Is There a Right Way To Talk About Competitors?

Taking time to process the sheer number of private deal sponsors in the investment market can be extremely disorienting, yet many asset managers turn coy when asked about competitors. Their assumption seems to be that providing accurate information about their rivals makes them look less unique or is some sort of self-inflicted injury caused by educating investors about the breadth of available investment options. In my opinion, an unforthcoming approach to discussing competitors is myopic, because prospective investors can quickly and easily get to the truth on their own, so vague answers will typically reduce transparency marks rather than enhance a manager's desired degree of implied differentiation. We have all seen competitive landscapes provided by sponsors that show their lonesome selves in a corner with no other funds around them, as well as heard pitches emphasizing proprietary deal flow, limited auction participation, and pick-of-deal-litter declarations due to a lack of suitors with a comparable arsenal of value adding tools. Although "proprietary deal flow" has many aspects that are subject to interpretation, even uncynical investors recognize that like nature, capitalism abhors a vacuum – today, very few people actually believe there are asset managers that are absolutely unencumbered by competition.

With the premise of the magnitude and likely ferocity of competition in the private assets universe established, there are still some gaping questions that beg for answers. Is there a right way to speak about competitors? Does the way one speaks about competitors really even matter? What explicit or implicit messages are you sending about yourself based on what you say about competitors? The answers to these poignant questions will vary depending on who you ask, but I have attempted to provide some general observations and interpretations below.

- **The Truth Always Works**: Simply and genuinely stating who you compete with for deals relieves the burden of having to weave and remember intricate fairytales. No two manager portfolios will be exactly alike, so telling the truth does not necessarily make your fund look like someone else's. Added detail about why you won or lost deals can be used to show differentiation. For example, if some of your deals initially had multiple interested parties, but you won out because of mentioned (by the acquiree) desirable traits, this added color can help substantiate strategy claims for prospective investors. Of course, there will be inherent selection bias within all deal narratives, but this is acceptable because a GP can only speak on their own portfolios.

- **Venom Can Backfire**: Totally obliterating competitors says more about you than it does about them. Expressed venom about rivals can make a GP look insecure and unable to stand on their merits. The need to viscerally discredit peers under the guise of sharing market intelligence can backfire in unexpected ways. Prospective investors are not only assessing a manager's ability to execute its stated strategy, but are also evaluating emotional stability, maturity and discipline. No one is asking for loyalty to competitors or a kumbaya playing field, but decorum and decency play a critical role when prospective investors are contemplating a long-term partnership.

- **An Aspirational Approach**: Savvy GPs understand that a question about competitors can be an avenue to highlight who/what they aspire to be. Talking about competitors whose success have led to brand name status, longevity, and prosperity, can help cement one's own aspirational philosophies, mindsets, cultures, and success (returns) in the minds of prospective investors. This is a particularly powerful route for emerging managers who have not yet created a tangible or recognizable place in the market. This approach is also a thoughtful way to show that the sponsor is punching above its weight. For example, a venture capital manager, who is not yet a household name, highlighting established managers they aspire to be like, that sit on the cap tables of their portfolio companies, sends an irrefutable message of who/what they aspire to be. To be clear, these depictions have reduced signaling impact if they are not recurring or seem like flukes.

- **The Revolving Door Answer**: Some sponsors express difficulty in developing a straightforward list of competitors because they continually encounter different contenders for deals they seek to close. This is a clever way to sidestep the competitor query because it subliminally conveys the manager's breadth of hunting grounds, opportunistic methodology, and dexterity of strategy. Interpretation of this can go either way – it can show a flexible manager who is unique in its market approach, or an unfocused manager who blows with the wind. This approach typically resonates if the manager is able to illustrate that a disciplined focus on deal attributes is what drives its strategy and not a mere lack of competition.

I don't think there is a prescriptive textbook right way to answer questions about competitors. Questions around competition are typically asked early in the meeting or due diligence process, so I would argue that the way it is answered holds some gravity when combined with information from other initial interaction probes. Regardless of how individual prospective LPs weigh the specifics of a sponsor's description of its competitors, conversations around competition will undoubtedly reveal relevant data points about transparency, maturity, confidence, emotional stability and discipline.

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