

recruitment: in spite of high salaries, we are finding it increasingly difficult to attract young engineers who prefer to join large international companies. This brings me to perhaps the most significant weakness, and a problem which I want to come back to in a few moments when I talk about threats, and that is our size. As a small company in a very specific niche market, we are vulnerable. If things went wrong with just a few of our big customers, we could have serious difficulties.

But before looking at the threats, let's move on to opportunities. In particular, new technologies and a changing world economy are opening up exciting ways of re-thinking our business activities. For example, the new member states of the European Union in Eastern Europe have excellent schools and universities: their young engineers are talented, well-trained and keen to acquire experience in companies like ours. Another possibility is to do part of our development work offshore, in countries like India where labour costs are significantly lower than in Europe. Last, but certainly not least, we must look at opportunities in our own industry: competition is fierce, and a process of consolidation is under way. Many firms are forming alliances or launching takeover bids in order to exploit synergies, to make economies of scale and to diversify into new market segments. I believe these are opportunities we should not ignore and I will be making a specific recommendation in the last part of my presentation.

So, I've talked about our strengths, our weaknesses and our opportunities. I want now to explain why one of the opportunities I have just described is also a serious threat.

And finally, to look at threats: in the context of the consolidation I referred to earlier, Galway Software, as a small, successful, well-managed company with no debt, is a perfect target for a takeover. It is only a matter of time before a big international firm comes knocking at the door with its cheque book open. ... Unless we move first.

In the last part of this presentation, I am going to recommend that Galway Software should itself launch a takeover bid. There are many good reasons for this. Firstly, external growth with a reasonable amount of debt will make us less vulnerable. Secondly, a takeover will allow us to diversify into new markets, to expand our customer base and spread our risks, and to make economies of scale. And thirdly, the ideal candidate, Oranmore Video Games, which is based just 20 miles away, currently has more developers than it needs, and has a lot of unused office space.

I'm going to give you a handout which gives more details of why I believe we should acquire Oranmore ...

7.6 Case study Calisto

 2:49

President: As you know, this year Calisto has lost one point five million dollars. Obviously this situation cannot continue. Unless we take action now, we will go out of business next year. We have several options to consider. Our first option is to adopt the same strategy as IMM. IMM have reduced their operating expenses by 20% over the last two years. However, they have achieved this by ruthlessly cutting jobs: one fifth of IMM's staff have been made redundant. Here at Calisto we have a long tradition of looking after our staff,

and I do not wish to choose this option unless there is no other alternative.

Our second option is to follow the example of our friends at Reysonido, and buy European technology which would reduce our cost of sales by 10–15%.

However, we estimate that this investment would increase our operating expenses by half a million dollars a year.

A third option is to cut our prices in order to increase sales. We estimate a price cut of 10% might increase next year's sales to \$16.5 million – assuming, of course, that our competitors do not reduce their prices. However, our cost of sales would increase to just under nine million dollars.

My friends, there are three more options which I have not yet discussed with you, but which I would like you to consider carefully. Option number four is a merger. IMM have offered us three million dollars, which, in view of our desperate situation, is a very reasonable offer. If we agreed to a merger with IMM, the new company would be the new market leader, and be in a far better position to compete with Dylan. However, there would no doubt be some redundancies in order to make economies of scale.

Now, option five. This is a high-risk strategy, but we must consider all possible solutions. In order to compete with Dylan, we need to be bigger; one way to obtain that critical size is by acquisition. Our fifth option is to acquire Reysonido.

Reysonido are likely to accept a takeover bid of around four million dollars. As well as synergy and economies of scale, this acquisition would also give us another bonus: access to the technology which means Reysonido's cost of sales is 10% lower than our own. Of course, we would need to borrow the money, and the repayments would represent around half a million dollars per year over ten years: not so unrealistic with combined sales of 25 million, I believe.

The final option is one which I sincerely hope you will not choose. That is, to close the company, and sell off our assets to pay our debts. I have kept it until last in order to stress that it is a serious option. All right, I'm sure you are anxious to ask questions. After that, I would like us to consider all the options in detail; everybody's contributions will be valuable. Thank you.

8 International trade

8.1 About business Export sales and payment

 2:50

Interviewer: Mr Sullivan, can you tell us first what exactly credit agencies do?

James Sullivan: Well, basically, we offer a range of services in two main areas: information and insurance. Some of our clients are interested in information to help them manage credit risk, and others come to us for insurance. But many companies, like Eisenhart Games, need both information and insurance.

I: What sort of information can you provide?

JS: We have details of over 50 million businesses in countries all over the world. So, for example, we can help Daryl by telling him how businesses and countries

in the Middle East are doing financially; we can tell him if his prospective customers pay, and how quickly they pay; and, in particular, we can warn him if one of his customers gets into financial difficulty.

I: And you give each company a rating which indicates how reliable they are?

JS: Yes, companies – and also countries – are given a rating. This gives us a quick guide to how safely you can do business with a particular company or in a particular country. Actually, there's much more than just the rating. Clients like Daryl receive detailed credit reports which help them decide if and how to work with different companies.

I: I see. Now, what about credit insurance? Is that something new?

JS: Well, it's relatively new over here in the States, but not in Europe. European companies have been using it for a long time. Seventy per cent of European companies use credit insurance, whereas in the States the figure is below 5%.

I: Why is that?

JS: Essentially because European firms have to export, because their internal markets are too small. Until now, the majority of American firms have done most of their business in America, so they didn't need credit insurance unless the customer was very risky. Nowadays, companies like Eisenhart need to export, so they're discovering the advantages of credit insurance. For example, it means that in Saudi Arabia, Daryl can trade on open account, with no need for letters of credit, which take a lot of time and are relatively expensive.

I: I see. Talking of expense, what does credit insurance cost?

JS: Well, of course, it depends on the contract. The more risk the insurer takes on, the higher the premium will be. But, on average, I would say, for international credit insurance, between a quarter and 1% of sales.

8.2 Vocabulary International deals and payments

 2:51–2:55

1

A: Bruno, have you seen this letter from those people in Slovakia?

B: No, what do they want?

A: Well, they say they're ready to place a large order now if they can pay next year.

B: Well, you'd better do some research on the company. Make sure they can pay! But be discreet. We don't want to upset them.

2

C: I'm still worried about sending these parts by sea. They're quite fragile, you know.

D: Well, don't worry. We're meeting the insurance people tomorrow. If anything goes wrong, we'll be covered.

C: But the insurance premium will be expensive, won't it?

D: Probably. But we have to do it anyway. It's one of the conditions in the contract. No insurance, no deal.

3

E: Francesca, have we received a payment from Kawasaki?

F: No. And I've already sent two reminders.

E: Two? Listen, could you give them a call?