



Primary Research Checklist

“The business grapevine is a remarkable thing. It is amazing what an accurate picture of the relative points of strength and weakness of each company in an industry can be obtained from a representative cross-section of the opinions of those who, in one way or another, are concerned with any particular company”

Phil Fisher, describing the Scuttlebutt Process in *Common Stocks and Uncommon Profits*

“When I started out, and for a long time, I used to follow Phil Fisher’s scuttlebutt method. And I don’t think you can do too much of it”

Warren Buffett, 1998 Berkshire Hathaway Annual Shareholder Meeting

The value of primary research

Speaking to people who have years of direct, practical experience can be deeply valuable to develop an accurate understanding of a company. Experienced operators typically understand their industry and their business better than anyone. Speaking to business operators can also be a source of differentiated insight.

Phil Fisher popularised ‘scuttlebutt’ as a process to build knowledge on industries and businesses by collecting facts and opinions about industries and businesses from a variety of independent sources including competitors, customers, suppliers and former employees. This research process is crucial to building a balanced and holistic picture of any given situation. Ultimately, this is a journey in search of truth, harnessing the experience of people who know the industry and business deeply.

Over the last six years, we have conducted over 2,500 hours of primary research interviews with former C-Level executives and senior managers. We believe we have made almost every conceivable mistake one can make interviewing executives. The In Practise process for primary research is borne out of years of trial and error. The following checklist contains the key questions we focus on at each stage in the research process and is designed to increase the likelihood of obtaining high quality outcomes when conducting primary research interviews.

Pre-interview

Preparation on the business

- Do I understand how this business fits into the value chain? Who has power in the value chain? Why? How could this change?
- Have I written down in simple sentences what I believe are the core drivers of intrinsic value for the company? What else do I *think* is important?
- Do I understand what I don’t know?
- What information and metrics are reported by the company?
- What is missing from the company filings that would be helpful?
- Have I read the competitors’ filings to benchmark metrics?
- Do I understand the unit economics of the business?
- Do I understand the bull and bear case for the company?

Finding the right executive and understanding their competencies

- What were the executive's key responsibilities and who did they report to?
- How exactly did the executive spend their day-to-day at the company?
- How has the executive's career progressed? How did they rise through the ranks of the business?
- How does the executive's role at the company relate to their previous and current role? Are they roles in a similar industry or function? If not, why?
- What exactly is the executive's circle of competence?
- Does the executive understand the company from a shareholder's perspective or is their understanding limited to their specific role within the company? What kind of operator is this executive?
- What is the executive's worldview? Through which lens does the executive look at the business and industry?
- On what terms is the executive with current management? Still a shareholder?

Interview

Building trust

- Does the executive understand who I am and what my motivations are?
- Have I been clear about what I'm trying to achieve?
- Have I sent the executive questions and required materials in advance to help them prepare for the interview?
- How do I build trust and respect with this particular executive? How can I quickly build a sense of kinship? What can I share with this executive to increase the mutuality of the exchange?
- Which questions do I think the executive will be least comfortable addressing and why?
- How can I sequence my questions most effectively to make the executive comfortable?
- How can I get a sense of the integrity of the executive's opinions?

Asking questions

- Why does this question matter? Does it fit within a productive line of questioning?
- Is there a simpler way to ask the question?
- Am I clear about the assumptions am I making by asking this question?
- What is the most effective line of questioning? Open-ended, indirect, direct?

- Am I pushing my own agenda with this question? Can I put my views to one side in the early stages of conversation and be guided by the executive as to what is important?
- How is the executive likely to answer this question? What would be an effective follow up? Do I know enough to challenge what I think would constitute an unsatisfactory answer?
- If the executive answers X to Y question, what are the second and third-order effects of X or Y?

Post interview

Synthesis

- How does my understanding of the core drivers align with what the executive thinks really matters?
- What new information about the company did I learn? How does this information compare to what I have learned from other executives in the industry?
- What facts are common knowledge in the market?
- What opinions did the executive have about the core drivers? How do these opinions compare with consensus?
- How could the biases of the executive influence their view? How should I handicap the opinions of the executive after considering their biases?

Further research

- Do deeply understand what is important and not important about the drivers of this business?
- Am I looking in the right place for insight on the key drivers?
- What opinions or views do I need to sense-check?
- Which type of person could sense-check or provide a different perspective to the executive?

Interviewing operators: some common pitfalls

Pitfall 1: Lack of preparation, leading one to Focus the conversation on variables that do not drive the long-term value of the business. Its way too easy to read a few sell-side notes and think oneself ready to drive a meaningful conversation!

Solution: Resist the temptation to seek expert opinion before you have conducted enough independent preliminary research to form your own assumptions of the core drivers of the company's intrinsic value.

Pitfall 2: Overconfidence in one's own views of the core drivers of the business after preliminary research, leading to time wasted pursuing dead-end lines of inquiry in conversation.

Solution: Treat the results of your preliminary research as assumptions to be tested in conversation with operators. Listen deeply to what experienced operators say about which variables they think drive a given business.

Pitfall 3: Taking job titles at face value. A failure to deeply understand the executive's circle of competence can lead one to ask questions which the operator is not well-placed to opine on.

Solution: Invest time in understanding exactly what the operator's day-to-day job involved and what he/she was accountable for, so you can focus the interview on the areas of the executive's deepest expertise. This is essential to building trust and mutual respect which in turn opens up the flow of information between two people.

Pitfall 4: Opening with confrontational or controversial questions.

Solution: Sequence your questions so as to guide the speaker to more controversial questions once a basis for mutual respect has been established. Investing time in building trust and kinship with the operator at the beginning of the exchange can materially improve the quality of the conversation.

Pitfall 5: Failure to recognise that operators often think differently from investors, and not clearly communicating up-front what a great outcome of the conversation would look like for you.

Solution: Be as transparent as possible at the beginning of the conversation about what you are looking to understand and what outcomes in conversation would look like success for you.

Pitfall 6: Being biased or unbalanced in our line of questioning, pushing an agenda.

Solution: It can be very tempting to think we have all the answers after doing a lot of work and speaking to multiple operators. Having the discipline to get out of our own way and take a genuine interest in the executive's view when they disagree with us can be very fruitful. A confrontational stance tends to degrade the conversation and impede the natural flow of information. Try to work with the executive in conversation, taking a genuine interest in the assumptions underpinning their views and why they hold X or Y opinion.

Pitfall 7: Asking 'clever' questions. We have all been on management calls where an analyst asks about some arcane aspect of a line in the income statement. It's tempting to formulate challenging questions in an attempt to impress the operator you are interviewing with your knowledge.

Solution: We can set ego aside by reminding ourselves that the point of the conversation is not to prove how clever we are, but to learn something new. Do deep preliminary research, form independent views on what matters, and prepare to be guided by the executive. Simple questions go much further than we often anticipate.

Pitfall 8: Asking leading or narrowly framed questions thereby constraining the operator's ability to express themselves. People tend to ask leading questions to confirm a prior belief, forgetting that the purpose of research is to learn something new.

Solution: Opt for open-ended questions as part of a *line of questioning*. An effective line of questioning typically begins with an open question followed by deeper, more detailed questions that probe in more specific areas. By forming an effective line of questioning with "why" or "how" questions, and then narrowing deeper into more specific questions around current or future potential scenarios, we can focus on unearthing timeless principles about how a system works.

Pitfall 9: Falling prey to authority bias. We tend to attribute greater accuracy and weight to the opinions of those with greater authority in a subject.

Solution: Maintain a healthy dose of skepticism. Prepare beforehand and ensure you know the long and short side of the story so you can deeply (and constructively) question the operator's views. Get deep enough in conversation to understand the assumptions underpinning the operator's views.

Pitfall 10: Failing to listen deeply.

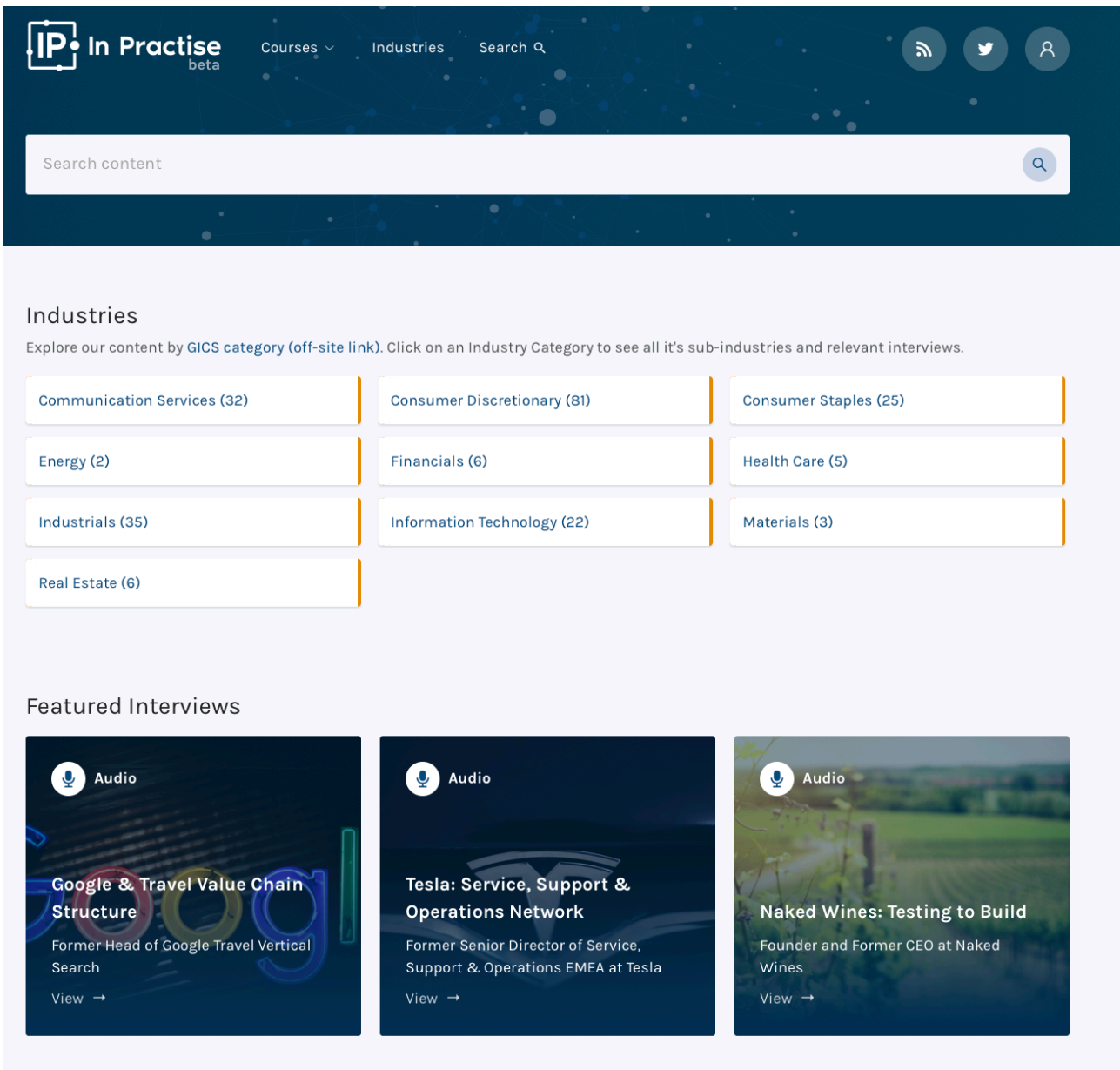
Solution: Preparation. It's far easier to actively listen if you've done the work beforehand and have a firm understanding of the core drivers of the business. Get comfortable with silence. Give the operator time and space to think things through.

Pitfall 11: An unprepared speaker.

Solution: Share a full list of questions with the operator in advance, giving them a chance to reflect on the topics you care about. An operator who has had time to reflect is typically more relaxed. This increases the chances of reaching a state of flow in conversation.

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Founder and Former CEO at Naked Wines

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