Surviving the corporate endgame

Mergers and acquisitions (M&A) are no longer an option but a necessity for big organisations to survive the corporate endgame, while smaller companies survive by being niche players, according to management consulting firm A T Kearney's Eastern Europe managing director Andrej Vizjak.

Last year, Malaysia accounted for 35% of the total M&A conducted among the four "Asian Tiger states", worth some US$13.6 billion (RM44.2 billion), according to A T Kearney research data.

The other three were Singapore (56.5%), Indonesia (5.8%) and Thailand (2.3%). Major acquisitions made locally the last 10 years were in the banking, oil and gas, consumer goods and electronics sectors.

Vizjak: Companies need to find a balance between sales and growth

Vizjak says industry concentration has changed the global economy and thus, traditional approaches cannot be applied anymore. Economies of scale are no longer the key advantage of large companies, but their acquisition power is.

In order to find out if an acquisition is the right choice, an organisation needs to discover where it stands among global competitors through scale profile position, which is one of Vizjak's six growth imperatives. He uses the Rubik's Cube to portray the six imperatives, which he terms the "growth cube".

Here's how the scale works: a company is considered a big industry leader when it is in the top three companies worldwide in terms of annual sales. "You are either an industry leader (big or small) or follower (big or small)," Vizjak says.

He gives as an example the top three companies in the media industry — AOL Time Warner Inc (US$44 billion), Walt Disney (US$34 billion) and General Electric (GE)/Vivendi Media (US$28 billion), which made up 23% of the global media industry in 2006.

Vizjak, who was executive vice-president of German publisher Bertelsmann from 1995 to 2000, reveals that when Bertelsmann sold its America Online Inc (AOL) shares, it made a lot of profit but lost its strategic strength.

"AOL wanted to merge with Bertelsmann, but because of Bertelsmann's ownership structure, they could not do so; the owners said they were not interested," Vizjak tells Manager@Work in an interview.

"In 2000, AOL merged with Time Warner, which at the time was No 1 in the industry. Bertelsmann was No 2. Had the company merged with AOL, Bertelsmann would have become No 1."

It's not just about annual sales, however. "Companies need to find a balance between sales and growth. A company that is a small industry follower may consider a more moderate growth of sales," says Vizjak.

A company would then need to review its growth direction, where it could either concentrate on a multi-business niche or take its niche products regionally or internationally.

Vizjak illustrates this theory by using Bertelsmann as an example. "For me, they have to go with international product niches. They have a new CEO [Hartmut Ostrowski] who is four months into the business, and for me he has several options.

"Because his background includes industrial services, you can define the industry like a media service industry. Then you compete in America with Donnelley, and in Asia with Dai Nippon and Toppan. In Europe, they have the leadership position. So, they could focus on this fast growing industry so that they end up as one of the top three global leaders of this industry."

Another option for Bertelsmann would be to stay in the international product segment they are in and develop these into international niches. With Random House as its book publisher, Bertelsmann could expand its 15% global market share.

Vizjak cites Proton as a company with a regional niche and reveals the feedback he received from Malaysians, who said that Proton's maintenance cost is higher than that of other cars while the purchasing price is not low enough to compensate for its high maintenance cost.

"National protection enables Proton to have a regional niche but the question is, how long will this niche last?" he asks.

"My niche strategy is different from the Blue Ocean Strategy, which talks about developing a value chain and building on factors that nobody had previously done," says Vizjak, who wrote *Growing Niches*, which was published in 2006.

"We work in industries that are already defined. Blue Ocean tries to find new industries. For me, 90% or 95% of the world runs in established industries. You can escape the trend with the Blue Ocean Strategy but only at the beginning of the phase because others will then follow, making it a defined industry."

Once the growth direction has been identified, a company would then need to leverage its unique growth capabilities, basically what makes it stand out from the rest.

Following on from there, it would apply the right growth path, whether singular or a combination of acquisitions, mega mergers, cooperation and organic growth, depending on how much a company is able to invest, and the challenges faced when implementing these growth paths.

The last imperative for a company would be to adapt by deciding whether to centralise or decentralise its functional units. Vizjak cites leading German daily *Süddeutsche Zeitung* (SZ) as an example.

"It [SZ] built two divisions: Internet and newspaper. Because they still sell the newspaper, they were competing; the newspaper division would not give for free the information that would otherwise be free on the Internet," says Vizjak.

"So they brought back a central manager who determined which information would go through the Internet and which would go through the newspaper. To me, centralisation is important, especially for smaller companies."

Vizjak's theory on growth can be found in his latest book *Competing Against Scale*. ■