CORPORATE TRANSFORMATION SERVICES
FROM THE INSIDE OUT

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Press Review: Fall Reading

No business model is immune to change

The necessity for transformation is not limited to long-established companies with out-of-date business models (although they certainly need it, too, as Sears' recent bankruptcy has shown). New companies that have grown rapidly may lack the right operational structure to support a large and maturing business, while successful organizations must remain flexible to keep pace with changing customer expectations.

The following articles examine a variety of reasons for change and how companies are dealing with it – plus one that left it too late.

Struggling Tencent seeks to heal internal rifts

Tencent, the technology giant, has fallen out of favor with investors and lost the title of China's most valuable company. Its shares declined by more than 40 percent between January and mid-October, and the company has begun a reorganization designed to "prevent the sluggish bureaucracy and silo culture that have sapped Sony in Japan over the last 20 years," according to the *Financial Times*.

Tencent owns WeChat, the Chinese social media and messaging app that boasts more than one billion accounts, which now enables its users to order cabs and book doctors' appointments. Despite WeChat's ubiquity in China, Tencent is facing a number of issues: Chinese government restrictions on gaming, which have hurt profits; competition from a new video sharing app called Douyin; and a weaker position in cloud computing than rival Alibaba, the newspaper reports.

Its success is starting to flounder because a culture of fierce internal competition and a focus on products "has spawned tight silos that hamper the sharing of data, ideas and even – at times – lines of code," says the *FT*. Rather than collaborate and look at opportunities for cross-selling, teams closely guard their proprietary technology. Now, Tencent has reorganized itself into six divisions rather than seven, and aims to end such splits between teams. It has also set up a committee to foster technology sharing across the company. Two other reasons for Tencent's struggles: Founder and CEO Pony Ma began his career as a product manager and engineer, as did many other senior executives. This meant attention was focused on individual products rather than how the company as a whole was working, according to the report. And the final reason? WeChat is too successful. "They've been too comfortable – WeChat has been such a strong product and they just harvest that track," an unnamed industry executive told the *FT*.

Elliott Management goes on charm offensive

Activist investor Elliott Management is changing the way it works with the companies and institutional investors, *The Wall Street Journal* reports. Rather than win acrimonious battles with Boards, it is highlighting its work on corporate governance and seeking to build long-term relationships.

The driving force behind this new approach is "a seismic shift in the priorities of the world's biggest investors as more and more cash flows into index funds," the newspaper reports. "Operators of index-tracking funds, which account for nearly $10 trillion of assets worldwide) according to Morningstar) tend to put more weight on governance considerations such as Board diversity and executive compensation than the active managers they are increasingly displacing."

For companies that find themselves on an activist's radar, it is interesting to note the change in priorities: Jesse Cohn, who runs U.S. equity activism at Elliott, told the *WSJ*: "The firm used to spend entire meetings arguing why a company needed to boost its margins or explore a sale." Now it devotes as much time to governance, he says.

Elliott's sometimes confrontational style and the perception that activist hedge funds focus on short-term gains – rather than the long-term best interests of the companies they invest in – has made it harder to win backing for its proposed changes from both Board members and the institutional investors that are vital in proxy votes. The new goal is to be seen "more like a trusted adviser" than an organization to be feared.

Will Sears survive bankruptcy?
Walter Loeb, former Senior Retail Analyst at Morgan Stanley, assesses Sears' potential for recovering from bankruptcy in an article for *Forbes* – and his conclusions are not positive.

He makes clear the ways in which the once-great retailer failed to give its customers a reason to shop there, even while it was being overtaken by Amazon and Walmart. It once had "a broad product offering and respected brand reputation," which it has lost, and unique brands such as Craftsman tools are now available everywhere. Another service valued by customers, the long-term guarantees on appliances and electrical goods, offer very little assurance in the wake of the bankruptcy. "There is no reason to shop at Sears," he concludes.

"True transformation revolves around the customer" is one of the central tenets of A&M's work, and Sears' decline and fall is a cautionary tale about forgetting the customer altogether.

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JOE BERARDINO
jberardino@alvarezandmarsal.com

MALCOLM MCKENZIE
mmckenzie@alvarezandmarsal.

For general inquiries, please email us at corptransformationnewsletter@alvarezandmarsal.com

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