

Fortna Impact on Competitive Strength

DECEMBER 2010



© 1999-2010 wRatings Corporation. All rights reserved.

The wRatings research methods in this report are protected by US Patent 6,658,391 and other patents pending. All trademarks are the properties of their respective owners.



CONTENTS AT A GLANCE

- 2 Executive Summary (this page)
- 3 Competitive Strength Defined
- 4 Fortna Customer Base
- 5 Competitive Impact Analysis of Fortna
- 6 Customer Strength Impact of Fortna
- 7 Financial Strength Impact of Fortna
- 8 Conclusions
- 9 Appendix
- 10 About wRatings Corporation
- 11 Contact wRatings

- Due to the extensive growth in the Fortna customer base, this 2010 report updates and replaces our previous year's analysis on Fortna Customers.
- The wRatings Corporation is an independent research firm that analyzes the competitive strength of 4,000+ companies on a continual basis. We utilize consumer and business panels to rate how well each company is meeting customer expectations. Our ratings are used by executives and investors to determine how to best allocate their capital for the highest economic return.
- Fortna provided wRatings with their customer list as of Q3-2010. To examine the impact of Fortna solutions on a company's competitive strength, wRatings segmented our universe of coverage into two groups: 1) a Fortna Customer Group, and 2) a Non-Fortna Customer Group. We only included companies with market capitalization of \$300 million or more.
- We found 52 public companies from the Fortna list included in the wRatings coverage, which represents a 40% increase of companies evaluated from the Fortna 2009 report. We measured the trailing twelve month (TTM) performance of each group on a monthly basis from January 2005 through September 2010.
- In 2005, the Fortna Customer group was at a competitive disadvantage of -3.89%. Through 2010, the Fortna Customer group is 8.92% stronger than non-Fortna Customers. This represents a net increase of 12.8% in competitive strength.

NOTE:

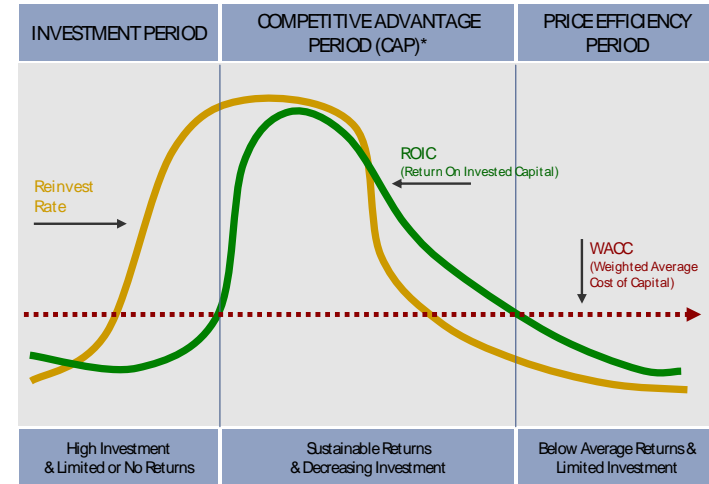
Our analysis cannot determine a cause-effect relationship, nor does it hold up at the individual company.

Basic economic theory shows that in a highly competitive market, returns will be driven down to essentially no economic profit as rivals will imitate any advantage. To achieve a durable advantage, companies must essentially defy this very powerful force of competition.

For executives, the key is to build strengths that rivals cannot or find difficult to duplicate. The wRatings system provides executives with unprecedented visibility into how to accomplish this. Our foundation is built on five key principles:

1. Competitive strength is the ability of a company to allocate capital (seen in their **Competitive Life Cycle**) to attract, keep and hold customers captive better than its rivals (seen in their **Moat Barriers**).
2. Competitive strength determines the long- and short-term ability of a company to grow revenues and earnings.
3. Competitive strength is highly dynamic and complex, yet consists of key financial and customers that can be tracked over time.
4. Changes in competitive strength are visible at the customer level (**Moat Barriers**) well in advance of their impact on financials (revenue, earnings, economic profit).
5. Executives can exploit these insights to improve their own financials and prevent rivals from stealing their customers.

FINANCIAL STRENGTH:
A company's Competitive Life Cycle measures how much economic profit they generate



CUSTOMER STRENGTH:
A company's Moat Barriers measure how well they meet customer expectations

	9 MOAT BARRIERS	CUSTOMER NEEDS
SUPPLY CHAIN	Economies of Scale	Fair-Price, Availability
	Economies of Skill	Fair-Price, Competence
	Cost Containment	Fair-Price, Useful
PRODUCTS	Design Dominance	Leadership, Quality
	Brand Perception	Leadership, Coolness
	Routine Reliance	Leadership, Simplicity
DELIVERY CHAIN	Channel Lock-Out	Unique, Safety
	Switching Lock-In	Unique, Consistent
	Network Effect	Unique, Time-Sensitive

* The concept of CAP was formalized by Miller & Modigliani in 1961. The competitive life cycle is a generic concept proven useful by several Wall Street firms, including CSFB HOLT (CFROI) and Collins Stewart (CFROC).

At the end of Q3-2010, Fortna provided wRatings with their customer list.

To examine the impact of Fortna solutions on each company's competitive strength, wRatings segmented our universe of coverage into two groups:

- 1) Fortna Customer Group (52 companies) and
- 2) Non-Fortna Customer Groups (477 companies) based on the sectors represented (Consumer Goods, Electronics, Retail/Wholesale and Telecom).

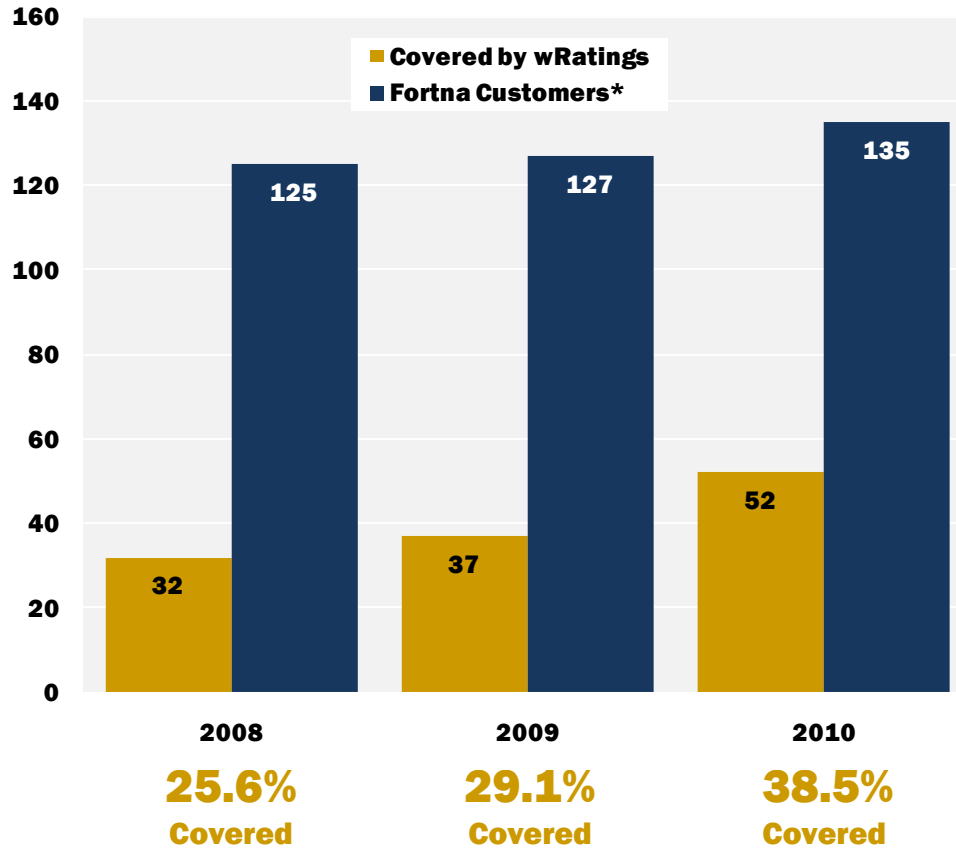
When determining the Non-Fortna Customer Group from our universe of coverage, we only included companies with a market capitalization of \$300 million or more.

Over the past three years, the number of companies covered by wRatings in the Fortna customer base has increased to 52. At wRatings, only public companies are included in our universe of coverage.

To conduct the analysis, wRatings separated the coverage into two groups existing of 52 Fortna customers and their representative peers in the Consumer Goods, Electronics, Retail/Wholesale and Telecom industries. In 2010, the non-Fortna Customer Group includes 477 companies.

While all the ratings are forced ranks within the 4,154 companies in the wRatings universe of coverage, the data on the following charts compare 529 companies (52 Fortna Customers vs. 477 Non-Fortna Customers).

Growth in Coverage By Year



* Includes only companies with market capitalization of \$300 million or more

SCORES

A company's W Score is a blended view of financial and customer strength. We measure financial strength by economic profit/revenues, where EP is how much money a company earns above its cost of capital. We measure customer strength by Moat Barriers, which is a patented metric of how well a company is creating barriers to entry to protect rivals from taking customers away. The data here shows the average of the 52 Fortna Customers and 477 Non-Fortna Customers (52 + 477 = 529) in the wRatings universe of coverage.

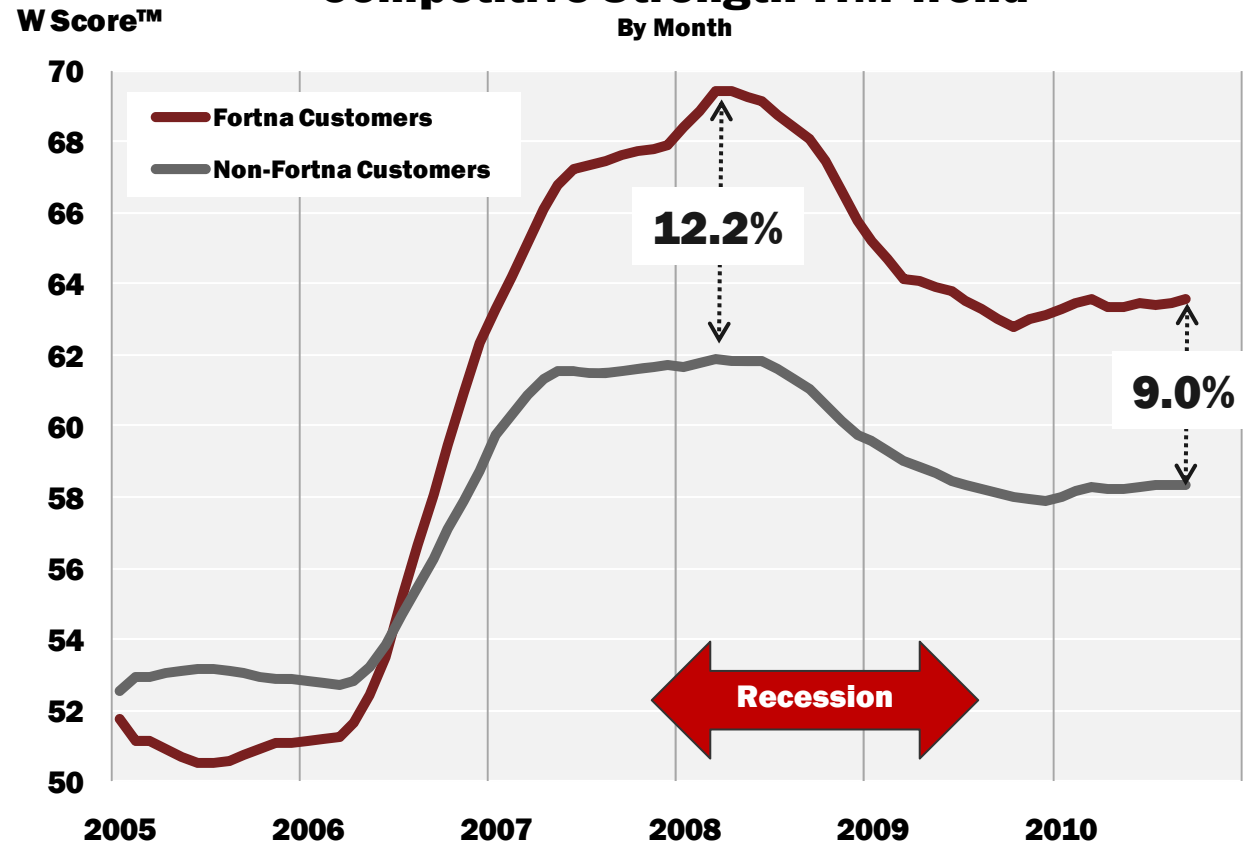
ANALYSIS

The starting point for analysis is January 2005 showing the Fortna Customer group with a W Score™ below that of the non-Fortna Customer group. In July 2006, the Fortna Customer group exceeds their peers for the first month. Over the next four years, competitive strength of the Fortna Customer has never fallen below their industry peers.

According to Fortna, the level of solutions available to customers was significantly expanded starting in 2007. The impact of the redesigned solutions can be visibly seen.

The peak difference in competitive strength so far is 12.2%, occurring in April 2008. A sizable gap was maintained throughout the recession (the US government states the recession was from December 2007 through June 2009). As of end of September 2010, the advantage for Fortna Customers is 9.0%.

Competitive Strength TTM Trend



Source: wRatings, n=529 through Q3-2010

SCORES

Moat Barriers are a wRatings score of how well a company is meeting consumer expectations better than their rivals. The score is an average across the nine sources of competitive advantage with customers that exist.

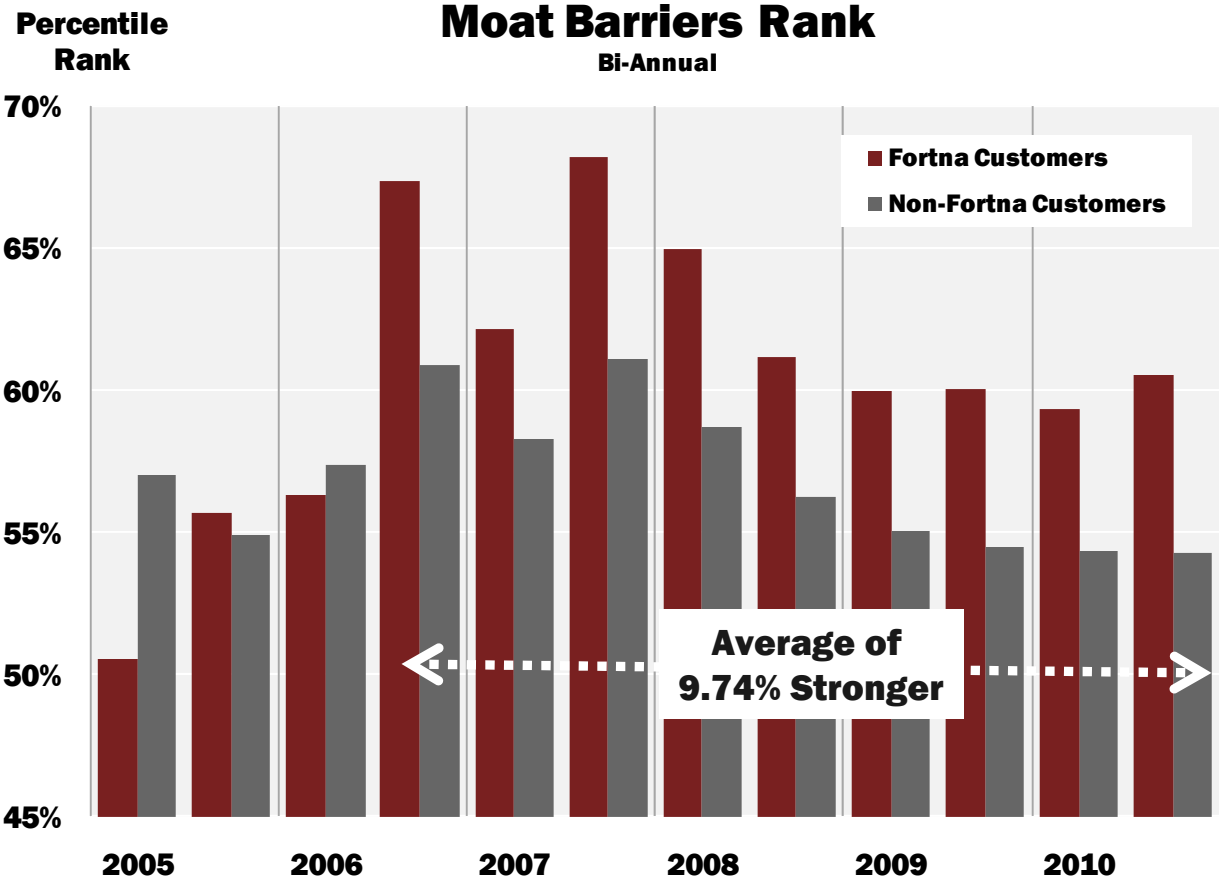
The Moat Barriers score is a percentile rank of the total moat scores within the full wRatings coverage of 4,000+ companies. In September 2010, the number of companies covered was 4,154. The data here shows the average of the 52 Fortna Customers and 477 Non-Fortna Customers (52 + 477 = 529) in the wRatings universe of coverage.

ANALYSIS

Although Fortna products don't directly impact customer relationships, improvements in supply chain often have downstream impact on customer strengths. For example, superior inventory control can ensure the right product is available to customers when they want to buy. Companies can also make promises with greater confidence.

Although the Fortna Customer group possessed less strength in 2005, they have become substantially more competitive and outpaced their rivals in every bi-annual period we measured since mid-2006.

Over the past 4 years, the Fortna Customer group has averaged a 9.74% greater score in moat barriers than their peers.



Source: wRatings, n=529 through Q3-2010

SCORES

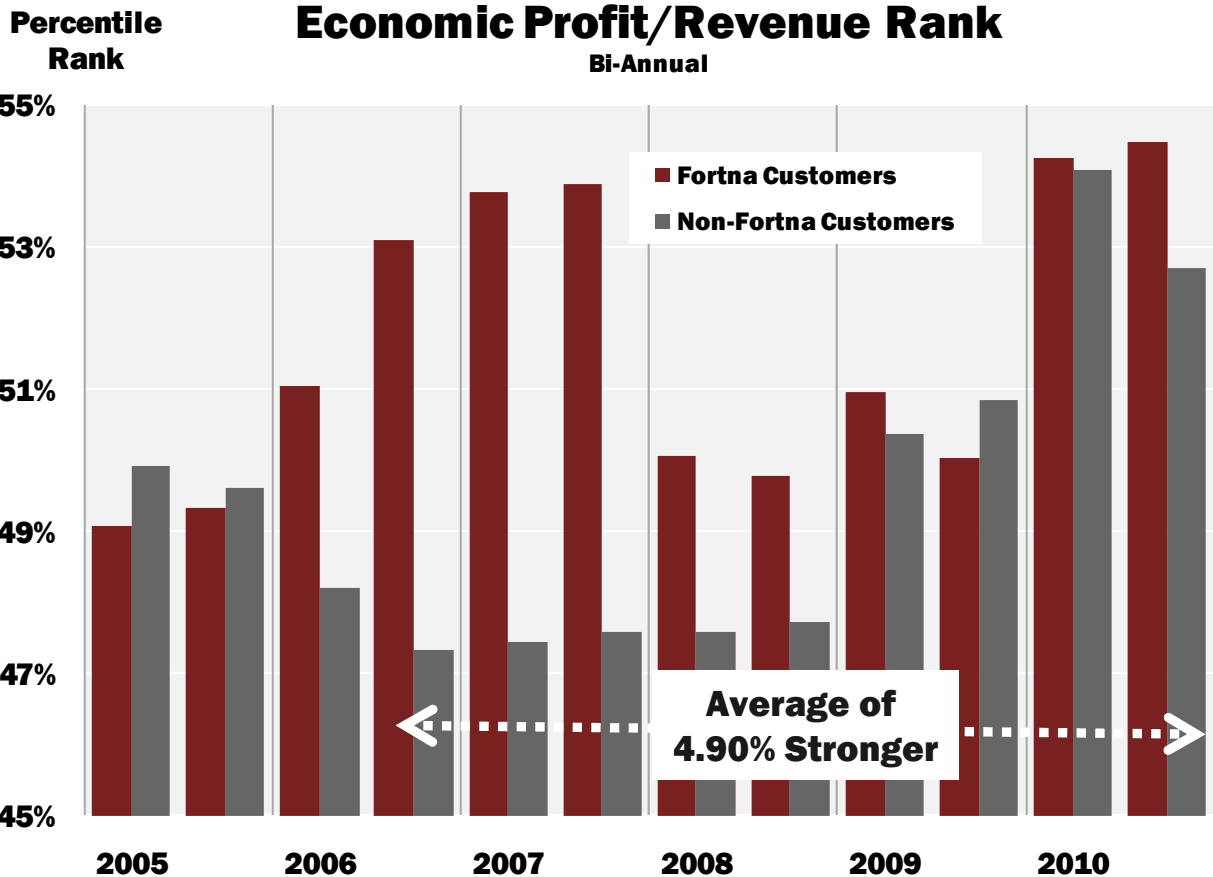
Economic Profit/Revenue (EPR) is the spread between return on invested capital (ROIC) and weighted average cost of capital (WACC) divided by total sales. EPR is a lagging indicator often used by investors to determine if a company possesses a competitive advantage. Consistently higher EPR than rivals indicates an advantage exists.

Both EPR and Moat Barriers scores for companies are percentile ranks against the complete wRatings universe of coverage, which is approximately 4,000+ companies. The data here shows the average of the 52 Fortna Customers and 477 Non-Fortna Customers (52 + 477 = 529) in the wRatings universe of coverage.

ANALYSIS

Supply chain improvements often have a considerable return on investment (ROI) measure to success.

As Fortna rolled out new products in 2007, the immediate impact was seen for early adopters. Fortna Customers outranked their peers by 13% or more for both periods in 2007, and have maintained an average of 4.9% stronger throughout the recession. While the non-Fortna Customer group increased some starting in late 2009 as virtually all companies improved, the Fortna Customer group is showing another wave of improvements in late 2010 as competition continues to increase.



Source: wRatings, n=529 through Q3-2010



This analysis cannot determine a cause-effect relationship, nor does it hold up at the individual company or business segment level.

Analysis of other technology-driven companies vs. non-technology driven companies may yield similar results.

- Companies that have implemented Fortna solutions become competitively stronger than their peers over time. To date, the peak difference in competitive strength is 12.2% in April 2008. A sizable gap was maintained throughout the recession from December 2007 through June 2009. As of the end of September 2010, the advantage for Fortna Customers is 9.0%.
- Although Fortna products may not directly impact customer relationships, improvements in supply chain show a clear impact on moat barriers. Moat barriers are leading indicators to future profits as they create vested customers that rivals have difficulty enticing away. Over the past 4 years, the Fortna Customer group has averaged a 9.74% greater score in moat barriers than their peers.
- As Fortna rolled out new products in 2007, the immediate impact on financial strength was seen for early adopters. Fortna Customers outranked their peers by 13% or more for both measurement periods in 2007, and they have maintained an average of 4.9% through Q3-2010.
- Early adoption of new Fortna solutions produce a significant competitive advantage for companies. During a recession, these solutions continue to help companies maintain their competitive strength.



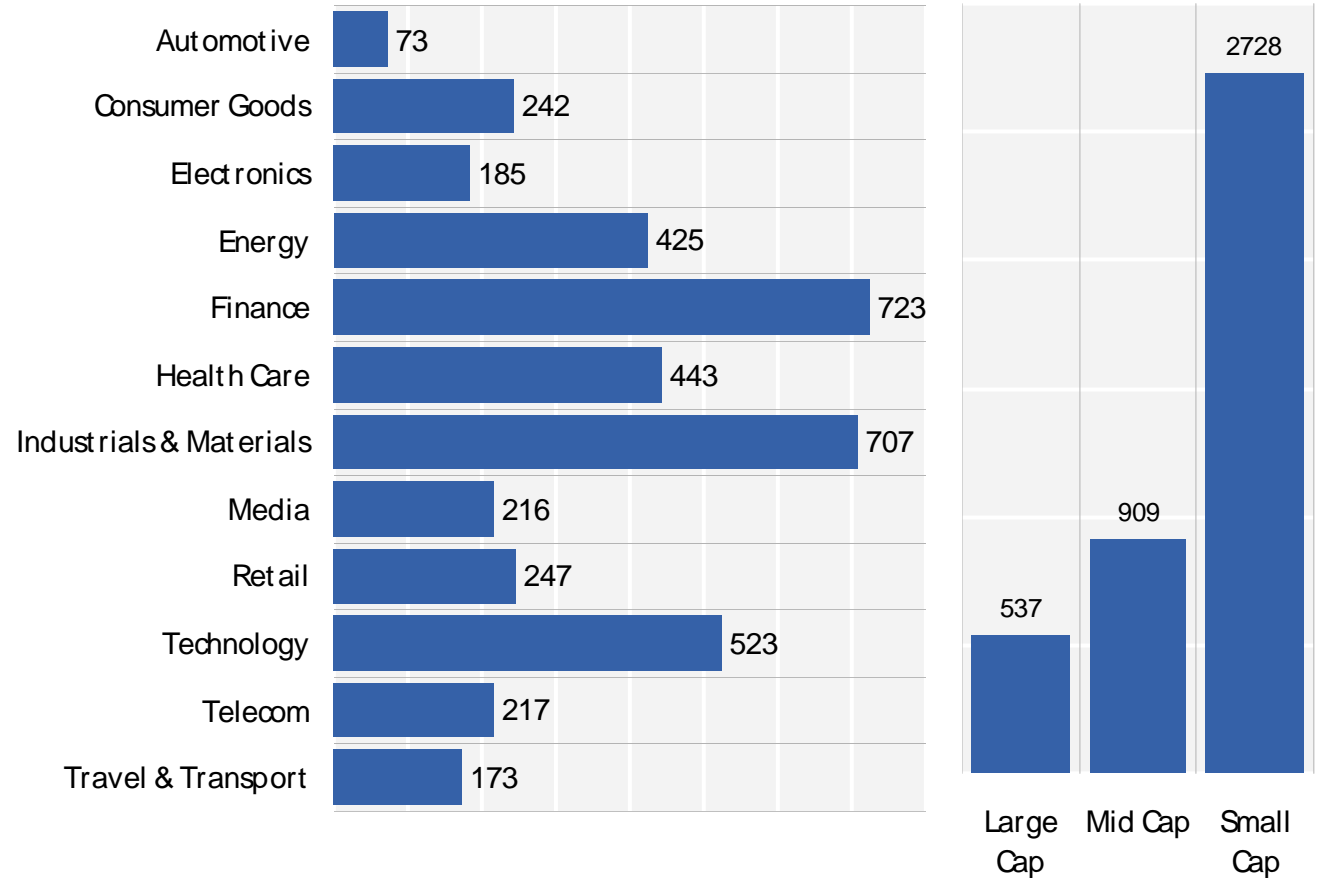
Appendix

We cover companies that represent all sectors of the US economy.

Our research team operates in 13-week increments. During the course of that time, we pre-qualify panels, conduct interviews, and publish the data on each company in our coverage. Our analysts publish reports on a small set of companies in our coverage.

For an up-to-date listing of the wRatings coverage, go to www.wratings.com.

4,154 Companies



The wRatings Corporation is a fully independent stock research firm. We do not offer investment banking services and work only on a subscription-basis with our clients to maintain our objectivity.

The research team was originally founded in March 1998 by Gary A. Williams as part of a joint research and sales consulting firm. In January 2004, the research team split to become wRatings.com.

For more information on the wRatings Corporation, go to www.wratings.com.

wRatings Corporation
2325 Dulles Corner Blvd
Suite 500
Herndon, VA 20171 USA

703.788.6532 Worldwide

[wRatings.com](http://www.wratings.com)
members@wratings.com

