock Market as an Indicator of Performance," for my reasons).[1] *For a company to be a big winner, its ten-, three-, and one-year average annual market return had to exceed the average of its industry, and its five-year average annual return had to be more than double the industry's average.*[2] *Companies that missed the mark had the opposite characteristics. Their ten-, three-, and one-year average annual market returns were below their industry's average, and their five-year average annual return was less than half the industry average.*

Using these criteria, neither being a big winner nor being a big loser was common. Missing the mark was easier than hitting it.

The winning and losing companies are listed in Tables 2.1 and 2.2. Of the 1,000 companies in the Wall Street Journal Shareholder *Scorecard, only 32 were big winners. The losers had double the number of firms (64) as the winners. That means that 3.2 percent of the firms listed on the Wall Street Journal Scorecard achieved sustained competitive advantage (SCA), and 6.4 percent endured the opposite. Most companies fell in the middle. Their prior five-year average annual returns were neither outstanding nor terrible.*

Table 2.1 Winning Companies: 1992 to 2002

Firm	5-Year Average Return(%)	Industry	5-Year Average Return(%)	Firm	5-Year Average Return(%)	Industry	5-Year Average Return(%)
1. Titan	49.2	Aerospace	10.7	17. Concord EFS	39.2	Industrial service	14.3
2. Alliant Tech	25.9	Aerospace	10.7	18. Fiserv	31.2	Industrial service	14.3
3. Skywest	49.8	Airlines	10.9	19. Lincoln National	16.3	Insurance life	6.1
4. Southwest	33.7	Airlines	10.9	20. Brown & Brown	45.7	Insurance property and casualty	14.7
5. Gentex	21.6	Auto parts	4.7	21. Gallagher	38.5	Insurance property and casualty	14.7
6. Johnson Controls	16.4	Auto parts	4.7	22. White Mountain	30.5	Insurance property and casualty	14.7
7. Commerce Banc	32.0	Banks	14.1	23. Murphy Oil	14.2	Oil secondary	5.8
8. IDEC	77.1	Biotech	37	24. Forest Labs	58.5	Pharmaceutical	27.9
9. Int Game Tech	30.5	Casinos	10.5	25. Donaldson	19.6	Pollution control	9.5
10. Cabot	21.7	Chemicals specialty	6.3	26. Harley-Davidson	36.3	Recreational	7.9
11. Amphenol	34.0	Communication technology	14.0	27. Family Dollar	36.1	Retail, broad line	12.3
12. Ball	23.9	Containers and packaging	3.7	28. Best Buy	94.8	Retail, specialty	23.0
13. Bemis	8.5	Containers and packaging	3.7	29. Activision	24.8	Toys	12.2
14. SPX	28.8	Electronic components	14.2	30. Semtech	75.5	Semiconductor	25.4
15. Dreyer's	22.4	Food products	8.8	31. RGS Energy	22.1	Utility electric	10.4
16. Stanley Works	14.5	House products durable	5.9	32. Equitable Resources.	21.9	Utility gas	10.4

Table 2.2 Losing Companies: 1992 to 2002

Firm	5-Year Average Return (%)	Industry	5-Year Average Return (%)	Firm	5-Year Average Return (%)	Industry	5-Year Average Return (%)
1. Goodrich	–5.1	Aerospace	10.7	33. FMC	–3.2	Industrial diversified	10.2
2. Raytheon	–5.5	Aerospace	10.7	34. Conseco	–31.7	Insurance life	6.1
3. AMR	3	Airlines	10.9	35. Safeco	–1.0	Insurance, property, and casualty	14.7
4. Delta	–3.6	Airlines	10.9	36. CNA Financial	–3.9	Insurance, property, and casualty	14.7
5. TRW	–3.1	Auto and parts	4.7	37. American Financial Group	–5.2	Insurance, property, and casualty	14.7
6. Goodyear	–11.5	Auto and parts	4.7	38. Bausch & Lomb	3.8	Medical supplies	17.8
7. Dana	–12.5	Auto and parts	4.7	39. Amerada Hess	2.7	Oil secondary	5.8
8. Old National	6.6	Banks	14.1	40. Kerr-McGee	–2.1	Oil secondary	5.8
9. Bank One	3.3	Banks	14.1	41. Forest Oil	–4.4	Oil secondary	5.8
10. KeyCorp	3.2	Banks	14.1	42. Burlington Resources	–4.4	Oil secondary	5.8
11. Alkermes	17.8	Biotech	37	43. Halliburton	–14.2	Oil drilling	4.8
12. VerTex	4.1	Biotech	37	44. Merck	10	Pharmaceutical	27.9
13. Disney	–1.5	Broadcasting	32.3	45. Pharmacia	4.4	Pharmaceutical	27.9
14. Mandalay Resort	–9.0	Casinos	10.5	46. Waste Management	0.1	Pollution control	9.5
15. IMC Global	–18.7	Chemical specialty	6.3	47. Belo	2.8	Publishing	11.5

Table 2.2 Losing Companies: 1992 to 2002

16. Broadwing	–4.7	Communications fixed	8.9	48. Reader's Digest	–8.8	Publishing	11.5
17. Compaq	–7.7	Computers	16.6	49. Eastman Kodak	–15.7	Recreational	7.9
18. Franklin Res, Inc.	9.8	Diversified financials	26.2	50. Wendy's	8.5	Restaurants	20.1
19. Country Wide	8.5	Diversified financials	26.2	51. McDonald's	3.8	Restaurants	20.1
20. Cooper Industries	–0.7	Electronic components	14.2	52. Gap	9.8	Retail apparel	23.7
21. Conagra	2.1	Food product	8.8	53. Nordstrom	4.1	Retail apparel	23.7
22. ADM	–2.3	Food product	8.8	54. Saks	–12.7	Retail apparel	23.7
23. Campbell Soup	–2.8	Food product	8.8	55. Kmart	–12.0	Retail broadline	12.1
24. Tyson	–11.9	Food product	8.8	56. T. Rowe Price	11.3	Securities	26.3
25. Winn-Dixie	–11.7	Food retail	15.1	57. Coca-Cola Co.	–1.1	Soft drinks	4.3
26. Georgia Pacific	3.5	Forest product	7.2	58. Novell	–13.5	Software	18.4
27. HealthSouth	–5.2	Healthcare	13.1	59. Parametric	–21.2	Software	18.4
28. Humana	–9.1	Healthcare	13.1	60. Hasbro	–0.1	Toys	12.2
29. Snap-On	1.7	House products durable	5.9	61. Mattell	–8.0	Toys	12.2
30. Newell Rubber	–0.3	House products durable	5.9	62. LSI Logic	3.4	Semiconductors	25.4
31. Honeywell	1.7	Industrial diversified	10.2	63. Constellation Energy	4.6	Utilities electricity	10.4
32. Textron	0.6	Industrial diversified	10.2	64. CMS Energy	–2.4	Utilities electricity	10.4

Characteristics of Winners and Losers

The big winners and the big losers that I found in this way were a surprising lot. Many of the companies that I identified as big winners are not well known. The most recognizable are Southwest Airlines, Harley-Davidson, and Best Buy, but they also include Brown & Brown, IDEC, and Family Dollar. In contrast, the big losers are more well known. They include such familiar names as Disney, Bank One, Halliburton, Merck, Kodak, McDonald's, Nordstrom, and Coca-Cola.

Following are some findings about the winning and losing firms:

- Big winners and big losers are found in 41 industries. In another 37 industries, no firm stands out as being especially better or worse than the pack. (See Appendix C, "Additional Data on the Companies.")
- Industries that have companies that are big winners or big losers are larger than those that do not have them. The industries that had big winners or big losers had on average 19.4 companies compared to 6.2 companies in industries that did not have big winners or big losers. In large industries, there is more room to find sweet spots. There is more empty space for differentiation and the creation of special industry subcategories and niches where the competition is less stiff. In large industries, it is also easier to hide under the radar.
- Big winners were smaller than big losers (about a third the size). They employed an average of 14,496 people compared to 48,032 persons in big losers. Their average revenue was $3.49 billion compared to $10.66 billion in the losing companies. Being small makes it easier for a firm to escape detection and avoid competitive retaliation. Smaller firms are more agile.
- The industries that had big winners and big losers had higher average market returns than the industries that did not have these firms—15.1 percent in industries with big winners or losers compared to 12.7 percent in industries without these companies. Thus, the potential for profit and loss was somewhat greater in the arenas in which the big winners and losers were competing.

Overall, large industries with small firms and more risk—more potential for profit and loss—were more likely to have highly successful and unsuccessful firms. Small industries with large firms had less potential for profit and loss and were less likely to have big winners or big losers.[3] Indeed, 17 industries had no big winners, just losers.[4] Five industries had the opposite characteristics.[5] They only had big winners. Eight industries were evenly divided with one big winner and one big loser.[6]

Time and Industry as Reference Points

The reference points I used in selecting the big winners and big losers were time (1992 to 2002) and the *Wall Street Journal* Scorecard designation of industry.[7] But the selection of 1992 to 2002 as the time period and the use of the *Wall Street Journal's* classifications are somewhat arbitrary.[8] Many anomalies exist. Is Eastman Kodak in the recreational business, with its competitors being Harley-Davidson and Polaris, in accord with the *WSJ* classification?

Tables C.4 and C.5 in Appendix C rely on *Fortune*'s classification rather than the *WSJ*. The time period is 1993 to 2003, not 1992 to 2002. *Fortune* has 71 industry groups as opposed to the *WSJ*'s 78. Not all the big winners or the big losers in the *WSJ Scorecard* are large enough to make the *Fortune*1000. To be included, revenues have to exceed $1.1 billion. Because the big winners are smaller than the big losers, 14 winning companies are not on the *Fortune* list, and six losing firms are missing. In addition, some firms such as Compaq, which merged with HP in 2002, and IDEC, which merged with Biogen, are not on the *Fortune* list.

Nonetheless, when relying on the *Fortune* list, nearly 90 percent of the big winners and the big losers I chose continued to outperform or underperform their industry averages. There were three ties—on the winning side, Lincoln National, and on the losing side, AMR and Conagra.[9] These results suggest that hitting and missing the mark are rare no matter how performance is measured, and performance is fairly persistent regardless of the classification scheme or the period considered.

Continued Outstanding Performance

To determine whether a company should be subjected to further analysis in the chapters that follow, I applied another test. Did the performance differences observed from 1992 to 2002 persist after that point? The companies analyzed in subsequent chapters had to outperform or underperform their industries in the six months following January 1, 2002.

This test was stringent because the market declined sharply from January 1 to June 1. The performance of most companies dropped off, including that of the big winners. They were not immune to the bust in the stock market. Johnson Controls and Harley-Davidson, for instance, did not survive this test of continued sustained competitive advantage. However, Amphenol and Family Dollar did. Of the 32 firms in Table 2.1, more than half (18) dropped out due to the application of this criterion.

Nine big winners that survived this test are the subject of further analysis in this book. (See Table 2.3.) Big losers had opposite characteristics. (See Table 2.4.) Big winners consistently beat their industry averages, and big losers consistently lagged behind not only in the ten-year period but in the immediate six months following it. With regard to five-year returns, the superiority of the big winners was most marked, double that of their industry, as was the weakness of the big losers, which was just half that of their industry.

Keep in mind that big winners and big losers were not necessarily best or worst performers overall. They exceeded or fell behind an industry target at one-, three-, five-, and ten-year intervals. Nonetheless, in comparison to all companies, some big winners subject to further analysis in this book did do extremely well. The three best in terms of overall performance were Activision, Forest Labs, and Brown & Brown.

- Among all companies on the *Wall Street Journal* Scoreboard, Activision had the second best 10-year average return (63.7 percent) and the ninth best 1-year (158 percent) average return.
- Forest Labs had the twenty-first best 5-year average return (58.5 percent).

- Brown & Brown had the forty-fifth best 10-year average return (31.9 percent) and the forty-sixth best 5-year average return (45.7 percent).
- In comparison to industry averages, Ball had the best 5-year mark. The average return in the packaging and container industry was 3.7 percent, but Ball scored an average return of 23.9 percent.

Big losers were among the poorest performing firms.

- Among all companies on the *Wall Street Journal* Scoreboard, Parametric had the fourth worst 5-year average return (–21.2 percent) and the thirty-fifth worst 3-year average return (–21.7 percent).
- IMC had the fifth worst 10-year (–6.4 percent) average return and the sixth worst 5-year average return (–18.7 percent).
- The Gap (–65.2 percent) had the twenty-third worst 3-year average return.
- Goodyear (–18.9 percent) had the forty-eighth worst 3-year average return.

Note the well-known names among big losers—Campbell, Goodyear, Safeco, and the Gap—and the absence of well-known names among big winners. The winning firms were more likely to fly under the radar than the losers.

Table 2.3 Winning Companies Used in the Analysis: 1992 to 2002 Performance

Company	Industry	Sector	One-Year Return (%)	3-Year Average Return (%)	5-Year Average Return (%)	10-Year Average Return (%)	Continues to Beat Industry Average (January Through June 2002)
1. Amphenol	Communications technology	Technology	22.6	47.1	34.0	26.7	Yes
	Industry Average		–40.1	5.1	14.0	26.0	
2. SPX	Electronics components	Manufacturing/appliance	26.5	26.9	28.8	27.9	Yes
	Industry Average		2.6	9.3	14.2	13.8	
3. Fiserv	Industrial services	Software	33.8	22.8	31.2	23.9	Yes
	Industry Average		12.3	8.3	14.3	18.0	
4. Dreyer's	Food products	Food	20.4	37.5	22.4	9.2	Yes
	Industry Average		15.2	3.8	8.8	8.4	
5. Forest Labs	Pharmaceuticals	Drugs/chemicals	23.3	45.5	58.5	23.0	Yes
	Industry Average		–5.7	21.1	27.9	17.4	
6. Ball	Packaging and containers	Manufacturing/industrial	55.3	17.3	23.9	10.2	Yes
	Industry Average		37.6	–1.1	3.7	7.6	
7. Brown & Brown	Property and casualty insurance	Financial	57.1	47.8	45.7	31.9	Yes
	Industry Average		1.8	11.9	14.7	16.7	
8. Family Dollar	Retailers, broadline	Retail	41.1	12.0	36.1	20.0	Yes
	Industry Average		29.2	1.5	12.1	11.1	
9. Activision	Toys	Entertainment/toys	158.0	51.9	24.8	63.7	Yes
	Industry Average		68.0	15.2	12.2	25.5	

Table 2.4 Losing Companies Used in the Analysis: 1992 to 2002 Performance

Company	Industry	Sector	One-Year Return (%)	3-Year Average Return (%)	5-Year Average Return (%)	10-Year Average Return (%)	Continues to Lag Industry Average (January Through June 2002)
1. LSI Logic	Semiconductors	Technology	–7.7	25.1	3.4	22.8	Yes
	Industry Average		7.5	28.4	25.4	29.3	
2. Snap-On	Durable household products	Manufacturing/appliance	24.9	2.1	1.7	7.6	Yes
	Industry Average		27.2	2.8	5.9	8.1	
3. Parametric Technology	Software	Software	–41.9	–21.7	–21.2	7.6	Yes
	Industry Average		–5.5	15.3	18.4	16.9	
4. Campbell Soup	Food products	Food	–11.3	–16.3	–2.8	6.3	Yes
	Industry Average		15.2	3.8	8.8	8.4	
5. IMC Global	Chemicals, specialty	Drugs/chemicals	–15.9	–13.9	–18.7	–6.4	Yes
	Industry Average		21.2	6.7	6.3	10.3	
6. Goodyear	Automobiles and parts	Manufacturing/industrial	8.0	–18.9	–11.5	1.3	Yes
	Industry Average		26.2	–4.7	4.7	12.9	
7. Safeco	Property and casualty insurance	Financial	–2.3	–6.1	–1.0	6.1	Yes
	Industry Average		1.8	11.9	14.7	16.7	
8. Gap	Retailers, apparel	Retail	–45.1	–65.2	9.8	6.6	Yes
	Industry Average		20.2	3.9	23.7	11.6	
9. Hasbro	Toys	Entertainment/toys	54.1	–11.2	–0.1	4.1	Yes
	Industry Average		68.0	15.2	12.2	25.5	

How Market Leaders Create Shareholder Value

As argued in Chapter 1, "Persistent Winning and Losing," being in a sweet spot means that you can carve out a niche that is nearly uninhabited.[10] The big winners showed investors that they had the agility to move to a sweet spot, the discipline to protect it, and the focus to exploit it. (See Figure 2.1)

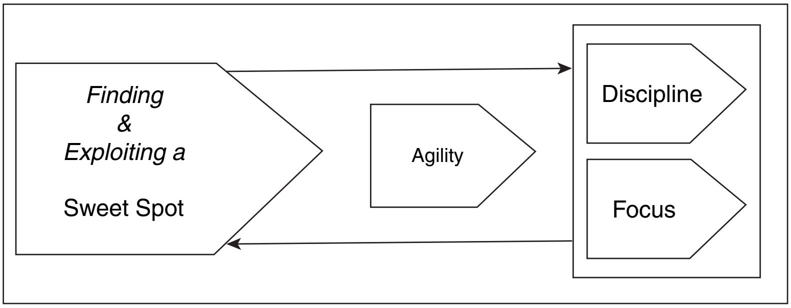

Figure 2.1 Showing investors that you are in a sweet spot and that your firm has agility, discipline, and focus.

Performance reflects investors' understanding of your accomplishments and what you intend to do. Although based on fact, it is a socially constructed reality. To be successful in influencing the perceptions of investors, you must define a competitive space into which you move and show how you can protect and achieve dominance within it. If you can convey what you are trying to do and manage the performance expectations of analysts, you can build confidence that translates into ongoing success.[11] This type of confidence depends on these factors:

- **Strategic intent—**Strategic intent is what you would like others to think your company is doing. It is expressed in public documents like annual reports, especially in the company's 10K, and in other pronouncements that come from you and your top management teams.

- **Evidence of feedback and reconsideration—**You must show that you have a good grasp of what your company has done and the results it has achieved. Do your explanations suggest that you really know what you are doing?

You have to be a credible communicator. Do you possess the qualities shown in Figure 2.1 and the evidence to back it up? That is your challenge.

In Summary

This chapter has shown that firms that are big winners and firms that are big losers are hard to find. Being a big winner is harder than being a big loser. Some industries have no firms that are big winners or big losers. Firms that are big winners are concentrated in large industries; in large industries, there is more open space for finding a sweet spot. Big winners are smaller than big losers. Small firms are more agile than large firms. Their smallness makes it easier for them to escape detection. They are more likely to avoid competitive retaliation. Big winners and big losers are in industries with higher market returns. The potential profits are greater. There is more risk and more opportunity.

The next chapter examines big winners that have been selected for further analysis. (See Table 2.3.) Chapters 4 through 7 show how executives in these firms demonstrated that their companies were in sweet spots and had agility, discipline, and focus. These firms built up patterns of effective managerial traits, each by itself of some value, but when combined of infinitely greater worth. The combined traits of the sustained competitive disadvantage firms, on the other hand, were evidence of their being in sour spots and their being rigid, inept, and diffuse (Chapters 9 through 12).

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INDEX

B

D

E

F

G

I

J-K

N

O

P

W

X

Y

Z