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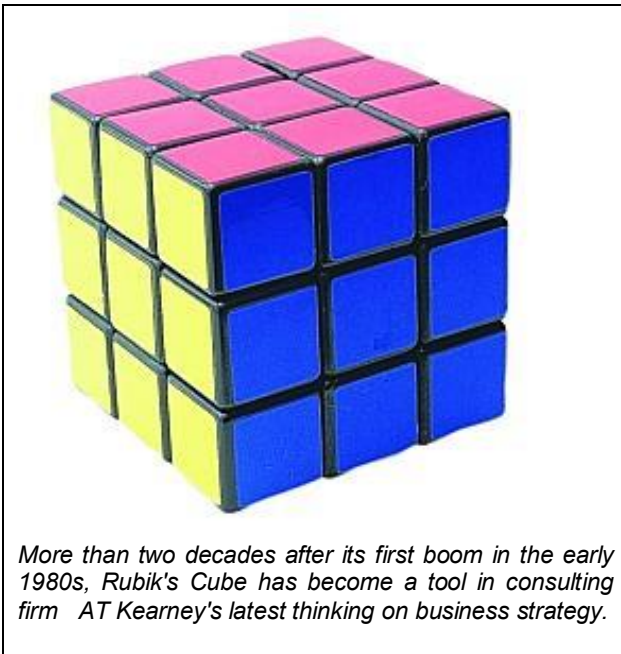
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Back to the future: Size matters to long-term success

Scale begets acquisition power, which is the new competitive edge

By ANNA TEO

(SINGAPORE) More than two decades after its first boom in the early 1980s, Rubik's Cube appears to be back, with a new era of youngsters twisting away towards coloured alignment, solving it more quickly than before. It has also become a tool in consulting firm AT Kearney's latest thinking on business strategy.



Each colour of the cube represents one of six golden rules or imperatives of what the firm calls 'scale-based competition' - the idea that scale (or size and dominance) is the basic starting point, indeed prerequisite, for long-term success.

According to Andrej Vizjak, vice-president and managing director of AT Kearney's Eastern European operations, scale translates to acquisition power, which today is a far more critical competitive advantage than new products, quality, productivity, service or speed.

Dr Vizjak, who is based in Munich, led AT Kearney's research on industry concentration, mergers and acquisitions, and niche strategies that spawned its latest theory. The research gathered data from some 10,500 companies around the world, each larger than US\$100 million in market capitalisation.

Dr Vizjak has written a book on the findings, *Competing Against Scale*, which was originally

published in German in 2006, and has now been released in English.

In town recently to talk about the book, Dr Vizjak says the growth cube framework - which helps companies define strategic priorities - has particular application for East Asian firms, many of which lack scale, and hence acquisition power.

'Our large sample of companies could not prove that the biggest companies have better returns on investment or other success indicators than the smaller ones, but we could prove, industry by industry, that it's a question of scale, of acquisition power,' he tells BT.

'The rules of competition are defined by scale - either you have the larger scale, you can play this acquisition power, or you don't have it and you have to think about where is the place for you. Either you'll be swallowed by big companies or you find a specific profile which enables you to compete against the big ones.'

He adds: 'If you want to play the game in the long term, you have to play the scale game, but it's not economies of scale, it's not the cost advantage you built. It's just the acquisition power, so that you stay one of the top three players in the market, and you are having this critical mass to play the big players' game. Or you grow fast enough in a specific niche which is protected by the niche.'

Small and medium-size companies in Singapore and Asia need to build unique product competencies and develop novel product niches, 'and by acquisition, on several continents, build critical mass in sales to bring the new product or new application to global scale', he says.

'If they stay in the regional or South-east Asian market, it's a time window of 10 years? And this region will not give sufficient protection.'

Citing an example, Dr Vizjak asks: 'What is Sony's advantage over Nintendo? It's not the product differentiation, it's not the brand value. It's just that Sony is so much bigger. Even if it has a few bad years, Sony will still have the power to go on and to grow. Nintendo is 10 times smaller; it can have the better product, but it will stay in its own league. Sony can (go into the) media biz, the electronic business, video recorders game; Nintendo will stay in the product niche it developed. Both can stay long term in the same market but they have different roles.'

As for the cube, each face spells out the path to take: Starting with green - position your scale profile. Then, white - benchmark your scale profile. Yellow - review your growth direction. Blue - leverage unique growth capabilities. Red - apply the right growth paths. And orange - adapt your organisation.

According to Dr Vizjak, companies can respond to each of the six 'rules' using various initiatives for each step.

A.T.Kearney's analysis found 4,096 potential growth cube combinations - or possible measures. That's a mere fraction of the billions (actually, trillions) of possible permutations for a standard-size Rubik's Cube.