Cultivating Value

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Thoughts From Tom

Twenty years ago, the markets for small and medium sized businesses were practically limited by two key factors, geography and information. The incredible and sweeping changes that have occurred since then from both geopolitical and technology perspectives, obliterated those barriers. Accordingly, today every business should fully and objectively evaluate the opportunities and threats that these changes present and develop and enact strategic action plans that will provide the optimum potential benefit and the most comprehensive protection.

Tom.

Thomas P. Benson, CPA, CFFA, CVA, Managing Director of the Vineyard Group, LLC, at the Forbidden City in Beijing, China, during a recent client assignment.

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Leaders are made, they are not born. They are made by hard effort, which is the price which all of us must pay to achieve any goal that is worthwhile.

- Vincent T. Lombardi

For those of you who have survived startup and built successful businesses or have bought a company which is successful now, you may be wondering how to take the next step and grow your business beyond its current status. Choosing the proper one (or ones) for your business will depend on the type of business you own, your available resources, and how much money, time and sweat equity you're willing to invest all over again. If you're ready to grow, we're ready to help.

1. Form an alliance.

An alliance is a business relationship in which firms combine complementary strengths and share risk by pooling financial, physical, and personnel resources regarding a specific business venture; each firm remains a distinct entity, separate from its strategic alliance partner.

Strategic alliances are undertaken because of the globalization of the business environment, often coupled with an accelerating pace of technical change, and of the resulting pressures that challenge the limited resources of the individual firm.

The types of strategic alliance and alliance parameters are limited only by the imagination of the partners.

Some of the more common types of alliances include:

♦ **Pooled Purchasing** - firms combine separate purchasing volumes to increase their leverage on suppliers;

♦ **Supplier Partnering** - alliances between a firm and its suppliers to boost quality, reduce cost, and increase speed by establishing long term relationships; enables a supplier to develop the desired parts or services at a specified level of quality or cost;

♦ **Investment Alliance** - alliance that occurs when two companies agree to joint their funds for mutual investment;

♦ **Distributor Partnering** - alliances between a firm and one or more distributors to provide access to new markets or strengthen a position in existing markets.

> Star Alliance involves more than a dozen carriers. Member companies were able to offer passengers a choice of more flights, better connections between destinations, and consolidated frequent-flyer miles. This has helped many of the partner airlines bypass existing legal and regulatory restrictions on international consolidation as well as boost revenues. According to one estimate, the participation of Germany's Lufthansa Airline in Star Alliance was responsible for an estimated $250 million in incremental annual profits between 1999 and 2001.

But, remember, in order to be successful, an alliance must benefit all members sufficiently to both entice them as well as maintain a strong level of interest and working cooperation throughout the entire term of the alliance. Failure often occurs when the alliance's business is viewed internally by one partner as competing with or not in the best interest of that partner's business.

> An example from which we can learn is the alliance of IBM, Apple and Motorola to create a new PC chip to compete with Intel and Microsoft. IBM was so embedded with Intel chips that the management of IBM's PC division viewed the alliance as a competitor. IBM eventually withdrew from the alliance.

How to Expand Your Business

2. Diversify.

Diversifying is an excellent growth strategy, as it allows you to have multiple streams of income that can often fill seasonal voids and, of course, increase sales and profit margins.

General Electric is often held up as an example of a successful, diversified company. GE's empire stretches from light bulbs to aircraft engines to complex financial products.

On the other hand, many other companies have ventured into new businesses and failed. For instance, Philip Morris, which is known for its tobacco and alcohol products, couldn't make the most of its Kraft Foods division and spun it off in an initial public offering.

Having multiple product lines may allow a growing business to diversify risk and capitalize on its established reputation. And the number of product items in a product line can attract buyers with different preferences, increase profitability thanks to market segmentation and, for some businesses, even out seasonal sales patterns. Adding new products to your existing product line can also help you compete more broadly in your industry.

On the downside, there's the potential for overextension, new products may cannibalize sales of older ones, or your resources may be disproportionately siphoned off for slower-moving products. Of course, that's where the principle of planned obsolescence comes into play. It's no accident that each time Hewlett-Packard and Canon introduce the latest incarnations of their desktop printers, the older models with fewer features become less desirable and eventually obsolete.

3. Target other markets.

Your current market is serving you well, but are there others? Two important factors have to be considered when selecting a market: its attractiveness and its fit with the firm's objectives, resources and capabilities.

The explosion of personal computers came as a shock to IBM. When Apple's personal computers first came on to the scene, IBM did not take them seriously as they were still heavily committed to main frames. Then, they realized the growing need in society for the individual to be empowered.

4. Merge with or acquire another business.

A merger or acquisition combines the best of two companies, expands your customer base, increases intellectual capital and delivers operational efficiencies. The trick is finding the right partner.

In a true merger, a new corporation is formed that combines the assets of the two companies and grants the shareholders of each original company stock in the new company based on the relative valuations of the two original companies. Famous examples: ExxonMobil, AOLTimeWarner...

In an acquisition, one company purchases the assets and majority ownership of the other company for a combination of cash, stock, and other consideration.

One of the latest acquisitions in the news: U.S. Steel Corp., the nation's biggest steelmaker, has agreed to acquire Stelco Inc. for $1.1 billion in cash to fend off increasing competition from China and gain processing capacity for its excess iron ore.

Some keys though: you have to share the same vision of what it is you're trying to build, have flexibility and the same corporate culture. The staid, non risk-taking Japanese company Matsushita and the entrepreneurial MCA merger clearly shows the clash of cultures.

5. Expand globally.

Growing markets, rising consumer spending, improved business climate--sometimes the only place to find these things is overseas. Doing business internationally can take the form of exporting, licensing, a joint venture or manufacturing, but whatever form you choose, the same basic business rules of assessing customer demand, gaining legal and accounting assistance, protecting intellectual property and obeying regulations apply.

10 years after the NAFTA went into effect, Mexican brands such as Jumex and Corona are doing just fine—in the US. These companies read the numbers emerging from growth of the US Latino market, and understood their future lay not in Mexico, but in the US, taking into consideration the growing percentage of Latinos in the population, their young age and their purchasing power. The rise in status of the US Latino demographic couldn't have come at a better time for Mexican brands.