4 Winners and Losers

Restructuring major corporations
The risks for smaller businesses

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It has been predicted that only 50 per cent of European business will survive increased competition stimulated by the completion of the Single Market. The remaining 50 per cent will disappear over the next five to seven years, as a result of mergers, acquisitions or simply going bust. Although this is a broad brush forecast, no-one has disputed it, and there is certainly evidence to show that corporations with a pan-European strategy are successful. Most multinational corporations, American, Japanese and European, have been developing their pan-European strategies over recent years and are now well placed to respond to 1992 and the development of the Single Market. Not far behind, efficient major national companies are also developing plans for 1992, but a significant number have yet to put in place a realistic strategy, hence the thrust of the poor forecast for survival.

Restructuring is not, of course, a new phenomenon. What is new in Europe is the scale on which restructuring is to take place. Smaller businesses have always been vulnerable to big business strategies. But, as the completion of the Single Market progresses and competition intensifies, the implications of big business strategies for smaller businesses become profound. As traditional major suppliers and customers change their pattern of trading, smaller businesses will be denied opportunities for supply and purchase which hitherto existed. Difficulties will be compounded by an additional loss of big customers and suppliers which go out of business, having failed to respond to the increased competitive environment.

Many owners of small businesses, and even managers of some largers ones, have consoled themselves with the thought that the world will not turn upside down on 31 December, 1992, concluding wrongly that the completion of the Single Market will not affect them. They have correctly surmised that it will be well into the 1990s before all the proposed changes are introduced, implemented and take effect. But what they are failing to recognise is that 1992 is only shorthand for a gradual process that has already begun. It has been said many times by many people that the time to act is now, when plans can be developed which will keep pace with the Single Market as it evolves. The message is no less important simply because it is no longer new, or being shouted from the rooftops, the initial 1992 euphoria having passed. The risk for companies remains. A last minute response to 1992 will result in desperate measures being taken from a position of weakness. This chapter highlights problems smaller companies face as larger companies implement radical restructuring plans, and suggests practical steps which companies can take now, within their resources, to preserve their
markets. Ultimately, however, any determined company can extend its activities beyond its home base into the wider European marketplace.

The first step — assess the impact of the Single Market

All businesses, irrespective of size and whether or not they export, should carry out an ‘audit’ to assess the impact of Single Market measures on their activities. As this book shows, the scope of Single Market developments is vast. But, if nothing else, company managers should isolate the details given in the European Commission’s White Paper, *Completing the Internal Market*. The legal measures proposed in the White Paper are being gradually adopted and implemented throughout the European Community and, together with subsequent legislation, are bound to affect a great many, if not all, business operations in some way.

Simultaneously, changes that are already taking place can be monitored. The Single Market programme has set in motion radical structural changes in certain industry sectors and in individual company plans and strategies. By observing these changes now, smaller businesses can see the direction in which European industry is moving in the longer term. There are, however, six major factors which, it is already known, will substantially affect business activity:

- Harmonisation of technical standards and certification procedures: this stimulates additional product development to meet any new requirements, and inevitably involves extra time and cost.
- Price cutting: Foreign-based competitors will enter the home market of passive businesses, intensifying competition and putting existing price levels under pressure.
- Market shares: Foreign companies will take up agencies and distributorships to market complementary products in the UK; or, European principals may abandon agencies and distributorships in the UK and start dealing direct.
- Public procurement: EC-wide access to tendering for public sector contracts will increase competition, putting pressure on prices and margins, and placing unprepared contractors and sub-contractors at risk, while encouraging the more efficient ones.
- Health and safety: Under more demanding regulations some working environments could be classed as substandard, requiring significant and costly improvement.
- Loss of business: If customers are adversely affected by changes in their industries and markets, their smaller, perhaps local suppliers will also lose out.

Options for major companies

The vulnerability of major corporations and the accompanying implications for smaller businesses may be difficult to perceive in detail. Therefore, a planned approach, anticipating and preparing for any setbacks, is needed. To survive, major companies are likely to adopt one or more of the following strategies which could injure smaller suppliers: