Academic tutorial

Contemporary Management Problems

L1 Management Sciences

Session 3

Growth strategies and performance

Objectives:

The growth of a company is defined as an increase in its activity. It can be assessed either quantitatively (increase in turnover, market share, results, staff, etc.) or qualitatively (increase in the company's capacity to influence its market, its reputation, its image, etc.). Growth strategies allow the company to maintain and/or develop its position in an unstable competitive environment.

This session aims to question the performance of the different logics that may underlie the growth strategies of organizations as well as their implications for management.

Required work - Presentation topics:

Two groups of students will address one of the following two topics in the form of an oral presentation:

- **Topic 1:** How does Virgin's growth strategy explain the company's success?
- **Topic 2:** How can we explain the existence of growth strategies as different as those of Virgin Group and Butler Capital Partner?

Preparatory work – case study

Students **who do not participate** in the oral presentations will deal **individually** with the questions at the end of the booklet.

Document 1:

Extract from Jean-François CRISTOFARI, « Virgin Megastore, un concept qui perdure », Marketing Magazine N°48, 01/03/2000

A world-famous brand, Virgin has made non-conformism, or provocation as some would say, a core value. The group took off in the 1970s around music publishing and record sales. But Richard Branson, its CEO, has always sought salvation in diversification. A genius jack-of-all-trades, he has managed to create a multi-faceted empire, with successes that no bookmaker would have dared to bet a penny on. Virgin Megastore is one of the finest examples.

Virgin Stores is the specialist cultural goods retailing arm of the Virgin Group. The concept of the store was so striking that "megastore" has become a generic term for Virgin-type department stores. Originally, the aim was to create a format that would allow the widest possible range of music products to be referenced. Then other cultural products were added. Nothing very original so far, but Virgin has made some improvements to this basic concept. First of all, in terms of the services offered: hundreds of listening terminals, the possibility of viewing video cassettes, individual computers to see the latest software in operation, etc., all equip the stores. Secondly, by the desire to make megastores places where the public and artists can meet and exchange ideas, places that host events. To achieve this, Virgin has sought to create a special atmosphere in which architecture plays an important role. For all of its stores, the company tries to preserve the character of the sites where they are located, a sine qua non condition for making them "living spaces". The company has a particular preference for bank buildings and their often monumental style (Champs-Elysées, Lyon/Metz). The most beautiful symbol of the Virgin model, the Champs-Elysées store can be considered as a real social phenomenon by its turnover, by its frequentation (20,000 people visit it every day since its opening) and, even more, by its image. To all the elements mentioned above are added the style of the building as well as Virgin Café type services (however present in other stores in France). The Megastore on the Champs-Elysées is the precursor of a new breed of stores. It was the very first store to offer listening terminals in 1988. The organization of numerous signing sessions and mini-concerts allowed to welcome Jessye Norman, Sting, Jim Jarmush, Jean- Paul Goude, Placido Domingo, Tina Turner, Claudio Abbado, Quentin Tarantino, Johnny
Hallyda... (...)

A group with a variable physiognomy

Virgin is an atypical group, to say the least. Analysts like to describe it as opaque (no consolidated figures for the various companies; Richard Branson is rather reluctant to go public). Above all, it is a group that has made its success from companies created from scratch: records, aviation, stores ... Virgin has no hesitation in selling off these flagship businesses when it deems it necessary. The records were sold to Thorn EMI for a cool £560 million in 1992. Earlier this year, 49% of Virgin Atlantic Airways, the airline, was sold to Singapore Airlines (at the unexpected price of £600 million). Virgin also sold its cinema circuit, Virgin Cinemas (about 30 cinemas in Great Britain and Ireland, i.e. about 300 screens), to the French company UGC for a little over 2 billion francs last October. Once again, a handsome sum. In fact, everyone agrees that Richard Branson has a gift for selling his businesses at the best price and at the best time. But the most difficult thing is elsewhere: rebuilding success stories. The group's new hobbyhorse is the Internet. Richard Branson, who believes that the majority of records will soon be sold on the Net, simply wants to make virgin.com one of the top three generalist portals on the Internet worldwide. In the same vein, the Virgin boss is preparing to sell cars, electricity and gas through this channel. "As a sideline, Virgin has also launched a mobile phone business with the creation last November of Virgin Mobile, a joint subsidiary with One2One (Deutsche Telekom). The goal is to have one million customers by early 2001. If they are successful, these projects will make us forget the group's failures. Because there are some. Cola, cosmetics, clothing... so many sectors in which Virgin did not have the expected success. Thus, the Virgin empire does not hesitate to divest itself of peripheral activities in order to redeploy itself in new sectors. Hence the "evolutionary" nature of the company and the fact that it takes significant risks. But it is true that risk has always been part of Richard Branson's life.

Document 2:

Richard Branson : "The disappearance of Virgin Megastores was written" by Solveig Godeluck, 18/09.

http://www.lesechos.fr/entreprisessecteurs/techmedias/actu/0203012632273-richard-branson-la-disparition-des-virginmegastore-etait-ecrite606528.php

The British entrepreneur and billionaire was in Paris today to launch a "revolutionary" Virgin Mobile offer - hence his Che Guevara outfit. On the sidelines of this event, this sixty-year-old who never gives himself a break talks about some of the other activities he has launched, from the distribution of cultural products to tourist trips into space.

Is the Virgin Mobile brand the one that allows you to promote the other activities you have launched?

Coca-Cola, Apple, Google... most global brands specialise. At Virgin, we have made a different choice. When in a country, something is not done very well by the existing players, we jump in. That's why in Italy we're known for sports clubs, in the United States for low-cost airlines and space flights, in France for mobile phones...

You have created hundreds of companies since Virgin Records was founded in 1970, but never Internet start-ups. Is that a regret?

We've invested in other people's internet startups, like Square, with brilliant entrepreneurs. I'm interested in businesses where I can make a difference. For example, sports clubs. With Virgin Active, which is already present in Portugal, Spain, Italy, Singapore, Australia, and so on, we are looking to set up in Paris and France. Many young people like the Virgin brand, and that's good for us.

What is the impact on the Virgin brand in France, where all your Virgin Megastore cultural stores have closed?

We sold our Megastores ten years ago. I have to admit that I made this decision when the iPod came out, which made it possible to have free music on the Internet. It was a foregone conclusion. It was going to be a revolution. We sold out our stores in France, the UK and pretty much everywhere else. It's sad to see that these stores have disappeared. I didn't have the courage to go to the Champs-Elysées, where we had our biggest store, the most visited in France. But it's like trees and people, nothing lasts forever.

Virgin Mobile in France has been challenged by the arrival of Free Mobile. What do you think of this competitor?

I take my hat off to Free Mobile. They have created their own revolution. They made a smart strategic move. Respect.

Are you planning to fly on one of the aircraft ships of Virgin Galactic, your sub-orbital space flight tour company?

Yes, the first flights will take place between December and February, and I will be part of it, along with my children Holly and Sam, who are now adults. 80% of people want to go into space. We already have 17 French people signed up to make the trip. I'm usually more excited about the people I work with than the products, but the spaceship will definitely attract attention. It's similar in shape to an airplane. One day, we'll make the France-Australia trip in two hours, and that will be in my lifetime, at least my kids will see it.

Document 3:

Excerpt from: "Richard Branson, the enigmatic entrepreneur"

http://www.aerograf.be/createurs-entreprise/lesechos_entreprendre/articles/article_1_8.htm

(...) Virgin's own non-conformism is evident in other ways. Branson has managed to give the impression that people work for fun and not just to earn a living. Notoriously indifferent to material possessions and unconcerned with day-to-day financial management, Branson had no difficulty at first in paying low salaries to his employees, as long as people were having fun and felt they were part of a unique company that was more humane than others.

Whenever depression threatened, a morale-boosting party would be held, giving Branson the opportunity to subject newcomers to one of his favorite hazing rituals, an embarrassing entrance ritual that has survived to this day.

For the most part, this mode of operation was not deliberate, but rather a response to the requirements of the time when Virgin was founded. The model has proven itself, and Branson can now replicate it systematically. His philosophy is to immerse himself in new businesses until he fully understands the ins and outs of them, and then hand the business over to a managing director and financial controller who are given a stake in the company and tasked with getting it off the ground.

He knows that expanding his group through the creation of independent legal entities protects Virgin while helping to build commitment and loyalty among the managers of his subsidiaries, especially since he gives them full management autonomy and minority ownership. Branson proudly recalls that Virgin has produced a considerable number of millionaires. He often says that he does not want his best employees to leave the company to start their own business. He prefers to turn them into millionaires within Virgin itself.

He sees parallels between Japan's "keiretsu" system (small companies interlocking in a collaborative network) and the structure he has set up at Virgin, with more than 500 small units around the world that operate almost autonomously.

The "real" Branson

Richard Branson is now an international celebrity. He has been profiled extensively in magazines, the business press and on television. In the UK, Branson is a folk hero. He is frequently cited as a role model by young people who want to succeed in business without compromising their personal ethics.

In material terms, Branson's success is undeniable. He became one of the richest men in the UK before the age of forty and was recently ranked 11th in the country's list of biggest fortunes, with an estimated net worth of £895 million.

When asked about the strategy that led to this success, he talks about minimizing risks ("You have to know how to protect your back and always be ready to throw in the towel") and systematically looking for opportunities to build "the largest leisure group outside the United States". (...)

Document 4:

Extract from "Can the Virgin myth survive Richard Branson?", Les Echos n° 17796, December 16, 1998.

(...) Thirty years after the opening of his first record shop on Oxford Street, the British empire of eccentric billionaire Richard Branson controls a galaxy of 200 companies. This day's journey into a new industrial empire takes in an airline, Virgin Atlantic, and Megastores, takes in trains, crosses paths with direct banking, and leads to cinemas and wedding dresses. Six years after the sale of the Virgin Music Group, the inventor of baroque capitalism is ready to play double or nothing with Virgin Rail.

On the edge?

The offensive began with a first salvo from "The Economist", published last February. After delving into the accounts and byzantine structures of the Virgin Group, roughly valued at 3 billion pounds (28.5 billion francs), the British business weekly estimated that apart from its jewel, Virgin Atlantic, the airline founded in 1984, the 200-subsidiary empire was living on the edge. And its big leap into rail transport, with Virgin Rail, looks like a case of double or nothing. In total, the Virgin empire is barely balanced, with an estimated pre-tax profit of just £2.2 million on an estimated turnover of £2.11 billion, although the group refuses to consolidate its accounts. The group's less than 50%-owned subsidiaries (Virgin Direct, Virgin Cola, etc.) are said to be the most loss-making, with a pre-tax loss of £37.5 million on a turnover of £845 million. This analysis is disputed by the Virgin boss, who claims to have £250 million in cash reserves and a *"positive cash flow of £150 million per year",* even though he admits to favouring *"an approach based on long-term capital appreciation over short-term taxable profits".*

Basically, the inventor of baroque capitalism doesn't care about accounting and is more interested in his next balloon trip around the world. A year after the humiliating forced landing of his craft, the Virgin Global Challenger, in the Algerian desert, Richard Branson has set off for Marrakech for another attempt, in the company of his ex-rival in the air, the millionaire Steve Fosset. It's up to the group's spokesman, William Withehorn, to calm the anxieties of the British business press!

With its offshore trusts based in the British Virgin Islands or Jersey and Guernsey and its "bearer shares", the Virgin empire has never shone with financial transparency. And it brags about it. Despite its 200 operational subsidiaries and some 24,000 employees (17,000 of whom are in

Great Britain), the Branson empire has neither a holding company nor a detailed organizational chart. The Virgin Management Limited executive team is made up of a dozen directors, such as Gordon McCallum (the strategy director) and William Whitehorn (also in charge of brand development), and works with the 65 managing directors of the operating companies around the world. The group defines itself as a *"venture capital company*" with a brand, closer to the American Texas Pacific Group or an organisation like Mitsubishi than to a traditional family "empire", a term Richard Branson rejects.

"Virgin's target markets are often those where customers have been ripped off or neglected, where confusion reigns and where the competition does not challenge itself," the group's charter summarizes. It is up to British Airways or the traditional deposit banks to recognize themselves in one or the other category. In Richard Branson's entourage, they call this *"the big bad wolf theory. If there's a company that overcharges its customers and doesn't deliver on its service promises, there's an opportunity for Virgin to enter the market and do better,"* says Rowan Gormley, chief executive of Virgin Direct, the group's financial services subsidiary. Richard Branson likes to play the Robin Hood. The staging and excessive media coverage of his legal battles _ with British Airways (BA) and its dirty tricks _ or the competition _ for the management of the national lottery _ have helped establish his reputation as "Mr. Clean". When he won his libel case against British Airways in 1993, he distributed to all Virgin Atlantic employees the £500,000 in damages that had been awarded to him personally, in the form of the BA bonus.

An original management style

And the brand is Branson himself, his private island in the Caribbean (bought for $300,000 in 1978 from a ruined aristocrat), his balloon trips, his autobiography published by Virgin Publishing, where legend and private life are closely intertwined to form the "Virgin myth. (...)

In perpetual motion, the Virgin galaxy demands an original management style. *"We're not just in it to make money. We want people to come to us because we're different,"* says Virgin Entertainment's managing director, Simon Burke. Whether it's the business class of its planes, its record stores, its trains or its management style, Virgin sells its "difference" as a business philosophy. And it works. In a stuffy England, where trade union leaders dine in tuxedos with employers' representatives, Richard Branson brings a breath of fresh air. (...)

Virgin is playing for the long term. Richard Branson, an incorrigible jack-of-all-trades, is already exploring new areas of conquest. He is bidding for the Heathrow-Shanghai air link against BA, building a chain of cinemas in Japan, dreaming of introducing his Virgin Cola in China and leasing a Concorde to Air France. After the success of its Internet access service, Virgin Net, owned 50-50 with the cable operator NTL, Virgin is still toying with the idea of entering the telecom business. A way of snubbing the economists' concerns.

Document 5:

Christine Lejoux, “Who is Butler Capital Partners, the discreet owner of Virgin Megastore?” 07/01/2013.

Its kind of beauty? Companies in difficulty, not listed on the stock exchange, and which present a real potential of rebound for the "turnaround" fund that is BCP. The fund invests mainly in French companies with sales of between 50 and 500 million euros. Its investment tickets vary between 10 million and 50 million euros, on average. 50 million on average. This enables it to take majority stakes or at least to be an "active" minority shareholder. BCP bought 80% of Virgin from Lagardère for around 100 million euros in 2008, at a time when the retailer, faced with falling record sales, was banking on the stationery and book markets to revive itself.

Naturally rather discreet, the fund could not avoid media attention when it participated in the epic privatisation of the maritime carrier SNCM in 2006. And even less so when it acquired a stake in PSG the same year, alongside Colony Capital and **Morgan Stanley**, as part of the sale of the football club by Canal +, for 41 million euros. (...)

Butler Capital Partners' holdings

Company	**Activity**	**Investment date**	**Turnover** (in millions of euros)
ADIT	Business intelligence	2011	20
Partouche	Casinos	2011	480
Anovo	Digital product repairer	2011	344
Christian Bernard	Jewellery	2010	155
Virgin Stores	Distribution of cultural products	2008	304
Sernam	Messaging	2006	325
Industry Access	Rental of aerial work platforms	2006	59
Osiatis	IT Services	1998	244

Source: Butler Capital Partners

Document 6:

From "Who is Butler Capital Partners, the owner of Virgin?", Nina Godart, on 04/01/2013 at 20:47, Updated on 05/01/2013.

http://www.bfmtv.com/economie/estbutler-capitalpartners-proprietaire-virgin-417348.html

Virgin stores are preparing to file for bankruptcy this January 4, 2013, after years of difficulties. An opportunity to profile Butler Capital Partners, the group's majority shareholder.

The chain of stores, which employs 1,000 people in France, will file for bankruptcy. For several years, it has been mired in financial difficulties in a sector that has been turned upside down by competition on the internet and digital technology.
But *"these changes cannot mask Butler Capital Partners' own responsibilities in the situation that the company is currently facing",* says the chairman of the Communist group on the Paris Council.

Butler Capital Partners, also known as BCP, is Virgin's main shareholder. In 2008, it acquired 80% of the capital from Lagardère for 76 million euros.

Arnaud Lagardère's group, which retains 20% of the shares, is making a capital loss of 95 million euros on the sale. He himself bought the channel in 2001 from the British Richard Branson, owner of the Virgin galaxy, for at least 100 million euros.

Important governance rights in a friendly atmosphere

Between 2007 and 2010, Virgin's turnover fell from 397 to 304 million euros. 100 million less in three years under the governance of BPC.

The credo of this venture capital fund is to invest in companies in difficulty, *"facing a complex operational, financial or shareholder environment", as* explained on the group's website.

In exchange for the contribution of funds, from 10 to 50 million euros, Butler Capital claims *'significant governance rights'*. The fund *"participates in the main strategic decisions"*. But with a *"flexible and friendly approach",* it says.
Butler Capital Partners was created in 1991 by Walter Butler, an American-Brazilian businessman. Trained at the Ena, adviser to François Léotard at the Ministry of Culture in 1986, he also worked at the sulphurous Goldman Sachs in the United States.

It was during this period that he discovered venture capital and decided to create Butler Capital Partners. With 500 million euros in management funds, the investment fund now has nine companies in its portfolio, in sectors as varied as casinos, IT services and forklift truck rental.

For a time, he had a stake in the shipping company SNCM before selling it to Veolia. He had also invested in the leader in disguises, Cesar. In January 2011, he sold his shares. In August of the same year, Cesar went bankrupt and was placed in receivership, a regime under which it remains today.
On the internet, on the "Our investments" page of the BCP website, the picture of a Virgin store still adorns the header, this January 4, 2013. The cultural products distributor can no longer pay its creditors. The cessation of payments procedure initiated could result in an adjustment, a reprieve, or a judicial liquidation, its demise.

Document 7:

Alexandra B., Virgin employee, "Virgin Megastore without a buyer: as an employee, I witnessed the scuttling of the group", 06-06-2013.

http://leplus.nouvelobs.com/contribution/882634-virgin-megastore-salariee-j-aiassiste-ausabordage-du-groupe.html

The Paris Commercial Court rejected on Monday the two offers to take over Virgin, one from the creative leisure specialist Cultura and the other from VivarteAlors. While judicial liquidation now seems inevitable, an employee tells of her powerlessness and that of her colleagues in the face of the wreckage of the group for which she has worked for six years.

Disgusted, depressed, angry. That's pretty much how I feel now, and I think how my colleagues in the red vests at Virgin feel. We've followed these months like an episode of Dallas, with its promises, hopes and, in the end, its disillusionment. As if everything had been calculated to sink the company and avoid as much as possible its takeover by a third party.

It all started long before the official announcement

Officially, it all started one morning in January 2013. Having just recovered from the festive season, we were pleasantly surprised to learn from the media that our company, Virgin Megastore, had filed for bankruptcy. I would like to say, an elegant way to wish us a happy new year. However, behind the scenes, everything started months ago.

When Butler Capital Partners (BCP) bought the company in December 2007, we knew that an investment fund was waiting for results. However, as our industry evolved, nothing was done. Mr. Butler has defended himself of any lack of initiative by claiming to have released more than 50 million euros to modernize the Megastores. However for me the real question is not "how much" they spent, but "how" they did it. And the answer, as you might expect, is "badly".

The measures taken were unnecessary and costly

Already in 2007, the previous shareholders had missed the boat on e-commerce, at a time when more and more consumers were shopping on the net. BCP's first move was to sell Furets du Nord, the profitable arm of Virgin. This was followed by a whole series of measures that were as useless as they were costly, but were quickly abandoned after being deployed in all the stores.

Was the standardization of badges a priority in a society in crisis? I have my doubts.

I'm not even talking about Virgin First... For the uninitiated, Virgin First was a sort of action plan to optimise our working time and therefore our profitability. A team of "trainers" went to each store for six weeks each, and they didn't stay at the Formule 1. Was the aim to turn us into docile multi-taskers? In any case, a grading system was set up between employees.

Let's face it, some institutions were losing money

After all, the cultural products trade has been under threat for a number of years now, and the price of certain rents was not helping matters. Perhaps the locations should have been reviewed, the offer improved or the sales area reduced?

Ours, on the other hand, had expanded two years ago (we're talking about a million euros), because we had customers, because we were profitable. Before us there had been independent record shops/bookshops. Then who's next? The Champs-Elysées store should become a Volkswagen showroom. Others will become clothing stores. Culture? Who cares, it doesn't interest anyone. In any case, people are bored by reality TV, so soon they won't be able to read, or they'll be able to read in SMS language.

In recent years, Virgin has become a poorly run supermarket

Another consequence of this wreckage: the loss of the Virgin spirit. For a long time in people's minds, Virgin was "cool". You liked being a record salesman there, you liked working there during your studies. I myself never applied for a job with the competitors. The merchandise was great, the employees were passionate and specialized.

In recent years, Virgin has turned into a supermarket, badly managed with poorly purchased products, poorly negotiated with suppliers and no entertainment to attract customers.
Apart from the Champs-Elysées store, there were no jobs available in communications and events; those who did it in the provinces did it in their spare time, for free of course.

Without means, it's hard to make miracles. A simple Harlem shake to say after the bankruptcy filing: "Hey people, we are still here and until further notice still open" was forbidden. For the image. Oh, the image is beautiful, let's not show that we are modern and dynamic, it could scare off potential buyers!

Did Virgin's management really want the company to be taken over?

Let's talk about the buyers. Did the management of Virgin really want a takeover of their store? They stopped paying the rent, even if it meant (or was intended to mean?) alienating the landlords. They refused to meet Patrick Zelnik, CEO of Naïve and co-founder of Virgin in France, when he showed interest in a takeover.

Did the management use all its influence to save us?

Of course the business model needed to be revised, but the brand's imprint was strong enough to get by in my opinion. Others have done it!
The fall of Virgin is above all a huge waste because we, the employees, know that there was so much to do and to try before the bankruptcy filing.

The Internet has been sidelined for too long

I am young, the internet is my culture and yet I need local shops. One cannot go without the other, it was necessary to bring digital into the stores.

So yes, they thought about it... in 2012. A little late, I'd say. Senior management had already planned the closure. When Christine Mondollot was appointed to head the company last June, they wanted us to believe that it was to save Virgin Megastore... but all indications are that it was wrong.

This bankruptcy is a never-ending soap opera...

We have been following the "Dallas soap opera", as some of my colleagues say, for almost six months now, and we have lost count of the number of twists and turns.

Will resume, will not resume.

Our store was part of the Rougier & Plé offer, until they withdrew at the last moment, thus condemning the Virgin Megastore brand to certain death. Strangely enough, this withdrawal came two days after our scandalous sales, widely reported in the press, which liquidated our stock.

... and the "big sales" were a particularly sordid episode

Let's just say it's a strange coincidence... These same sales, the money of which was supposed to finance our job-saving plan and which we finally say will go to unpaid suppliers. These sales where, strangely enough, customers remembered that Virgin existed, whereas for months they had been deserting our brand while waiting for us to sell off the goods.

These sales of which Mrs Mondollot, president of the group, minimized the consequences in front of the cameras, even though she was on holiday abroad when we were on the ground. Even though she sent a note internally to thank us for our investment in these chaotic days. While she was in Mexico, we were in Beirut. How ironic!

Our biggest mistake was agreeing to open the stores on those days. On the contrary, we should have called a strike, because in the end, what was our interest?

In our store we had the police of the BAC as well as three municipal cars to supervise the madness of the people. Many videos were circulated. The behavior of some customers was indecent. It is one thing to want a good deal, it is quite another to want to shut down a business because it has no more iPads to sell.

We are simply outraged that we were taken for fools

Scandalized by this lack of communication because since the beginning, our main source of information is the press. Disappointed to be so little considered by people who despise us and for whom we have invested so much during years.

In short, the fall of Virgin Megastore in France is not exceptional, there are plenty of economic sacrifices like us... and this is certainly the great drama of our society. It's not a question of knowing who is the most miserable, but we are conditioned to accept the unacceptable, without the government lifting a finger. Come what may...

Document 8:

Extract from the book: Arnaud BOUYER, Les fonds d'investissement sont-ils...des prédateurs ?, JC Lattès, Coll. Essais et documents, 2007

The killer figure: Between 2000 and 2004, employment in companies managed by investment funds in Europe increased by 5.4%, almost eight times the average of 0.7% observed more generally in the European Union.

"They are conglomerates with no industrial logic"

Investment funds do not like to be compared to new conglomerates. Yet there are similarities between today's investment funds and the large US financial conglomerates of the 1960s. ITT, for example, was then a vast industrial empire made up of nearly 150 subsidiaries with disparate and unrelated activities in 57 countries and generating a total of nearly 22 billion dollars in revenues. How different is that from a KKR with more than 50 portfolio companies scattered across continents? With ITT, Harold Geneen transformed in a few years a sleeping telecom company into a machine for acquiring companies with strong potential but weak or inadequate management. Don't investment funds also keep emphasizing their ability to manage better, whether in terms of industrial strategy or financial management? Using mainly its own shares as a bargaining chip and cheap, available debt, ITT has made one acquisition after another, defining itself as a "multi-product company with unified management". The success of investment funds in recent years is also largely due to market conditions that are particularly favourable to ambitious initiatives, this time a phenomenon that is almost entirely tied up in the credit market.

ITT was short-lived. Like other conglomerates, the loss of investor confidence in the ability to manage such convoluted packages and a less advantageous debt market took its toll. Only today General Electric could perhaps come close to ITT, LVT or Gulf & Western in the 1960s. Unless the investment funds have become their modern clones...

Equating investment funds with conglomerates is actually a misnomer on several counts.

It was precisely in response to the shortcomings of these conglomerates that the first versions of investment funds appeared. The objective at the time was to put an end to the incoherent ensembles and to eliminate what economic theory calls a "conglomerate discount". The latter states that the value assigned to the parts (unrelated activities) in a whole (the company) may be less than the sum of the parts taken in isolation.

The growth of investment funds is thus closely linked to the phenomenon of the "renaissance of the active investor", i.e. the shareholder who pays attention to the stock market price and the quality of management teams. In the early 1980s in the United States, the shareholder was not so well represented in the supervisory bodies. Comfortable and established positions within large groups did not encourage certain managers to manage the company they were in charge of in the best possible way, or even to spend lavishly... New organisations such as KKR, Forstmann Little or even Bershire Partners, through their nascent activity, shook up *Corporate America* and became objective allies of shareholders who had become demanding. They have brought a new and external perspective to a world that was primarily governed by its own rules and codes. They were able to highlight a large-scale loss by themselves putting forward convincing management results, linked to the implementation of a new governance system. To a large extent, it is the investment funds that have put an end to conglomerates.

A fund considers each investment separately. Each operation is driven by its own growth prospects and has a distinct potential. Each story is unique, each investment case different. So, unlike conglomerates, investment funds do not manage all their holdings in the same way. There is no confusion of types and interests between portfolio assets. An LBO is designed primarily around a management team that is itself responsible for implementing a project defined in advance with the investment fund. The financing is specific and carried by the company under LBO itself, and not assumed by a common head structure as in the case of conglomerates. Within the fund, a specific and dedicated team will be present in the company's control and supervision structures. Finally, the LBO project is based on a logic of regular results, with a fixed holding period for the investment fund. All in all, an investment fund ensures that each situation receives the specific attention it deserves, focused on the achievement of precise objectives.

Unlike conglomerates, with investment funds there is no risk of contamination within a portfolio of assets, each one having its own life. For example, it is impossible for an investment fund to rob Paul to pay James, to use the cash of one to make up for the losses of another. The alleged financial difficulties of an LBO company will have some impact on the owning investment fund as a structure, but not on the constituents of its portfolio as such. The fund may thus be put in a position to reinject capital or to assign its rights to the creditors of the distressed company. It will certainly have to answer to its investors if the overall returns are significantly affected by the poor performance of individual investments. But the other portfolio companies remain immune and autonomous, able to look after their own future first.

QUESTIONS

For each question, you must first answer with a sentence using the appropriate concepts and then quote the relevant text passages - *use quotation marks and indicate the number of the document quoted.*

1. What are the directions and paths of the growth strategies of Virgin and Butler Capital Partners respectively? Justify:

............................**VIRGIN**..................................	...........**BUTLER CAPITAL PARTNERS**..........
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2. How are Virgin and BCP business opportunities targeted?

VIRGIN

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BUTLER CAPITAL PARTNERS

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3. Are these two companies part of industrial or financial growth logics (Justify)? What are the goals pursued through their growth strategies?

VIRGIN

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BUTLER CAPITAL PARTNERS

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4. How do the growth strategies deployed within Virgin and BCP impact the way management is viewed?

VIRGIN

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BUTLER CAPITAL PARTNERS

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5. Is the strategy of either of these two companies more successful for the Virgin/Megastore case?

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