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FIRST

SINGAPORE'S FIRST LADY OF FINANCE

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[Strategy]

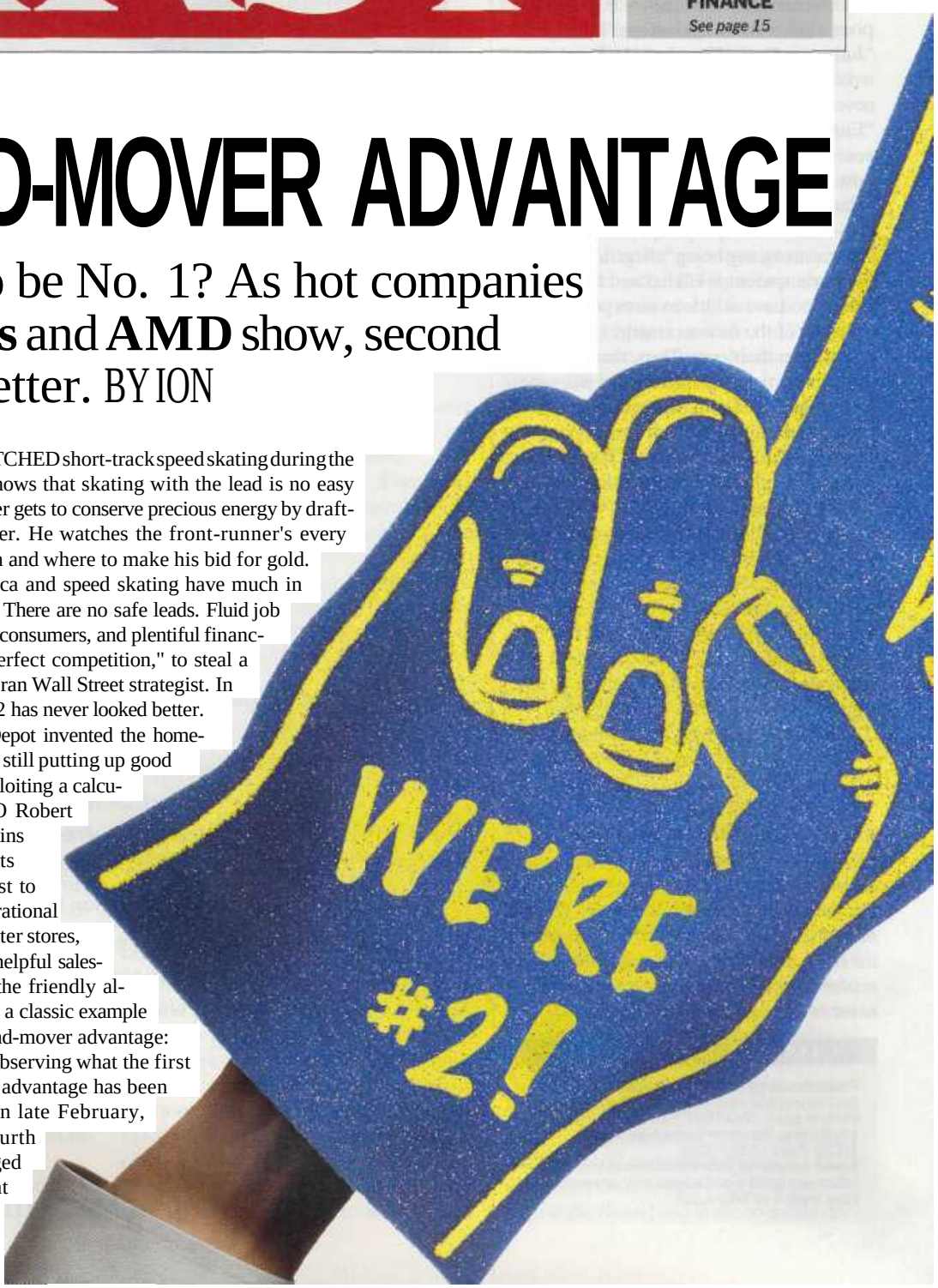
SECOND-MOVER ADVANTAGE

Who wants to be No. 1? As hot companies such as **Lowe's** and **AMD** show, second best is often better. BY ION

ANYONE WHO WATCHED short-track speed skating during the Winter Olympics knows that skating with the lead is no easy task. The No. 2 skater gets to conserve precious energy by drafting behind the leader. He watches the front-runner's every move, gauging when and where to make his bid for gold.

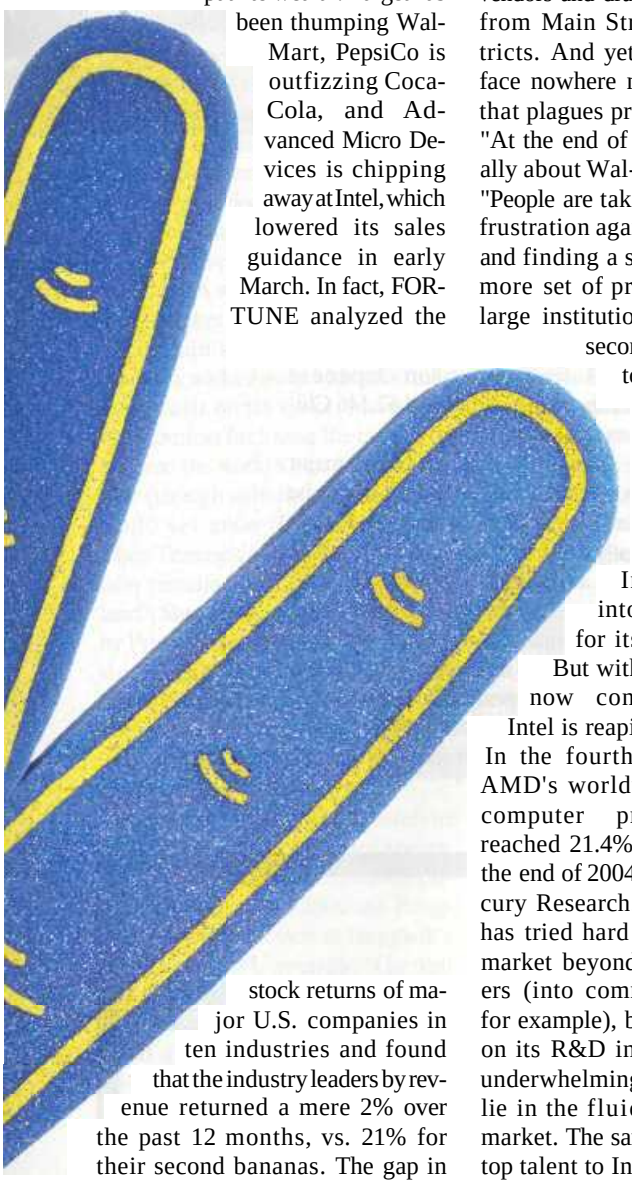
Corporate America and speed skating have much in common these days. There are no safe leads. Fluid job markets, plugged-in consumers, and plentiful financing have ushered in an era of "perfect competition," to steal a phrase from Ed Yardeni, the veteran Wall Street strategist. In such an environment, being No. 2 has never looked better.

Just consider Lowe's. Home Depot invented the home-improvement superstore, and it's still putting up good numbers. Lowe's, though, is exploiting a calculated bet that Home Depot CEO Robert Nardelli made after taking the reins in 2000. He figured that given its size, Home Depot would do best to compete on price, cost, and operational efficiency. Lowe's, with its brighter stores, wider aisles, and arguably more helpful salespeople, has positioned itself as the friendly alternative to Big Bad Orange. It's a classic example of what game theorists call second-mover advantage: No. 2's gain an edge simply by observing what the first mover has done. For Lowe's the advantage has been substantial—and profitable. In late February, Lowe's reported that in the fourth quarter of 2005 its earnings surged 37%—compared with 23% at Home Depot. The stock mar-



ket has taken notice: Shares of Lowe's returned 18% over the past year, to Home Depot's 7%.

Lowe's isn't the only No. 2 making mincemeat of the axiom that investing in industry leaders is the surest path to wealth. Target has been thumping Wal-Mart, PepsiCo is outfizzing Coca-Cola, and Advanced Micro Devices is chipping away at Intel, which lowered its sales guidance in early March. In fact, FORTUNE analyzed the stock returns of major U.S. companies in ten industries and found that the industry leaders by revenue returned a mere 2% over the past 12 months, vs. 21% for their second bananas. The gap in earnings growth—8% vs. 24%—was almost as great.



How did being No. 1 become such a downer? Geoffrey Moore, the management consultant who popularized investing in industry leaders in the 1997 bestseller *The Gorilla Game,* says there's been a backlash against the corporate world's alpha apes. "When I go meet with a company that's No. 1—a Microsoft or Cisco or SAP—one of the things I hear a lot is how mean it is out there," says Moore. "Being No. 1 these days means you become the natural target."

A case in point is Wal-Mart. Target's employee benefits aren't much better than Wal-Mart's, and like Wal-Mart, Target squeezes vendors and draws foot traffic away from Main Street shopping districts. And yet new Target stores face nowhere near the opposition that plagues proposed Wai-Marts. "At the end of the day, it's not really about Wal-Mart," says Moore. "People are taking out a lot of their frustration against the modern age and finding a symbol. It's just one more set of problems facing the large institutional leader that the second guy doesn't have to deal with."

In the case of Intel, the backlash is more than symbolic. For years computer makers bit their tongues as Intel bullied them into paying top dollar for its microprocessors. But with some AMD chips now considered superior, Intel is reaping what it's sowed. In the fourth quarter of 2005, AMD's worldwide share of the computer processor market reached 21.4%, up from 16.6% at the end of 2004, according to Mercury Research. For its part, Intel has tried hard to expand its chip market beyond personal computers (into communications chips, for example), but so far the return on its R&D investment has been underwhelming. The problem may lie in the fluidity of today's job market. The same forces that drew top talent to Intel in the 1980s and '90s are pulling it elsewhere today. Talented young engineers are often more drawn to up-and-coming underdogs such as AMD—as well as to smaller rivals such as Marvell and Broadcom—than to staid old Intel.

Of course, just as in speed skating, AMD will have to make a dramatic move to pass its rival and get to the front of the pack. The question is, Why would it want to?

FEEDBACK *first@fortunemail. com*

LEADINGINDICATORS

A COMPENDIUM OF REVEALING STATS

WEB VIDEO

25 million

Number of videos viewed on Feb. 27 by visitors to video-sharing website YouTube.com. The number has been growing 16% a week since early November, fueled by three- to five-minute home movies and excerpted TV spots. YouTube began running ads on its site last month.

EXPLORATION

6.4

Depth in miles of the Knotty Head prospect, the deepest offshore oil well ever drilled in the Gulf of Mexico, about 170 miles southeast of New Orleans. On Dec. 20 the well, funded by a partnership including Anadarko, BHP Billiton, Chevron, and Nexen, struck oil.

COMMODITIES

$10.22

Closing price for one ounce of silver on the New York Mercantile Exchange on March 2—the first time silver has topped $10 since 1984. On Feb. 2, gold hit a 25-year high. The rising price of precious metals vindicates patient investors like Warren Buffett, who is reportedly still holding over 100 million ounces of silver he bought in the late 1990s, when the price was closer to $5 an ounce.

WEATHER

754%

Increase in volume of futures contracts on New York City weather traded at the Chicago Mercantile Exchange in 2005 over 2004. The notional value of NYC contracts traded last year was $7.2 billion; the total for all weather contracts on the CME came to $36 billion.

EXECUTIVE COMP

$21.5 million

Total 2005 compensation, according to a preliminary proxy filed March 1, for Citigroup chairman Sanford Weill, who stepped down as CEO in 2003. The total includes a $9.9 million bonus, $901,000 to pay some of his taxes, and $525,000 for "transportation." Charles Prince, Weill's successor, earned $23 million in 2005. Citigroup shares were up 1% for the year.

BY OLIVER RYAN

Fonte: Fortune, v. 153, n. 5, p. 10-11, 20 Mar. 2006.