How spx achieved its strategic advantage essay

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SPX’s earnings have grown at a compounded rate of about 50% between 1995 and 2002. Analysts expect SPX to sustain at least 15% earning growth during the next three to five years. The company’s rapid growth is largely attributed to its strategic moves – “ bolt-on” acquisitions, Value Improvement Process, globalization. In 1995, SPX, the company with a long history of more than 90 years, was still an under-managed cyclical auto parts manufacturer. It then quickly became a highly diversified company that competed in 4 business segments with 11 platforms.

The key to SPX’s success is its strategic move starting in 1995. The company recognized the need to diversify out of the auto industry and hired a new CEO, John Blystone, an ex-GE executive, who earned a reputation for his competency in portfolio management. Under Blystone, SPX implemented the strategy, which is to create market advantages through technology, service and product leadership, by expanding its market focus and building critical mass through strategic “ bolt-on” acquisitions. SPX used acquisitions as a part of its strategy to acquire access to new technologies, expand its geographical reach, penetrate new markets and leverage its existing product, market, manufacturing or technical expertise.

Its acquisition target is the company with proprietary, unique (non-commodity) type of products which extend or fill the gap in SPX’s current product line offering. When buying a company, SPX rapidly consolidated, cut costs and closed unprofitable operations to increase margins. It did so quickly and proactively, not in response to bad market conditions. SPX also continually reviewed the acquired business to determine which business should be fixed, grown or sold when more value can be created with another

company. In 1998 and 2001 respectively, SPX made two most important acquisitions in its history – General Signal, an electrical and industrial control manufacturer with sales of $2 billion and United Dominion, a diversified manufacturer of proprietary engineered products with sales of $2.

4 billion. Upon completion of these two acquisitions, SPX has zoomed to be a $5 billion multi-industry company, with four powerful business segments, expanded global reach and even greater opportunities for growth and value creation. To continue to create value and grow the business, SPX initialized a value added process – Value Improvement Process in 1999, and fully implemented it in 2000. Value Improvement Process represents an integrated, transferable approach to doing business in SPX, which consists of six components executed concurrently. These include: implementation of Economic Value Added (EVA) in its full form; infusion of the SPX leadership standards throughout the organization; completion of the strategic review process; right size and consolidate; development of growth strategies; and driving the results expected by shareholders. Among the six components, the EVA is the cornerstone.

As a measure, EVA is simply net operating profit after-tax minus a charge for the cost of the capital employed in the business. It ties management’s compensation tightly to performance and prevents executives from overpaying for acquisitions. It rewards leaders for cash-to-cash returns, not earnings growth. Thus, EVA aligns performance measurement, decision support and compensation. Right sizing and consolidation also an important part of the Value Improvement Process. SPX moved quickly to properly size

and structure a business to be profitable, especially in this deteriorating economy.

Using the strategic review process, SPX continually review each of its businesses pursuant to its “ fix, sell or grow” strategy. Due to its aggressive acquisition strategy, from time to time SPX altered its business model to better serve customer demand, fixed or discontinued lower-margin product lines, rationalized and consolidated manufacturing capacity to maximize EVA improvement. At SPX, the development of growth strategies is an ongoing process. This process is critical in order to enhance the company’s competitive advantages.

It includes internal growth strategies, technology investments and strategic acquisitions. Under this proven value-added process, from 2000 to 2002, SPX completed nearly 40 acquisitions. In 2002 alone, SPX made 13 strategic bolt-on acquisitions and obtained 168 new patent applications, up 68% from 2001. By the end of 2002, SPX owned over 1500 patents and registration trademarks covering a variety of its products and manufacturing methods. Guided by its “ fix, sell, grow” strategy, SPX also divested some businesses. In 2001, it sold GS Electric, a division of SPX’s Industrial Products and Systems segment; Marley Pump, a business acquired with the United Dominion acquisition.

In the same year, SPX also sold its door products business into a joint venture with Assa Abloy. In 2003, SPX sold Inrange Technologies, the SPX’s networking technology development business unit, which has lost money in the last few quarters. Experiencing the long economic downturn in U. S. , SPX

aggressively expanded its customer offerings globally, increased its sourcing outside the U. S.

nd grew its operations overseas through partnerships and attractive, low risk strategic acquisitions. From 2000 to 2002, SPX's international revenues increase more than 350%. At the end of 2002, 33% of SPX's $5. 05 billion revenues were generated from outside the United States. In 2003, SPX continue its geographic expansion globally.

It invested $4 million to double the dry-cooling capacity at its plant in China. This key investment will reinforce SPX's leadership position in the cooling tower industry and support the increased cooling-capacity needs of its customers in the high growth Asia Pacific region. It also enabled SPX to provide advanced technology to the global marketplace at competitive prices. SPX also acquired Ziton Australia, Intelligent Fire Systems and Ziton Queensland, which represent one of the largest independent fire protection and emergency warning systems businesses in Australia. This acquisition expanded SPX's presence in Australia, and was one of several growth initiatives that are underway to further globalize SPX's Edwards Systems Technology business. Due to aggressive strategic acquisitions, SPX had more than $2.

billion in total indebtedness by the end of 2002, which is about 5 times of its cash balance. The level of its indebtedness limited SPX's available borrowing capacity to about $ 400 million under its senior credit facility at that time. This level of borrowing will potentially limit SPX's cash flow available for general corporate purposes, such as acquisitions and capital expenditures. It

may also limit SPX's flexibility in reacting to competitive and other changes in the industry and economic conditions. In 2003, SPX has refinanced and amended its senior secured credit facility.

The refinancing combines two tranches of its term loans and reduces the interest rate on one tranche by 25 basis points. The combined loan matures in 2009. Although, the refinancing reducing SPX's debt by about $200 million, the company still needs to evaluate its indebtedness periodically. SPX needs to proactively increase its free cash flow level in means of reducing employee and manufacturing costs and other facility overhead, divesting its unprofitable business units or those that no longer fit with their overall strategy of the company.