

Global stock market upheavals benefit South African fire and security industry

Daniel E. Lach, *managing director of Beaufort International LLC, comments on the impact of fluctuating global stock market values on the South African fire and security industry.*

IN EUROPE and North America these days, there's a familiar joke going around. If you had bought £100 worth of Marconi shares a year ago, you would have £4 left. In the United States, if you had bought \$100 worth of Worldcom shares at the same time, you would have \$1 left.

But in the Scandinavian countries, if you had bought the equivalent of R100 worth of milk, drunk it and then returned the empty bottles to the shop (to reclaim the environmental deposit) you would be a lot healthier and still have R22 remaining. The moral is, "humble activities often yield better results". And in this day and age, so goes the truth about the value of small and medium sized privately held businesses in the South African fire and security industry.

Why is this so? In the case of Worldcom and Marconi, the value of these companies was destroyed by the same great error. Foolishly, they believed in the fantasy that by grossly overspending on the acquisition of emerging businesses with high costs, no revenue and no proven market they could still increase the size and profitability of their existing business, not only massively, but overnight as well.

South African companies rarely embark on such a risky path. Why? Largely because they are not driven by people with a short-term mentality, nor are they deluded enough to believe that such a rapid transformation of their own operations is feasible or practical.

The common sense possessed by private businesses in general is now being increasingly seen as a goal to aspire to by many publicly traded global companies, be they large or small.

And how will large international companies achieve this goal? By diversifying their expansion efforts through the acquisition of smaller, well run businesses that have a

proven track record, instead of targeting one large 'go for broke' deal that may have held attraction in the past.

What is the impact of this change in multinational strategy to the South African fire and security industry? Simply that from now on, companies that operate in a growing market where overheads are competitive will be more and more attractive and valuable, regardless of the turmoil in global values thrashing around them.



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And how can South African companies increase their value to the big multinationals? Well, largely by illustrating their ability to expand in related markets that they understand. These may include acquiring other operations in neighbouring geographic areas or consolidating (merging) amongst themselves to reduce costs, strengthen their capital base and increase market share.

In any case, South African businesses and business managers that have proven their ability to tread a disciplined path will see greater opportunity for reward and recognition among larger global companies that are now 'cleaning house' within their own operations.

Eventually, these multinational businesses will look towards smaller players within the industry to provide the new breed of leadership to help in implementing a long term, practical approach to growth. It is often through the acquisition of smaller companies that fresh management blood is injected into the heart of larger operations. Such infusion is rarely seen as threatening to others within a large company. However, the innovative and fresh approach such people bring to the organisation will become increasingly noticed in the vacuum created during the 'middle management purges' that are taking place in all multinationals around the world today.

Any more good news? Yes. nowadays, no well run business is too small to be noticed. In the past, lack of size (in terms of staffing or turnover) meant that you probably 'fell below the radar screen' of most multinationals. 'Small deals are just too insignificant to bother with' was the mantra. Now 'small is beautiful' is the key. Translation? Today, even a relatively tiny operation with a good track record will be closely scrutinised by larger organisations that need the continual influx of new

products and services so they can grow successfully on a global basis. After all, the strength of any major company is in its widespread distribution capabilities. And the most important factor needed to make best use of this strength is the supply of innovative new products and technologies that South African companies are well positioned to provide.

Of course, it is in the best interest of smaller companies to maximise their profile within the industry in order to ensure they are not overlooked when a potential suitor comes courting. How? Well certainly not by spending tremendous amounts of money in advertising and promotion. ■