TELLUSANT QUICK READS

CORPORATE RENEWAL

Nothing is forever, not even giant companies. It is well known that companies grow, plateau, and fade or disappear.

In the short term, the Fortune top 10 US companies in 2022 saw seven new entrants and seven exits compared to 2012. This is not unique to the tech era. Churn is the norm decade after decade.

In the long run, most large companies at a given time are gone a hundred years later. Bought by others, faded to relative anonymity, or bankrupt.

In a study of the world's 100 largest companies in 1912, Prof. Hannah[1] found that by 1995, 19 of them were still in the top 100, 48 had disappeared, and the remainder survived in some lesser form.

Hannah's work was much more than a ranking. It must have taken years of effort. He defined what is meant by the term "survival", he considered survival bias, and he explored the reasons for the outcomes.

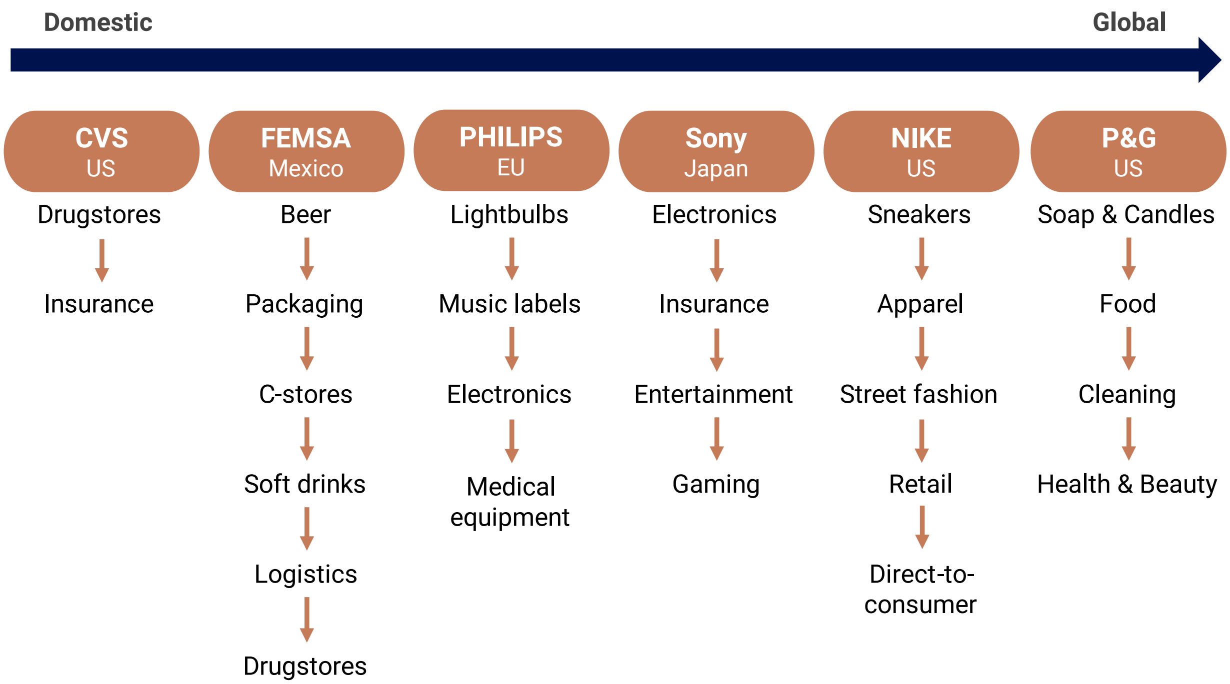
Among other things, he found that diversification from the initial product or category is imperative. This should happen sooner rather than later.

If a company sticks to its initial product, it will invariably fade or disappear since industries after a while will decline relative to the total corporate sector, or even disappear.

Yet such diversification is notoriously hard. The capabilities built in one market seldom apply to another.

The graph below shows a few companies that have made the transition. They have had successes and setbacks. The journey was never easy. But in the end, they have done well.

CORPORATE EXPANSION EXAMPLES



Source: Tellusant research

Take Nike. It could have been a sneaker company today, but it is much more. The caveat is that it is too early to tell if it will be a 100-year survivor.

In parallel to expansion like this, most of the successful companies globalize. But only globalizing is not good enough.

What about companies that stick to the knitting. We are pessimistic about them as independent companies. Another company with a larger vision will surely buy them. Or they will be as well-known as 1912 giants J&P Coats and Mines de Lens are today.

Thus, creatively renewing the corporation should be the key task of the board of directors (and sometimes the CEO).

Then again, corporate churn is not a bad thing. Capital markets will reallocate funds to the best opportunity. It is often better to abandon a company and invest in something new.

It all depends.

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[1] Leslie Hannah (1999): 'Marshall's "Trees" and the Global "Forest": Were "Giant Redwoods" Different?' In *'Learning by Doing in Markets, Firms, and Countries'* Chicago University Press. Available at https://core.ac.uk/reader/6876840