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Definition: companies that possess long-lasting protection against competition. If a company is successful (enjoying above-average profit margins) competitors are attracted that might offer lower prices, new features or more convenience in hopes of capturing Profits for themselves. If the company maintains an advantage over rivals for a long time, then the company has a moat. Most definitions include:

* unique product or service
* efficiencies implemented in its production or distribution
* an unusual quality referred to as a network effect (a situation in which an offering becomes more valuable as more people use it.
* seeks additional competitive advantages to build on existing ones.

Industry matters as certain strategic forces are present. Companies need to successfully combat these threats:

* threat of new entrants
* threat of substitutes
* bargaining power of buyers
* bargaining power of suppliers
* intensity of rivalry between competitors

Strategies companies use to combat these threats:

* Economies of scale With enough order volume (1) they can demand lower prices from suppliers; (2) they can lower costs through more efficient manufacturing & distribution methods; (3) they can spread their fixed selling, general & administrative costs over more sales. These savings result in higher profit margins enabling a price war to force weaker competitors out of business. Then they can raise prices. The food industry is a good example to study. These companies may ultimately reach the "law of diminishing returns." Improvements in very large companies have less impact on profit growth.
* Patents and trademarks Companies with unique products or inventions are protected; however, they must know how to market them.
* Captive customers Companies that develop strategies to attract & keep customers can be very successful.
* Network effect Companies that can grow their services/products enough that many people start using them can dominate the market.
* Brands Companies develop loyalty to their products/services and competitors have difficulty taking away significant market share.
* Intangible advantages or "soft" moats Companies with great corporate culture can retain great talent or may enjoy more productivity from its employees.
* Protection against a drawbridge Evolving technology frequently overtakes established companies. The unforeseeable introduction of a blockbuster product can destroy a company with its head in the sand. Adapting to changing times is essential.

Investment strategies for buying companies with a moat:

* Most of the factors that contribute to a moat aren't easily described by numbers; but the width of the moat can be measured using its weighted average cost of capital (WACC). It reflects how much return a shareholder might demand to justify the company's capitalization. On that basis WACC is a threshold rate to judge the effectiveness of the company's managers.
* Don't overpay for a company with a moat; the biggest profit comes from buying moats on sale.