Marshfield Associates

Letter to Clients
May 2022

Talk to the Hand

"Once in my life, I'd like the upper hand. I have no hand. No hand at all."

George Costanza, *Seinfeld*[1]

It can be tempting to think of the stock market as a giant Ouija board, with a mysterious hand in the guise of aggravatingly perverse investors directing the planchette. We joke, of course. And yet, Adam Smith's "invisible hand" as the spirit guiding the stock market's movements has some resonance for us. The stock market really is an aggregated expression of self-interest[2], given that it is wholly dependent on the assessments of millions of investors as to where their individual advantage lies. Speaking as professionals whose job it is to do just that on behalf of our clients, we can confirm that the selfish choice is not always the obvious one. It's no wonder that the views of a stock's value can be all over the map; unlike price-setting for commodities like cotton or corn, where supply, demand, and usage are all pretty clear, it's hard to understand what makes a company tick and what it is a customer wants from it today, tomorrow, and the next day, not to mention how competitors might respond. Not only are companies complex and their future prospects (and cash flows) obscure, but the very murkiness of assigning a value to them encourages speculation, which in turn opens the door to emotions like greed and fear that exacerbate the problem of stock price discovery.

So what's a befuddled investor to do? Well, happily, and notwithstanding the various feints and misjudgments, the planchette tends at least periodically to point more or less in the direction of the actual value of a company's stock. And that's where we believe Marshfield and its philosophy and discipline can give us a leg up. While we can't control the value the market puts on a company at any given time, we **can** control the kinds of companies in which we invest (and the prices we are willing to pay for them, though that's a story for another day). If we invest in companies that produce and increase value, we can expect the market to recognize that, if not right away, then over time.

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[1] The Pez Dispenser, *Seinfeld*, George Costanza (Jason Alexander), Season 3 Episode 14. Originally aired January 15, 1992. Written by Larry David, directed by Tom Cherones.
[2] See Smith, Adam. The Wealth of Nations. Oxford, England: Bibliomania.com Ltd, 2002 (first published 1776). We are taking liberties with Smith's original concept, which he used to illustrate how selfish economic judgments, collectively, can lead to beneficial results at the community level.

Which sets up the next question: what kinds of companies can reliably create and increase value into the uncertain future? We've spoken a lot over the years about the attributes of companies we tend to like, often focusing on characteristics within the control of a company such as ingenuity, culture, management, resilience, and strategy. What we have not discussed as much is something a company has less influence over but is nonetheless of critical importance to its success: the structure of the industry in which it operates.

Industry structure comes largely as an external given, and having the right one is essential to a company's ability to create, capture, and increase value. One measure of this is "economic rent", which is what economists call the profit that a company makes in excess of what a perfectly competitive industry structure would allow it to earn. The weaker the competitive forces in the industry, the more likely a company within it can reap—and retain—such rents. Thus, while some industries are configured in such a way as to immediately put a company behind the eight ball where rent-collecting is a challenge, others—the ones we tend to favor—are organized in a way that allow a company to savor the fruits of its own value creation.

In seeking industries that allow a company to have the upper hand in its competitive ecosystem, we pay particular attention to what scholar Michael Porter refers to as the "five forces".[3] While not capturing everything relevant to industry configuration, these five forces describe the core of the competitive dynamics that shape an industry. It is then up to the individual company to capitalize on those forces—or to mitigate them, as the case may be—through its individual strategy and the other attributes we mentioned above. Among these "five forces" are three that can be thought of as horizontal competition: rivalries among existing companies within the industry; the risk of new entrants into the industry; and the threat posed by alternatives or substitutes for the product or service the industry produces or provides. And there are two that are vertical in nature: the bargaining power of customers and the bargaining power of suppliers. A review of these forces essentially answers the question of who holds the leverage in the relevant relationships that a company has when it conducts its business. Taken together, we can see which industries allow a company more "hand" in its interactions, which in turn gives it greater latitude in pricing and structuring its arrangements en route to extracting as much in the way of economic rents as it can.

The Five Forces

In analyzing any company for inclusion in our portfolio, we try to map out the structure of the company's industry through an assessment of the dynamics that, taken together, define the competitive intensity in that industry. We will lay out

[3] Michael E. Porter, "How Competitive Forces Shape Strategy", *Harvard Business Review*, May 1979 (Vol. 57, No. 2), pp. 137-145.

below the five forces that Porter has identified, and we will then take a few of our companies as examples and walk you through how we think those forces describe the industry ecosystem in which these companies operate. Note that while it is useful to pull things apart and categorize them in order to understand them, real life is rarely that neat and tidy; these forces sometimes work in opposition to one another, describing a series of puts and takes that, collectively, need to be taken into account for a thorough understanding.

1. Rivalry Among Current Competitors

The iconic example of a perfect industry, as Warren Buffett has said, is where a single player owns the sole source of water on a desert island: a monopoly, if you will, with respect to something everyone needs in order to survive. In such a case, no rivalry can exist, as the key resource is held by a single owner. This owner has the ability to charge whatever the market, in the form of its customers and their pocketbooks (or coconuts), can bear. Monopolies tend to exist where resources, by their very nature, can only be owned by a single entity or where creating a second company is sufficiently costly and the product or service sufficiently undifferentiated that no natural competitor will arise. At the other end of the spectrum lies rampant competition—all sharp elbows and scrambling for advantage—where no single owner is in possession of all of the resources needed to climb to the top of the heap and little exists in the way of distinctive traits that allow a momentary summiting of the top to prove enduring. In between these poles are numerous dynamics that lead to either increased or decreased competitive rivalry, among them: the comparative size of industry participants; the pace of industry growth and therefore the extent to which the scraps are fought over intensely or not; the level of meaningful and sustainable differentiation among competitors; whether fixed costs in the industry are high, which tends to lead toward price cutting to keep equipment running; the lumpiness versus granularity of capacity increases; the existence and strength of barriers to exiting the industry, which may keep irrational rivals in the industry past their expiration date; and the presence of “artificial” controls such as government regulation that limit the freedom to compete.

2. Threat of New Entrants

Some industries are more hospitable to new entrants than others, allowing for either a trickle or a flood of new competitors the mere threat of whose entry can sustain competitive intensity at a high level. On the other hand, certain industries enable incumbents to protect their position vis-à-vis new or potential entrants. While, save for natural monopolies, all industries can see entry, there are certain things that tend to limit or repel new competitors. Economies of scale—the advantages conferred on those who acquire sufficient size to have a cost advantage over their rivals—can deter entry, as can product differentiation. Brand, loyalty, a better mousetrap (especially if it’s patented!), or simply having been there first can make head-to-head competition more difficult. Related to scale, burdensome fixed cost expenditure requirements (think compliance with government regulations or the need to spend a lot on R & D) can make it costly both to enter and to remain viable in an industry. In addition, ownership or preferential access to channels of distribution on the part of incumbents can either derail or damage an entrant's success, as can governmental obstacles like licensing requirements or limitations on access to essential inputs like mining rights and spectrum ownership.

3. Threat of Substitute Products or Services

Customers tend not to be stupid. If they don't like what's on offer or how what's on offer is priced, they look for alternatives. If there's a well-priced option that provides the same (or similar) value, then the substitute is in effective competition with the original product or service, even if it's nominally in a different industry. Substitution like this changes the competitive dynamics of an industry and can arise at any time through innovation in adjacent industries. Think taxi cabs, limited for years to those owning medallions in New York City. Medallions circumscribed livery competition in the city, enhancing and protecting the "rents" of the medallion owners. Enter Uber, an effective competitor for rides, though technically in a different business. By evading the need to obtain a medallion, Uber undermined the value of the protection from competition enjoyed by taxis. Particularly where those substitutes enjoy a cost, quality, or convenience advantage, the mere availability of substitutes like Uber can destabilize the competitive equilibrium of an adjacent industry.

4. Bargaining Power of Suppliers

Every company needs to buy the components for or inputs to its product—even if it relies mostly on labor in the form of intellectual capital. Industries whose suppliers have the upper hand in terms of input costs, terms, and availability are those where rents are likely to be limited. While numbers don't tell you everything, they can give you a pretty strong clue as to where the balance of power lies between a customer and its supplier base. If there are fewer and more concentrated suppliers than customers, they will tend to have relatively more leverage than the industry into which they sell. Another hallmark of a powerful supplier base is the relative difficulty of switching for a customer. A customer that is largely captive to its supplier is a customer without the upper hand. A corollary to this point about captivity is that any credible threat by a supplier to integrate forward into the customer's business can undermine the competitive posture of that customer.

5. Bargaining Power of Customers

On the other end of the vertical axis lie a company's own customers to which it sells. Again, numbers can help tell the story: if there are fewer and more consolidated purchasers than there are companies in the industry they're buying from, then the relative power is likely to lie with those customers. For example, when a processed food company such as Vlasic looks to sell its product to Walmart, Walmart's size alone confers a lot of power. Pickles are pretty interchangeable, which means Walmart can just as easily buy its pickles from Heinz or Mt. Olive if it doesn't like Vlasic's prices (don't @ us!), and a company like Vlasic would rather sell to Walmart than…not at all.[4] But when disaggregated individual consumers shop for pickles at Walmart, they have a pretty weak hand. Even if outnumbered, a group of buyers can still have some "hand" if what they're buying is a commodity, undifferentiated one from the next, with no difference among even a small handful of producers. Typically, if the product being sold is something that goes into a customer's own product but is a component of little importance to the overall end product, then, unless it's very cheap, the customer will be better able to dictate the terms of its purchase. And if it's something that represents a significant portion of the total cost of the product for which the customer is purchasing it, the customer is, similarly, more likely to care and seek out an alternative if the price fails to align with expectations. Moreover, mirroring the point about vertical integration of suppliers, if there is any possibility that the buyer might integrate backward into producing a component, some leverage can potentially be lost to that buyer.

Example 1: Moody's

Moody's is the beneficiary of a highly enviable industry structure. As one of a small handful of credit ratings agencies, Moody's operates in what can be characterized as a near oligopoly. Moody's rates about $39 trillion of the debt outstanding in the Americas alone. By way of comparison, there is about $53 trillion in overall debt in the U.S., so any way you slice it, we're talking a big chunk of that market. The Moody's ratings juggernaut extends into just about every corner of the globe.[5] Together with S & P, the other superpower in the fixed income ratings business, these companies account for a huge chunk of all fixed income ratings globally. While there are smaller niche players[6] and some country-specific ones, the typical need for two raters for each debt issuance makes it effectively a two-player game. Moody's and S & P tend to coexist quite peaceably without the kinds of periodic bouts of underpricing or other destabilizing shenanigans that can characterize other more intensely competitive industries. Further insulating this industry from rampant competition via new entry is the fact that "nationally recognized statistical rating organizations", or NRSROs, have to be registered with and approved by the SEC, a not insignificant process.

Interestingly, prior to the financial crisis of 2008-09, there had been a third large competitor, Fitch, that in effect created entry by making a significant play for

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[4] See a wonderful case study, "The Wal-Mart You Don't Know", *Fast Company*, December 1, 2003. (Available at: https://www.fastcompany.com/47593/wal-mart-you-dont-know).
[5] Moody's rated more than $73 trillion in global debt in 2021, including for 145 sovereign clients.
[6] A.M. Best, for example, is the gold standard credit rater in the insurance industry.

business in the funky asset-backed and structured debt securities markets that flourished as a result of loose mortgage lending. Fitch (and, to some extent, Moody's and especially S & P) made a feast of providing dicey "synthetic" securities with what turned out to be excessively optimistic ratings. In the wake of the financial crisis, however, risky loans and the securities built from them became a thing of the past. Fitch's opportunistic niche evaporated, and while it still exists as part of the Hearst Corporation, it is a much less powerful player in an industry that has worked hard to salvage its reputation.

Any continuing threat of new entrants in an industry that allows Moody's to reap mid-40% margins, while not nonexistent, is negligible in any kind of meaningful sense today. This was put to a real life acid test following the financial crisis. The well documented failures of the credit ratings industry leading up to the financial crisis prompted calls for a re-assessment of the industry. Prior to the crisis, a threshold rating (e.g., investment grade or better) from an NRSRO was frequently a requirement drafted into various bits of legislation and regulation. Calls for eliminating such reliance on ratings as well as efforts to draft new entrants were thick on the ground. In addition, the "issuer" pays model that had long been in existence was questioned, with a "user pays" model proposed in its stead. Most of these efforts ran aground despite there being significant legislation enacted to deal with other defects that led to the crisis, in itself a testament to the stability of the industry's structure.[7] User pays, it turned out, posed its own problems, including the insuperable obstacle of disadvantaging small investors. In addition, while it could work as a check on the power of issuers to sway the behavior of the raters, it created another power dynamic, where large users like pension or hedge funds could wield unseemly influence. At the end of the day, the basic structure of the industry has remained largely unchanged; a few new players like Kroll Bond Rating Agency made noise on entering the business, but have failed to become a material new presence that changed the basic dynamics. As to substitutes, well, there aren't any.[8]

On the vertical side of the relationship axis, Moody's is an intellectual capital business that requires good people capable of rigorous thinking, but it tends not to need the kinds of innovative minds that, for example, the investment banking and private equity industries compete to hire. Apart from office space and computers, people are pretty much all it needs. The analysts who work at Moody's appreciate the challenge of the assignment, but also the regularity and lack of cutthroat culture that can accompany jobs requiring similar skills. With respect to the customer base, because ratings are priced in such a way that,

[7] The most prominent among them being the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which, among other things, imposed capital requirements on banks and eliminated the "too big to fail" doctrine.

[8] Credit ratings rely on complex underlying assessments, including the sufficiency of cash flow to cover interest obligations, the ability to meet various terms and conditions, and where in the line of seniority the securities lie. But these are not nearly as bespoke as stock analyses. What Moody's and S & P provide is a universally accepted and credible way of assessing credit risk, which accords with a common base of understanding about what matters to the analysis.

though their utility is high, the cost is pretty minimal as a percent of any debt issuance and because they demonstrably save customers money when compared to the cost of issuing unrated debt, issuers tend not to spend a lot of energy trying to throw their weight around. Moreover, because there is a huge pool of issuers, including municipalities and other governmental entities, as well as corporations of all shapes and sizes, no single issuer has the power to dictate terms to Moody's.[9]

While strategy, management, and culture matter for Moody's, the fact that it's in an industry that affords it "hand" by making it hard to enter, compete, or substitute services, those elements matter less than they otherwise might. So while we won't go so far as to say a cow could be CEO,[10] we will concede that he or she need not be the cream of the crop.

Example 2: Domino's Pizza

Pizza seems at first blush to epitomize a commodity business: a ladle full of tomato sauce, a handful of cheese, and some dough can be prepared and configured in different ways, but at the end of the day, whether the pie is round, square, or triangular, it's still essentially the same thing. Innovations like stuffing the crust with extra cheese can easily be imitated, no encroachment on patents required. Needless to say, the rivalry among incumbents in this business is ferocious, and includes not just the big players like Pizza Hut (part of Yum! Brands) and Papa John's, but also local and regional chains and one-off mom and pop stores. But the real problem with pizza is not the cheese, the sauce, and the dough or even the sharp elbows of the pie makers, it's the availability of substitutes galore. Want a burger instead? Great, have at it! Some spicy ethnic cuisine? Take your pick! When you look more broadly at the dining landscape—even if you limit the horizon to quick serve and fast casual—there is a plethora of options available. And why stop there? What about prepared food at the local Safeway? In reality, the competitive environment encompasses not just pizza joints, but all ready-to-eat food around a certain price point. While the vertical power axis is more forgiving—the power of suppliers is pretty limited, as most of the supplies (including low-wage labor) are also commodities, and the power of buyers is weak given their numbers and disaggregated nature, even if consumers can easily pull a different menu from the drawer if prices and quality

[9] It should be noted that the business in which Moody's engages is not confined to ratings; it also has a robust analytics business that provides "financial intelligence" and research and accounts for almost half of its revenues. While we won't analyze this business separately in detail, suffice it to say that it has a robust growth rate (indeed, higher than that of the ratings business, which grows with the global economy) and a sticky client base. Fueled in part by the ratings business that serves as its corporate ATM, it's an acquisition machine, snapping up analytics operations across the globe, further extending its dominance in the area of risk solutions.
[10] The low point of ratings agency behavior may have been reached in April 2006 when an S & P analyst messaged a colleague saying that "we rate every deal. It could be structured by cows and we would rate it."

fail to meet expectations—the basic dynamics of the business are not very attractive.

But while this is a commodity business, it is also an industry that rewards scale and is extremely sensitive to execution. In the case of **Domino's**, where it is the number one pizza seller in both the U.S. and worldwide, it's clearly the big cheese. The other two large players make it look a bit like an oligopoly, in fact. So while it's nigh impossible to build a better product mousetrap,[11] and although competition is broad-based and intense, it is possible to earn attractive "rents" if you are able to achieve meaningful scale and block and tackle like a pro. Consider what the value proposition is for pizza: inexpensive, consistent, decent-tasting, quickly delivered food. Scale helps accomplish three out of four of those values by reducing input costs and delivery times alike (in Domino's case, through its proprietary delivery system and strategies like "fortressing", where franchisees own several restaurants within close proximity of one another), as well as by allowing for the deployment of technology that facilitates consistency.

Yet, unlike many other commodity businesses, scale is strangely elusive in the fast food business and takes more than just amassing the most capital. It is the rare player that is able to grow a chain past the 1000 unit mark. We believe that this is partly due to another attribute that characterizes this industry: the fact that it is simple, but not easy to run a restaurant. The kind of execution chops required on a daily basis to manage a low-paid and low-skilled workforce, to keep food safe and things running smoothly, and to be accurate and on time are really hard to manage with consistency and quality. In the end, having scale really matters in this business: it confers significant procurement advantages versus suppliers (a lot of mozzarella needs to walk in the door, and Domino's owns its own procurement company to better leverage its purchasing power on behalf of franchisees), especially as the ingredients themselves are commodities. So while price competition can still get fierce, the small handful of big players have a discernible edge, including versus substitutes. At the end of the day, you have an industry where it is possible to create differentiation through something customers want separate and apart from the product itself: that is, cheap, fast, and reliable delivery. It turns out that this produces results that look rather different from what one might expect from a pure commodity business.

Strategy: the Next Frontier

Industry structure is not destiny. What structure does is circumscribe the limits of a company's power within the environment in which it conducts its business. In essence, it establishes the playing field, allowing the company to formulate a

[11] We should note that after Domino's acknowledged in late 2009 having committed "crimes against pizza" by selling underwhelming pies, it came up with a turnaround strategy that included a better tasting but still accessibly priced product. So in point of fact, not all 'za is created equal. For a fun read, see "Domino's Atoned For Its Crimes Against Pizza and Built a $9 Billion Empire", https://www.bloomberg.com/features/2017-dominos-pizza-empire/?sref=gXx108LS.

strategy to take best advantage of the rules of the game and the layout of the field. Beyond that, the company is still responsible for much of its destiny; the formulation of a strategy that at least in theory maximizes its ability to earn economic rents within the industry structure in which it conducts business is up to its management team and dependent upon the value-creating assets it has, including people, culture, and know-how.

While the kinds of attributes (such as scale) that can counteract unattractive structural issues can look a lot like (and to some extent are) strategic choices in themselves, the real question is whether the industry structure supports and rewards the individual strategic choices available.[12] Structure clarifies both the general level of competitive intensity and where competitive leverage resides within the industry's ecosystem; strategy assumes that level of intensity as a given and seeks to find a way to earn decent returns within that framework. In essence, it tells you what you can and can't change about the system in which you compete and as a result, where best to focus your energies.

Example 3: NVR

There is really no way of getting around the fact that homebuilding is a full-on commodity business. Demanding relatively little in the way of capital and know-how, it's simple to enter, house designs that sell well are easily duplicated by competitors, and in many areas, raw land is still reasonably plentiful. As a result, there are numerous homebuilders, from the large, national players to the small one-off spec builders. There are also decades of existing housing stock that represents a pretty good "substitute" for new-build homes. Scale matters some, but regional or local scale is mostly where it's at, in that it provides the ability to help secure the best subcontractors and to get the biggest bang for the marketing buck. But it still doesn't really matter in terms of access to the best land, over which there tends to be pretty intense competition because, ultimately, location is what sells a house. What this all boils down to for the average homebuilder is that it is at the mercy of both tough competitive forces and take-no-prisoners economic factors like mortgage interest rates and the state of the economy. The power of buyers, though they're a disaggregated (and fractious) bunch, tends to be pretty high, as they can easily vote with their feet by walking a few doors or blocks down. Why else do you think realtors encourage you to fixate on one house you "love" and keep bidding on it? As to the power of suppliers, it is substantial with respect to well-located land and, depending on the economic environment, can be quite tough with respect to other inputs such as skilled labor and even lumber.

[12] Not to get too wonky here, but note that there is an iterative effect, whereby the individual strategic decisions of industry players can themselves affect how the structure of the industry looks. For example, back in the day of Enron and the energy trading boom, it was in the individual but not the collective interest of participants to build up their generation capacity, a proliferation of capacity that was way more than the market needed. While this didn't change the industry's structure per se, it certainly revealed it for what it was.

So how to acquire “hand” in this business? It seems to us that rather than looking to gain a leg up strategically, nearly all companies in this space seem intent on trying to further their structural disadvantages. Because the industry has grown up as a combination of development and construction, companies in it—especially the big national players—buy the best land they can at the best prices they can negotiate and develop it (e.g., get local approvals for water, power, and sewage lines, build roads, etc.) in the belief that they can do so more cheaply than buying already developed land. They then open a new community and build spec homes. The assumption underlying this strategy is that if they build it, the hordes will come (and they’ll make a pile). And typically they do—until they don’t. The overbuilding that preceded the financial crisis, which had been fueled by speculative mortgages and inflated valuations, not only helped precipitate the crisis itself but also subjected many of the biggest companies to a survival test from which they have only recently recovered. While many of them got through this by the skin of their teeth, plenty of the smaller guys went completely out of business.

One homebuilder, **NVR**, did (and does) things differently. Having experienced its own near-death experience in the early 90’s, NVR, which focuses its activities in 14 states on and around the east coast, neither buys land for development nor sets out to build houses on spec. While it’s one of the largest homebuilders in the U.S., with the resources to buy and develop land, it refrains from the development part of its competitors’ playbook. Instead of buying land outright, NVR purchases finished building lots from third party developers through fixed price purchase agreements or options. If it ultimately declines to purchase the lots, it forfeits only its deposit, not the full price of the land—and it doesn’t actually go ahead and purchase the land unless it has an actual commitment from an actual homebuyer. All it stands to lose is the option price. Not only does this reduce the amount of capital tied up in inventory, but it provides flexibility and resilience, allowing the company to weather tough periods and economic volatility far better than its peers. Indeed, during the economic downturn when homebuilding stocks were clobbered, NVR made money every year and so was able (and willing) to buy back its shares at rock bottom prices. Its publicly traded competitors chose to husband their cash even as they shrank inventory (because they had so much land weighing down their balance sheets), and missed the opportunity to return cash to shareholders when their stock was cheap.

NVR has no illusions about the fact that it’s in a commodity business; for it to pretend otherwise would be foolishness. Although national scale can be appealing to the CEO crowd that sets store by size, to NVR it’s a mug’s game: local scale is all that counts, full stop. And the company pooh-poohs the idea of coming up with housing designs uniquely associated with it and its brands. The company’s outgoing CEO, Paul Saville, makes it clear that he’s willing to build product to suit the pocketbooks of its client base, whatever that might entail. As with pizza, building the “stuffed crust” version of a home is no kind of strategy in a commoditized business where you're not paid for that kind of differentiation; building good enough houses that your client base can afford is what hits the strategic spot. Most profoundly, though, NVR understands that its industry is subject to extreme boom and bust phases and that, while buying options and allowing them to lapse might look like burning money, it's really what stands between it and the "bust" part of the cycle.

Our question has always been why others haven't attempted to replicate NVR's winning strategy. And the answer seems to be that their cultures and self-conception won't allow them: in the case of a company like Toll Brothers, for example, it gives them swagger (they think of themselves as a "law firm with a homebuilder attached") and leads them to hold what we've come to think of as "emotional support land". Even in the face of demonstrated advantage, these others won't give up that which they seem to think defines them. And that's fine with us, because the advantage conferred on NVR in an otherwise highly competitive commodity industry is that its returns to shareholders are substantially higher than those of its public peers over the course of a cycle. While this doesn't change the competitive structure of the underlying industry, it most certainly addresses the challenges posed by it.

Hand in Glove

A good industry structure is like a golden ticket: it affords a company in the industry an opportunity to earn good returns without the kinds of obstacles encountered by companies in industries characterized by bare-fisted rivalry. It confers a degree of autonomy in setting prices and in responding to rivals and potential entrants. But it's really the beginning, not the end of the story. No company—not even **Visa** or **Mastercard**, heirs to a payments oligopoly—can yada yada[13] their way to victory. A strategy that takes advantage of whatever opportunities industry structure makes available—even if imperfect—is the next critical step. And not coincidentally, the next step in our own analysis of a stock in which we're interested. A company that is unable to make the leap to a good strategy or that lacks the necessary tools of culture, management, geography, or know-how in order to execute on that strategy, is competing with two left feet—and absolutely no hand.

Marshfield Associates

[13] The Yada Yada, *Seinfeld*, Marcy (Suzanne Cryer), Season 8 Episode 19. Originally aired April 24, 1997. Written by Peter Mehlman & Jill Franklyn, directed by Andy Ackerman.