

The SLC QUARTERLY



THE TRUTH ABOUT MONOPOLIES

ABOUT SLC

Strategic Leverage Consultants is a management consulting firm led by Milind Lele, a top strategy professor from the University of Chicago Graduate School of Business. SLC has 30 years of experience helping companies excel in competitive environments and specializes in strategy formulation and implementation.

Strategic Leverage Consultants uses proven proprietary frameworks for developing strategies which are detailed in Milind Lele's groundbreaking books *Creating Strategic Leverage* and *Monopoly Rules*.

LETTER FROM THE EDITOR

This issue marks the relaunch of the SLC Quarterly, after a hiatus of seven years. When we published the last issue, in late 1999, the dot.com frenzy was coming to a peak, the Internet was still expanding rapidly, and there was excited talk about “new digital business models.”

Since then, much has changed: The business world has gone global on a scale exceeding the wildest predictions of the dot.com era. China and India have become, respectively, the second and fourth largest economies in the world, off-shoring and outsourcing are commonplace, and the new buzz words are “hedge funds, private equity, and Web 2.0.”

During this period, SLC has been busy too, working on a number of exciting projects for clients and, as is our want, exploring new ideas about why businesses succeed and fail, what strategies our clients should be considering for this new environment, and what emerging, “over the horizon” challenges and opportunities they should tune into.

In particular, SLC has been actively exploring the relationship between competitive advantage and profitability for the past four years. Much to our surprise, we found that “...sustainable competitive advantage is neither necessary nor sufficient to ensure profitability.” What drove profitability was that every successful firm, somewhere at some point in time, had a *monopoly*, a situation where it was (quite legally) the *only* seller. It was this monopoly that created the profits of such shining examples of sustainable advantage as Dell Computer, Southwest Airlines, and Wal-Mart.

This issue of the Quarterly contains excerpts from our recent book, *Monopoly Rules* (2006: Crown Business Books, New York). It describes our notion of monopoly, compares it with sustainable advantage, and provides five tests of monopoly. We hope you enjoy it.

— Milind Lele

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THE TRUTH ABOUT MONOPOLIES

Conventional wisdom says that business is about producing better products at lower prices than other companies...about seeking sustainable advantages...about winning away customers from companies around the corner or around the world. Business, in short, is about *competition*.

But what if we turn conventional wisdom on its head and say that business is not about competition, but about *monopoly*? Surprise! When we do, we begin to uncover the hidden realities of business — the “Monopoly Rules.” The Monopoly Rules offer radically new insights about why some companies are successful, and why others fall behind; about how once-great companies often ignore opportunities in their own backyards while upstarts seize them to achieve industry dominance; and about the little-known factors that really determine the market value of a company.

In Economics 101, you probably learned that monopolies are unnatural, illegal, and rare. Wrong! Wrong! Wrong! In fact, monopolies are often natural, usually legal, and surprisingly common.

Here’s a simple example. At the multi-screen cinema in Evanston, Illinois, where I go to catch the latest movies, a 32-ounce soft drink costs \$3.95. Except for the price, it’s the same drink as the one sold at McDonald’s down the street for 99¢. It’s made with the same syrup from the same supplier, served in the same kind of container, and chilled with ice made from the same city water. So why does a cola

at the theater sell for four times the price of the same cola at McDonald’s? Simple: The theater complex has a monopoly created by its rule that any food or drink consumed there must be purchased there. Once you choose to see a movie, if you want something to drink anytime in the next two hours, there’s only one place to buy it. The theater management knows it and sets prices accordingly.

Similar monopolies exist all around us. A room at the O’Hare Hilton costs much more than a similar room in a hotel two miles away. Why? Because the Hilton offers the only lodging within walking distance of the main Chicago airport (all other hotels are at least a mile away, requiring a cab or shuttle ride and the hassles they entail). Business travelers who want quick access to O’Hare — for an early morning flight, for instance — have no choice but to stay at the Hilton. Replacements for the ink-jet cartridges used by my Hewlett-Packard printer are another monopoly; so are Harley-Davidson motorcycle accessories, Cabbage Patch dolls, and Microsoft’s Windows.

It’s true that we usually don’t think of these businesses as monopolies. To most people, the word *monopoly* means

something like the old Bell telephone system, the Amtrak rail network, or a regional electric utility: a large, often regulated company that is the only source for a basic, commoditized service. But the soda fountain, the airport hotel, and the other examples we've cited are monopolies in the only sense that matters: Their customers have only one choice: to pay the price demanded or go without.

Furthermore, as we'll show, every company that wants to enjoy lasting success and large, dependable profits *must* have a monopoly of some kind. The movie concession stand would make a lot less money if it had to charge 99¢ for a soda. In the same way, if there were three hotels across the street from the terminals at O'Hare; if using an off-brand ink-jet cartridge didn't void the warranty on my HP printer; and if any manufacturer could offer leather jackets with Harley logos, then Hilton, HP, and Harley-Davidson would all be far less profitable.

In fact, most great companies benefit from some form of monopoly. The conventional explanations offered for successful businesses are usually superficial: "They have a powerful brand," "They design good products," "They've got smart management," or "They keep their costs low." Dig deeper to find out what kind of monopoly the company owns, and you get insights that are very different and ultimately more meaningful. American Express, for example, owns a great brand. But the real source of its 25-year track record of success was a charge card monopoly created by regulations limiting consumer interest rates.

Dell Computer is highly efficient at manufacturing and selling personal computers. But so are many other companies. Dell's unique success is based on its 10-year monopoly — a decade when it was the *only* PC maker selling made-to-order PCs directly to corporate customers.

Like other car rental companies, Enterprise has a large fleet of well-maintained vehicles available at affordable rates. But Enterprise has become the largest car rental firm in North America because it owns a monopoly: Enterprise is the *only* major agency that caters to the market for local, non-travel-related car rentals.

This new perspective offers a very different way of thinking about a company's prospects and strategies. Most important, it focuses our attention on *ends* rather than *means*. The business leader needs to ask the fundamental question, "What kind of monopoly can our company own?" rather than concentrating on strategies for product development, finance, marketing, or sales, in hopes that they will (somehow) lead to profits. Those strategies may be valuable, but only as tools for achieving the real objective: Monopoly control, which *guarantees* a company's profitability.

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MONOPOLY OF SOME KIND.**

Recognizing the importance of monopoly is especially vital today. Just consider a few of the trends that we've seen since the turn of the new millennium. During that period, North American PC sales have been flat; sales of music CDs have dropped 20%; two major airlines have filed for bankruptcy; most retailers are struggling; techies have been abandoning Silicon Valley like refugees from a disaster zone; and U.S. manufacturers have shed jobs by the hundreds of thousands. These trends can't be blamed solely on a bursting stock market bubble,

terrorism, internet piracy, or a prolonged recession. They are harbingers of the most far-reaching, devastating changes to the global commercial order since the Industrial Revolution. Taken together, these changes are ushering in an era I call "the New Competition."

In the New Competition, traditional sources of monopoly such as natural resources, regulation, collusion, or proprietary technologies are rapidly losing their effectiveness. Most natural resource monopolies have already been taken; governments are *de*-regulating, not handing out new, regulated monopolies; and collusion is virtually impossible, as well as being illegal. Finally, proprietary technologies are leaking away, being copied, or being replaced by newer technologies faster than ever before. The New Competition is ruthlessly squeezing the profits of the old monopolies.

In this Darwinian environment, understanding monopoly is not just useful — it's essential. If you recognize your own business's monopoly and know how to exploit, nurture, and protect it, you will have a shot at earning good profits for the foreseeable future. If you don't, you'll become someone else's dinner — and probably sooner rather than later.

But there's good news, too. Even as the New Competition is destroying many old monopolies, it is creating opportunities for new ones. Many of the potential new monopolies are springing up in otherwise mature, slow-growing industries with pitifully narrow profit margins. To capitalize on these opportunities, you won't need unique products or technologies, or conventional advantages based on scale, scope, or the experience curve. What you *will* need is vision and imagination: *vision* to anticipate how monopolies will emerge as customer needs and industry capabilities change, and *imagination* to determine how best to seize and hold the favored competitive positions.

This SLC QUARTERLY will serve as a starter kit for developing the vision and imagination your company will need to benefit from the monopolies of tomorrow.

HOW TO KNOW WHEN YOU HAVE A MONOPOLY

How can you tell if you have a monopoly? Short of an FTC investigation, how do you determine whether you, in fact, have a monopoly in that area? What signs should you be looking for? What are the indicators? What's the litmus test for a monopoly? How do you know?

There are five tests that help you determine if you have a real, live, lucrative monopoly on your hands: First, you have a monopoly if your customers see only you (*Test #1*). Take Jim Coates' technology column in the *Chicago Tribune*; it is full of heartrending stories of people having trouble with their Windows PCs. Yet never once does anyone say that they're going to switch to a Macintosh; the Windows monopoly "force field" is just too powerful.

Second, you have a monopoly if your competitors don't see you (*Test #2*). This was one of the big surprises in my research; I was amazed how competitors repeatedly ignored, dismissed or just plain didn't bother with monopolies right in their own backyard. Whether it is Folgers and Maxwell House ignoring Starbucks, Sears being oblivious to the threat of Wal-Mart, or Motorola turning a blind eye to Nokia's gains in the US market, the pattern is the same: Competitors don't see you.

Third, you have a monopoly if you don't see your competitors (*Test #3*). This isn't willful myopia or arrogance. Inside one of our monopolies you soon realize that your *real* competitors aren't "...the usual suspects." They are typically *not* the players in your industry. Instead, they are substitutes, companies and techniques that could provide the same benefits you provide, but differently.

The last two tests are based in economics: You have a monopoly if you price like a monopolist (*Test #4*). This is logical; after all, what's the point of having a monopoly if you can't price like a good, old-fashioned, profit-maximizing monopolist? Finally, you have a monopoly if you make high, "monopoly" profits (*Test #5*). More of the same; after all, who wants a monopoly that doesn't generate lots and lots of money?!

You have a monopoly if your customers see only you, if your customers tell you, through their actions and their behavior, that you are the only supplier they consider. They call you automatically for their needs, they wait patiently for your products or services, and they don't believe they have alternatives. They look, talk and behave exactly like the customers of a large, traditional Economics 101 monopoly like the old Bell Telephone System.

Every day tens of thousands of coffee drinkers walk right past a Dunkin' Donuts or local coffee shop on their way to their favorite Starbucks. In many cases, they could get their coffee fixes cheaper, more conveniently, perhaps even more flavorfully, at one of the stops along the way. But the thought of entering one of these places never enters their minds. These outlets simply don't register in their consciousness; they don't think of Dunkin' Donuts or local coffee shops as

viable alternatives. If, for some reason, they can't get their regular latté, cappuccino or "double-shot Americano," they would rather do without than risk being disappointed elsewhere.

Similarly, the Enterprise customer rarely, if ever, thinks about Hertz or Avis or any of the others as alternatives to renting from Enterprise. She may even be a Hertz #1 Club member, but when she needs a replacement for her car that's in the shop, it's Enterprise every time! In the beginning, this is precisely because Hertz, Avis and all those others aren't viable alternatives: They won't pick her up and drop her off, they have no idea how to deal with her insurance company, and they're not conveniently located. Over time, this becomes a reflex that says, "If I need a replacement car, I call Enterprise." In her mind's eye there's only one supplier: Enterprise.

Sometimes your customers will actually *tell* you that you have a monopoly on their purchases: My friend Ken Harris, general manager of a packaging company gave me a vivid illustration of this when he said, "This customer called me up and said, 'Look, we have to do business with you. We *have* no choice; your firm is the only one that will meet our needs in the way we want met.'"

You have a monopoly if your competitors don't see you. Sounds weird, doesn't it? What do you mean, don't see me? After all, I'm out there every day, hawking my products and services. My company's publicly listed, my competitors and I sell to the same customers, advertise in the same places, and even buy from the same suppliers. How can they not see me?

Actually, it's not as weird as it sounds; in fact, it's essential. A major reason you have that monopoly space — and continue to have it all to yourself — is *precisely* because, in their minds' eye, competitors don't view you as competition, as someone relevant to their industry or their market. They think of you, when they think about you at all, as a player in a different segment or even a totally different industry. From that perspective, what you do in that segment or that industry isn't relevant and they ignore you and, by extension, they ignore your monopoly space.

The perfect example of this is Sears vs. Wal-Mart: For nearly two decades, Wal-Mart kept growing, kept grabbing customers from Sears *and Sears never responded!* Reason: Simple; Sears didn't think of Wal-Mart as competition. As a former chairman of Sears told me, "Wal-Mart is a discounter, we're a department store! So you can't compare us to Wal-Mart. We are very different types of retailers."

Similarly, American Express didn't view Citibank's Visa Gold as competition, and for the same reasons: "Visa is a creditcard;

they extend loans to people and make money on the interest charges. Their customers are middle- and lower-income; the mass market. We're a T&E (travel & entertainment) *charge* card; we don't extend credit. Our customers are in the top fifteen percent of households. They are two very different markets."

"THIS CUSTOMER CALLED ME UP AND SAID, 'LOOK, WE HAVE TO DO BUSINESS WITH YOU. WE HAVE NO CHOICE; YOUR FIRM IS THE ONLY ONE THAT WILL MEET OUR NEEDS IN THE WAY WE WANT MET.'"

In many cases suppliers, financial analysts and others reinforce this blind spot. Sears' suppliers considered any sales to Wal-Mart "incremental business," blithely assuming that their Sears volume would not be affected. Financial analysts similarly agreed with American Express that, indeed, American Express was in the charge card business and that was distinct from the credit card business.

You have a monopoly if you don't see your competitors, if you're not worried about the competition because, in your mind, you don't have any! As a result, you don't waste your time benchmarking, studying best practices, gathering competitor intelligence or all those other things companies in competitive industries consider *de rigueur*.

This is because you have deliberately, knowingly picked a space that's wide open and which traditional competitors have overlooked or otherwise can't or won't serve. Consequently, these competitors are not relevant; they aren't the ones you need to worry about. Your focus is (or should be) on substitutes, on people who were meeting or could meet that need in a different fashion from you.

Herb Kelleher of Southwest Airlines considered his real competition to be Greyhound and automobiles; he wasn't the least bit worried what American, United or Delta were doing. Given Kelleher's focus on the budget traveler, this made eminent sense. Traditionally, the Southwest Airlines customer rarely if ever considered traveling on a major airline. Instead, the question in her mind was, "Should I drive, take the bus, or fly Southwest?"

Howard Schultz of Starbucks spends very little time thinking about Caribou Coffee or Dunkin' Donuts; those are simply not his competitors. He's more worried about substitutes, alternative uses for Starbucks' customers coffee money. *That's* the reason Starbucks introduced herbal teas as well as related drinks. eBay pays very little attention to other auction sites; its real target is classified advertising in newspapers. eBay wants to systematically take over all the spending on classified advertising; first for collectibles, then for hobby items, next for office equipment and supplies, and cars and, who knows, houses! Amazon.com isn't concerned about Barnes & Noble or Borders, offline or online. Enterprise Rent-A-Car didn't focus on Hertz, Avis or any of the other airport-based car rental companies.

You have a monopoly if you price like a monopolist.

In other words, you don't worry about where the competition's price levels are, or how they might respond to your prices. You just go ahead and set them, based purely on what you think the traffic will bear and how much money you want to pull in.

This doesn't mean you totally ignore how *customers* react to prices. After all, even a classic Economics 101 monopoly like OPEC recognizes that, sooner or later, demand and total revenues drop when prices go up too high. But within those limits, you (and OPEC) price without worrying about competition. So long as Honda had the minivan monopoly, it didn't do promotions or offer rebates. Instead, Honda concentrated on making sure that the waiting line for Odysseys wasn't too long; it kept adding capacity steadily to feed the demand. Honda's real worry was that dealers would overcharge customers through "premiums" and other little tricks, thereby damaging the Honda brand.

Starbucks similarly doesn't look over its shoulder to see what Dunkin Donuts or Caribou Coffee are charging when it sets the price of a tall latte at \$2.60; the only question is, "Will our revenue increase overall?" In other words, Starbucks thinks carefully about how high it can set prices without alienating customers, but doesn't concern itself with the promotions and daily specials that the coffee shop down the street or the Dunkin Donuts across the road is touting.

Southwest doesn't care what American or Delta or United charge; it just goes ahead and sets the fares that will attract the budget travelers it focuses on. Enterprise Rent-A-Car sets its prices based on the particular neighborhood; it doesn't worry about what Hertz and Avis are doing. Grainger isn't terribly worried if a particular pump is priced lower at some other industrial distributor. Amazon.com isn't particularly concerned with how Barnes & Noble prices a book.

By contrast, if you *don't* have a monopoly, you're watching the competition like a hawk to see which way the price wind is blowing, and your drop or (less frequently) raise prices as soon as the wind shifts. American Airlines watches United and Delta and each of them, in turn, watches American. US Steel couldn't raise prices even though its factories were running flat out for fear of competitors stealing its business. Burger King monitors McDonald's and sets prices accordingly.

You have a monopoly if you make high, "monopoly" profits.

After all, if your customers see only you, your competitors don't see you (don't respond to what you do), and you can set your prices without worrying about the other guy, you *should* be highly profitable. If you're not, something's wrong: Either you don't have the monopoly you think you have, or else the profits are being diverted somehow, somewhere!

Monopolies are very, very profitable. How profitable? Three, four, even times more profitable than the all-industry average of 4.7%¹ of sales. Just consider: Microsoft makes 50¢ profit on every dollar of revenue it takes in. Fifty cents! Patented drugs like Prilosec and Lipitor throw off billions in profits every single year; the pharmaceutical industry, *on average*, returns 24¢ profit on every dollar of revenue! Coca-Cola's concentrate business returns over 35% on its investment. The author of the Harry Potter stories is a billionaire. H&R Block's tax preparation monopoly generates 30¢ profit on every dollar of revenue! The only monopolies that lose money are the state-owned monopolies, where the profits leak out through excessively high salaries, too many employees, wasteful spending on pet projects and outright thievery.

Profitability is the ultimate litmus test of monopoly: As your divining rod passes over a monopoly, the profit meter should go, "BOING!" Watch this one closely, particularly if your monopoly is hidden inside a larger business or product line that, on the surface, is showing average profits or, even worse, losses. Often enough, when you peel apart the numbers, you find a nice, luscious small-to-medium-sized monopoly that's carrying the freight for everything else.

Salton, for example, is a \$1 billion designer and marketer of small consumer appliances sold under a variety of well-known, specialty brands, e.g. Breadman, Melitta, Russell Hobbs, Stiffel, Timex and Westclox. Overall, the company is struggling; profits are sliding, channels are squeezing margins and competition is brutal. But deep inside Salton is a wonderful little monopoly that's throwing off more profits than all the other brands combined. This monopoly is their line of George Foreman indoor electric grills. These grills enable you to grill indoors without all the fuss, smoke and mess of outdoor grills. They are unique; no one else makes anything like them. The George Foreman grills appear to make more money than all the other products combined. They single-handedly carry the rest of the Salton line!

¹ Anita McGahan, *Industry Profitability*, HBS

HONDA'S MINIVAN MONOPOLY

In the fall of 2002, my wife Blair and I went shopping for a minivan. Our first stop was the local Honda dealership to take a look at the top-rated Odyssey. As we were checking out the floor model, a salesman walked over.

"Hi, folks!" he said. "My name is Arnie. Can I help you?"

"I have a problem with the trunk," said Blair. "It looks awfully small. I often carry a lot of stuff, and I wouldn't know where to pack it."

Arnie smiled. "Let me show you the best feature of this van," he said. He lifted the tailgate, pulled a lever, and yanked at a strap attached to the back of the third row of seats. In seconds, the seats collapsed and folded neatly into the trunkwell, creating a huge, carpeted cargo area.

"All you have to do is push down these back seats and you can carry almost anything your heart desires," the salesman said. "Why, just the other day I used my Odyssey to bring home a coffee table and four chairs that were on sale at Sam's Club."

Blair and I were impressed. "How soon can we take one home?" I asked.

"I'll be happy to put you on the list," Arnie replied. "There's a wait of about eight weeks right now."

"You're kidding!" I protested. "What about a used Odyssey?"

Arnie shook his head. "Don't remember the last time I saw one. People don't seem to sell their Odysseys."

Blair and I didn't relish the idea of an eight-week wait, so we thanked Arnie and drove across town to take a look at the other top-rated minivan, the Toyota Sienna.

At the Toyota dealership, a friendly saleslady named Donna showed us a shiny, metallic grey Sienna. "What a beauty," she exclaimed. "Check out the carpeting, the air conditioning for the rear passengers, the automatic cruise control. And if you don't like this color, we have four others on the lot to choose from."

Blair got into the driver's seat and looked around. "Nice," she said appreciatively. "But how big is the trunk? We've got three small children and a lot of gear to carry."

"No problem. We've got one of the biggest trunks in this van size. Here, take a look."

Peering in, my wife said, "Gee, that doesn't look much bigger than the Odyssey that we just saw."

Donna was quick with an answer. "If you ever want more space, just take out the back seat and the cargo room doubles. Here, let me show you." She started tugging at various catches and levers.

"Wait a minute!" said Blair. "You mean the rear seats don't fold flat?"

"No, no!" Donna replied. "All you do is take them out of the car and you've got a nice, big cargo area."

Blair frowned. "But what do I do if I discover something I really like at Home Depot or a tag sale?" she asked. "I can't just leave the back seats on the sidewalk!"

That settled it. We signed up for a Honda Odyssey with Arnie, even though it meant waiting for nearly three months.

The whole episode left me highly intrigued. Honda had evidently found something customers wanted. It couldn't make Odysseys fast enough, and the minivans were so popular that many dealers were charging a thousand dollars or more *above* the list price. What was the matter with Toyota and the other car manufacturers? Why weren't they making minivans with seats that folded flat?

A week after our Odyssey finally arrived, I learned the secret of Honda's uniqueness. When I shared the story of our car shopping experience with the participants in my marketing seminar, Bill Stowell, a product-engineering manager at a major automaker, raised his hand.

"Actually, it's not very mysterious," Bill said. "The problem is the dies that are used in making the floor of a minivan. They're really expensive, and they've got to be ordered 18 months in advance, sometimes more."

"I understand," I said. "But wouldn't it be worth the money to make a product that more customers want?"

"Sure," Bill replied. "But the cost of the dies is only the start. Changing from one set of dies to a new set is even more

expensive, since it means shutting down production for more than a week. That's why car manufacturers hold off on major changes until they're ready to introduce a new model."

"And when does that happen?"

"About once every four years."

Suddenly Honda's advantage was very obvious: Honda had introduced the Odyssey's fold-flat seats in 1999. As it happened, Ford, GM, and Chrysler were all poised to introduce new models in 2000. By 1999, their designs were frozen. Even if they had wanted to, they couldn't make a fundamental change like adding fold-flat rear seats to the 2000 models. Given the traditional four-year product cycle, other manufacturers wouldn't come out with fold-flat rear seats until 2004 at the earliest. (Which in fact they did: Nissan's 2004 model Quest minivan had a fold-flat third row, while Ford went one better, introducing a 2004 minivan in which *both* sets of rear seats folded flat.) Until then, Honda would offer the *only* minivan with this highly desirable feature.

Honda had a monopoly! As a result, during the five-year period from 1999 to 2004, while controlling less than 10 percent of the US minivan market, Honda would capture over *one-third* of the profits in this segment.

AN OWNABLE SPACE FOR A USEFUL PERIOD OF TIME

By "monopoly" I mean simply that *the company or the business controls an ownable space for a useful period of time*. Once again: **A monopoly is an ownable space for a useful period of time.**

The company owns — exclusively controls — *something*: A group of customers, a product feature, or some other desirable attribute long enough to make some money.

This view of monopoly as "an ownable space for a useful period of time" takes us back to the original definition: "Monopoly" is derived from the Greek word *monoplion*: *mono-* meaning "only" and *plein* meaning "to sell" or "seller." Thus, "monopoly" simply means "the only seller (of some product or service)" — somewhere, for some time.

For the monopoly to be meaningful, the space must be "ownable," i.e. capable of being controlled and potentially profitable. It must have enough customers with needs that aren't being met who are willing and able to spend money to satisfy their needs.

Ideally, their numbers should be growing, thereby ensuring a steady stream of demand.

To wit: The only bar in a town full of teetotalers may be capable of being controlled, but it can't be profitable and therefore isn't worth owning. By contrast, a look-alike bar on Chicago's popular Rush Street, doesn't control any ownable space because it can't keep the market to itself.

WHILE CONTROLLING LESS THAN 10 PERCENT OF THE US MINIVAN MARKET, HONDA WOULD CAPTURE OVER ONE-THIRD OF THE PROFITS IN THIS SEGMENT.

You must also own the space long enough to make high monopoly-like profits. You have a "useful period of time" when you are the *only* player in this space long enough to give you a reasonable chance of recovering your investments — and then some. The more you have to invest to tap into those customers' requirements, the longer your useful period needs

to be. If you have to build a large plant, invest \$100 million in R&D, or carry out a major redesign of your products, you may need a useful period of several years. A fashion designer, on the other hand, may need just one season to recover her investments in a new design.

Honda's Odyssey minivan monopoly meets both of our requirements. Honda's "ownable space" — minivan buyers with small children, the need for occasional cargo capacity, and the willingness to pay more or wait longer for it — was large. Millions of Gen Xers were settling down, raising families, and furnishing their houses. A significant proportion of them didn't want — or couldn't afford — two large vehicles, one to carry children on the one hand, the other to haul things. For these families, the Honda Odyssey was perfect.

Further, by design or sheer luck, Honda's decision to introduce this feature in 1999 also gave it a longer useful period of time — five years. Ford, GM, and Chrysler were all introducing new models in 2000; by 1999, however, their designs were frozen. Even if they wanted to, they couldn't make a fundamental change — such as introducing fold-flat rear seats to these models. If, on the other hand, Honda had introduced this feature in 1998, the other car makers could have copied it quickly, giving Honda a much smaller useful period of maybe a year.

As a result, Honda had a lucrative little monopoly in the minivan business. How lucrative? Consider that Honda sold an average of 120,000 minivans a year during this five-year period. It was able to get full price *without* spending a red cent on incentives or rebates, at a time when competitors were offering up to \$2,500 off per minivan.

Add in the fact that Honda Odysseys were priced approximately \$1,500 higher, and you can see that Honda was making nearly \$3,500 *more* per minivan than its competitors, who were earning maybe \$2,500 in profits per vehicle. Multiply that by 600,000 Odysseys, and you find that Honda made over \$2.4 billion in incremental revenues in the minivan segment.

Not bad for a row of seats that folded flat!

SLC 2007-2008 EXECUTIVE SEMINARS

MONOPOLY THINKING™

October 29-30, 2007 and February 28-29, 2008 in Chicago, IL

What is the real reason behind your company's success? You may think it's because you have a stronger brand or lower costs, but it is because you have a monopoly.

We define a "monopoly" as *an ownable space for a useful period of time*. It is a perfectly legal situation where you are the only provider of something — product, service, or capability — for a period of time. The larger your customer base, and the longer you are the *only* provider, the more profitable and valuable your monopoly.

Behind every successful company is a successful monopoly. Once this monopoly ends, your profit inevitably starts to decline and you become a commodity. Case in point — Dell Computer went from being the only player of customized components to being just another player in a commodity business. Dell lost its monopoly.

Monopoly Thinking™ is a radically different way of looking at why some companies succeed and others fail, why successful companies lose their leadership positions and become also-rans, and why companies like Southwest Airlines, Enterprise Rent-A-Car, and IAMS Pet Foods grow and make sizable profits in mature industries with cut-throat competition.

STRATEGIC LEVERAGE™ AND THE ONE PAGE PLAN (OPP™)

October 23-24, 2007 and March 10-11, 2008 in Chicago, IL

Today, time and focus are precious commodities. Managers are suffering from information overload even as they try to cope with an increasingly hectic and stressful business environment. They have to manage more data, more complexity, and more pressure for results with less time and fewer people to help them. Managers want to be sure they allocate their constantly shrinking pool of time, money, and people to the few important things that will truly impact their business. Consequently, they are looking for tools and frameworks that will help them organize complexity.

STRATEGIC LEVERAGE™

Strategic Leverage simplifies planning. It enables you to quickly cut through to identify the two or three issues critical to your business's success. Net result: you and your team focus on the things that really matter. You identify and eliminate activities/projects that divert precious people, time, and

money. You go from planning to executing faster, more efficiently, and with greater confidence.

THE ONEPAGE PLAN (OPP™)

The OnePage Plan (OPP™) links strategy directly with execution. First, it ensures focus by its very design: your team has to narrow its priorities and initiatives to two or three concrete proposals that will fit on one page. Secondly, the OPP format spotlights problems and issues immediately and directly, saving time and money. Most importantly, it provides a powerful tool for tracking progress.

DEVELOPING YOUR INDIA STRATEGY

October 22, 2007 and March 12, 2008 in Chicago, IL

Hindalco and Suzlon Energy may not be familiar names in the U.S. but these firms are just a few of the Indian companies that are competing — and leading — globally.

One year ago, India wasn't even on Novelis's radar screen and today it is a subsidiary of Hindalco. The new combined company is the leading manufacturer of aluminum rolled products and has annual revenues of \$11 billion. Suzlon Energy has become the fifth largest producer of wind turbines and that is before its proposed purchase of German firm REpower Systems. Eighty percent of Suzlon's new orders come from countries other than India.

India will become a major factor in your value chain over the next two years either as a large market, important supplier, source of competition, valuable partner, or role model. Regardless of the size of your firm or the industry in which you compete, you will be impacted by India. Are you prepared with an India strategy or will you be taken by surprise?

UNIQUE APPROACH

This seminar will focus on the opportunities and challenges in doing business with India. The content and insights are based on extensive in-country research and interviews with companies, executives, and public officials, resulting in a first hand look at India.

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To download a complete seminar brochure, visit www.strategicleverage.com

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