



Restructuring ■ Acquisitions ■ Sales Leadership

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12 Dependency the Paradox of Growth

Almost all businesses from time to time, hit the dependency issue - over dependent on a large customer, on a large supplier, on a market segment, on a government contract or on a technology platform.

The story of [Trinity Industries](#) is a case in point. Its shares trade around \$11 well below net tangible assets per share of \$17. The shares have dropped around 68% over that last 15 months. Trinity relies on rail-car manufacture. Around 36% of its revenue of \$3.9 billion comes from this source. In 2000 it claims its reliance was as high as 60% of revenue. It has made strides to diversify into rail-car leasing, wind turbines, construction equipment. As the cargo sector has been put under severe stress with the downturn so the fortunes of the company has suffered. Dependency can lead to pain.

[Anchor](#) in Canada has sales of around \$129m and is dependent on the automotive industry. Approximately 85% of its sales were tied to that sector and now it's down to 70%. It has taken 5 years to drop 15%. It now supplies the wind turbine industry, medical, mining, and construction sectors. Evidence suggests that many didn't make the switch to non-automotive sectors in time; perhaps up to 60 suppliers have gone bust in recent times.

Britain's naval shipbuilders and designers are looking to diversify into other markets and target international opportunities in perhaps army and air force sectors around the globe. As the CEO of the JV between BAE Systems and VT Group said last June, we need to reduce our dependency on a single customer!

Equally dangerous is the reliance on one key supply chain. In regulated industries, approvals of new suppliers can take months further putting pressure on the one supplier model. Insurers such as Zurich Financial Services are starting to offer insurance against disruption of the supply chain.

Even large successful companies can fall into a reliance trap. Thomson's acquisition in April 2008 of Reuters diluted down the dependence on Wall Street and the City by bringing in strong tax, legal and scientific databases. However Wall Street and the City still account for 60% of sales and around 50% of profits.

Owners of private companies need to understand the massive long term impact of these dependencies. That large order is great for cash flow but there is downside unless key strategies are deployed. Left unchecked, it is easy to let that one customer dominate your sales line for the next 5 years. Your culture, your identity and your margins are then shaped by the actions of that one large customer. I've



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seen large customers dominate the R&D strategy of private companies. I've seen a sales culture turn to a "farmers" mentality instead of maintaining a balance of "hunter" type sales folk going after new business. If you are not careful your intelligence gathering is diluted, as you lose your independent thinking. You see things through the eyes of your biggest customer. This is common in the software world where many small private players become dependant on a few customers or technology platforms e.g. IBM, Apple, Oracle, Microsoft.

Use dependencies to grow your business quickly. Use large customers as testimonial, showcase sites to help you win further landmark clients. Let key supplier relationships create stability to allow you to put in place more strategic supplier partnerships.

Learn from your dependencies quickly and build a more diverse, sustainable business using these special relationships as a springboard for more success.