

# Looking Forward...

## An Alternative Growth Strategy

From Teri Gerson



Today's rapidly changing economic climate demands, more than ever, creative and adaptive strategies to deal with an uncertain future. We are all bombarded with opinions, theories and bromides from the media, which try to explain where we have come from and where we are going. I believe that the pertinent answers for us can be found by looking at the results of our own past strategies. In hindsight, did they work? Were the results as good as expected? Was there a more efficient, or cost effective way to have achieved our goals? Would we repeat the actions we took if we had it to do over again, and if not, what would we do instead?

I read an item on today's ELFA e-news, which prompted me to review M&A as a growth strategy. For the last decade, companies have turned to acquisitions and mergers in order to either achieve or sustain growth. In the more distant past, the pendulum had been swinging towards organic growth. Experts on both sides of these practices have lots of statistics and theory to support their positions. Perhaps the best practice is a compromise between the two. Rather than acquiring an entire company, portfolio, or division, in some instances, it would be more productive, less risky, and provide faster and a higher ROI to pick and choose smaller pieces of the pie. How often have we watched as great companies were decimated through M&A's where cultures clashed, or when what a company thought they were getting didn't turn out to be what they ended up with? It's a huge undertaking to blend two companies and it is frequently less successful than anticipated, if not disastrous. Here's a partial quote from the ELFA e-news I referred to that indicates growth through M&A's has not been as productive as many thought. "...evidence shows that M&A deals actually diminish shareholder value. A recent analysis of 175 mergers showed that sales growth decreased by an average of 6 percent and shareholder value creation dropped by 2.5 percent. In most cases, the acquirers also saw their risk profiles and cost of capital rise. ....a recent Brilliont study links organic growth efficiency with the creation of shareholder value. The study reviewed the financial performance of all Standard & Poor's 500 companies between 2002 and 2007, ..... Companies with a consistently high organic growth efficiency were more likely to record higher shareholder returns. Although major companies have more cash to invest in organic growth efforts, smaller organizations can be competitive by spending their money efficiently. Over a few years, companies can improve their organic growth efficiency by 10 percent, possibly resulting in millions of dollars in extra revenue."

After reading this piece, I thought about how leasing companies have chosen to

address talent acquisition and deployment during our current "circumstances". Some have applied the brakes, deciding that no action is the best action. Others continue to conduct searches to fill critical need openings, but are not implementing growth strategies. Forward thinking firms (almost always the smaller companies, where the freedom to change is not hampered by regulation or bureaucracy) have been energized by the unique opportunity emerging from the crippling circumstances larger companies and bank owned leasing firms find themselves in. In my recent Annual Leasing newsletter, I mentioned a client of mine who just hired an entire niche specialty team that I presented to them. They acquired 6 people with in depth knowledge of credit profiles, rates, documentation, structure requirements, competitors, asset remarketing ability, and other vital information who walked in the door with deal flow from day one. My client gained all of the unique experience this particular vertical demanded, as well as existing relationships and a team they could rely on to transition their business. They were able to perform due diligence on each team member in order to ensure past performance and verify the accuracy of the information they were provided. Although there is never a risk free action, this represented a remarkably safe move. Once extensive conversation confirmed cultural fit and my client was able to commit to providing the necessary platform the team's business required, little was left to do other than print their business cards.

There is more than one way to pursue the team concept. The example I gave a moment ago is referred to as a "lift-out". Other companies have elected to assemble a team of experts from various companies all of whom possess specific niche expertise. This approach opens the parameters in order to target the best talent the entire industry has to offer. In some cases, clients want to enter a niche but don't have the necessary internal expertise. In other cases, they may want to expand their position in a market they are already active in by grabbing the best from their various competitors. This is particularly effective because it simultaneously provides "A" talent to lead the charge and depletes competitors of their top performers. Of course the acquiring company has to have something attractive to entice successful people to join them. It is truly survival of the fittest, where "fit" means being creative, nimble, possessing insight, and the heart to act.

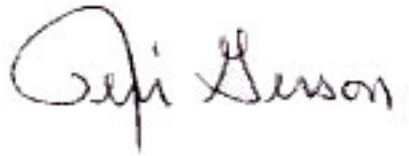
I have put many groups together over the years, and frankly, I am always puzzled why more companies don't pursue this hybrid of organic growth combined with acquired growth. Now, more than ever, the business leaders who have the vision to find opportunity created by bank contractions, the credit crunch and subsequent liquidity issues, will lead the followers out of this morass and clean up in the process.

When I wrote my newsletter, I was focused on personal priorities, and for the first time since I began sending newsletters out almost 20 years ago, I didn't discuss business strategy. I surprised myself. It was personally a meaningful exercise that I feel has enhanced my life, and I'm glad I took notice of what really matters to me. However, I should have known my business mind wouldn't take much of a vacation!

I'm curious to know if you think I should create a blog on my website where we can bandy ideas back and forth. Please let me know your thoughts.

Here's to meeting the challenge and winning! Good luck in 2009!

With warm regards,

A handwritten signature in black ink that reads "Teri Gerson". The signature is written in a cursive, flowing style.

Teri Gerson

