Publication: The Business Times, p 21
Date: 30 December 2010
Headline: Lion infrastructure is the way to go

Lion Infrastructure is the way to go

To reach a US$2 trillion GDP in 2065, Singapore must create and build commercial assets with a special quality

By **TAN SENG HOCK** and **KEE KOON BOON**

FILE PHOTO

Mission not impossible: *Singapore has been a powerful magnet for global capital flows and MNCs. If it can cultivate 10 $100 billion companies and 50 $20-billion companies of Lion calibre in the next 50 years, a $2 trillion GDP economy may well be achievable*

HUNDREDFOLD. That's the breathtaking growth of Singapore's gross domestic product (GDP), from US$1 billion after its independence in 1965 to US$100 billion in 2004 when Prime Minister Lee Hsien Loong took over the reins from his predecessor, Senior Minister Goh Chok Tong.

Another tenfold increase in value creation in the years to 2065 (that is, 100 years since its independence) – from an estimated US$200 billion GDP in 2010 to around US$2 trillion then – and Singapore may well surpass the present level of US$2.2 trillion GDP of the UK, its former colonial master. This will likely take place, particularly as Asia successfully seizes the growth opportunity to be the global leader, in economic and cultural terms, in this century.

Consider the case of Procter & Gamble (P&G). Founded by English storekeeper William Procter and candle maker James Gamble, P&G surged more than hundredfold in "Stage 1" since its incorporation as a company in 1890 to S$20 billion in 1987. The company found itself in an advanced phase of market maturity with its products and battling on all fronts with intensifying competition from competent rivals. Yet, P&G grew by another tenfold in "Stage 2" to current S$230 billion.

Consider the case of Nestle. The famous company grew more than hundredfold since Frankfurt-born pharmacy assistant Heinrich Nestle left his hometown to set up the Nestle shop in Switzerland in 1866, to S$20 billion in 1980s, and again by another tenfold, to current S$250 billion.

Most competent "Stage 1" companies do not cross the chasm to "Stage 2" because they lack the Lion Infrastructure – the teamwork, the knowhow, the necessary institutional structures and the culture – in order to not only survive but also thrive upon changes in the marketplace to become multibagger Lions.

Sustained performance

These Lions are akin to the Berkshire Hathaway, Singapore, Apple and The Capital Group Companies that generate a sustained and outsized investment management performance, as discussed in our earlier BT articles on May 15 and June 10. Value investors take delight in understanding what urges and qualifies an entrepreneur to perform acts that lead to the building of a Lion Infrastructure in a business.

In "Stage 2", the Lion Infrastructure and culture are the sails that determine the course, not the wind. P&G cultivated US$23 billion brands, while Nestle groomed 27 such brands with over US$1 billion in sales. These multibagger billion-dollar brands are profound sources of vitality to sustain the competitive edge and value relevance at P&G and Nestle.

A company creates value at different stages of its corporate life cycle, arising from the relentless and eternal pursuit of excellence to perfect its offerings to the marketplace.

In the context of Asia, a competent entrepreneur in "Stage 1" may be able to build his or her business from a size of under S$100 million to S$1 billion. This is achieved with the right emotional incentives aligned to encourage decisive stewardship in the process to create lasting cost or demand advantage over competitors.

However, to be able to build up the enterprise further to S$10 billion and beyond in "Stage 2", sacrifice and stable capital in long-term investments since "Stage 1" – to build a cohesive team and a Lion Infrastructure, which include governance, operational and financial management system – are required.

Most "Stage 1" companies are content – and may even display smugness – to conserve the sizeable gains that they have achieved and fail to invest to build an ongoing and lasting business.

Investing in the team and a Lion Infrastructure slows down the lone, powerful Hyena entrepreneur; he or she prefers to continue to capitalise on short-term opportunistic quick gains. The difficulty is often closest at the finishing line; these companies remain in the lower gears, even risking blowing up, when they are, in fact, at the tipping point to enter "Stage 2".

Take the case of the quintessential supply chain manager and asset-light business model, Li & Fung, also one of the best-performing stocks in Hong Kong, that catapulted nearly hundredfold from S$290 million to S$28 billion since its listing in 1992. Li & Fung produces S$20 billion in garments and other goods for the world's top brands and retailers – without owning a single factory.

Penang, Malaysia-born CFO Frank Leong played an important role in helping the visionary Fung brothers, running the OSG (Operation Support Group) from 1995 until his retirement in 2004. OSG keeps a database of more than 8,000 factories, suppliers and clients around the world and uses it to orchestrate the various members in its network so that they can compete like a pride of Lions to generate a greater quantum of profits for all partners and developers around its core offerings.

OSG oiled the machinery that enabled the entrepreneurial leaders in Li & Fung's multiple business units to focus on its core competencies to meet the needs of customers and fighting battles with competitors, growing multibaggers in the process.

The Lion Infrastructure at Nestle propelled the Swiss enterprise to become the world's biggest food company, helping the Swiss economy, which has 7.8 million people, grow at twice the rate of the European Union. On a per capita basis, Switzerland hosts about eight times more of the world's 500 largest publicly traded companies than Germany, the region's biggest economy.

Seventeen of the world's 500 biggest companies are Swiss, amounting to about one for every 500,000 residents, compared with one for every four million people in Germany. These multibagger Lions in Switzerland are a major asset to the country; they helped the economy to prosper by boosting exports, creating jobs and spurring consumption.

Powerful magnet

For Singapore to reach a US$2 trillion GDP in 100 years since independence, it must create and build commercial assets with a "special" quality. Like the "special" Nestles, these commercial assets cannot be taken away or destroyed by foreigners and become even more valuable with the participation of multinational talents.

They possess values which are not determined by the arbitrary fluctuations in the foreign currency of any one country, such as the US dollar. The company assets are also not like land values influenced by foreign demand or reap transient windfall gains when sold to foreigners at high prices. These are intangible assets representing real wealth to sustain a nation, not just tangible monetary assets which can be brittle.

Singapore has been a powerful magnet in attracting global capital flows and multinational corporations (MNCs) to capital-deepen its economy, demonstrating exemplary efficiency in organising the resources and tangible infrastructure to execute the strategy, resulting in the hundredfold value creation in "Stage 1".

In "Stage 2", we need hundreds of Nestles more than we need hundreds of billions of US dollars or gold; we need the golden goose and not just rely on eggs from other people's golden goose.

If Singapore can cultivate 10 S$100 billion companies and 50 S$20-billion companies of such Lion calibre in the next half a century, a S$2 trillion GDP economy may well be achievable.

The writer is the Group CEO and CIO of Aegis Group of Companies, a Singapore-based investment management organisation since 2000. Kee Koon Boon is a lecturer of accounting at the Singapore Management University and a director of Aegis Group of Companies