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# Surviving the Bulls and the Bears: Robust Strategies and Shareholder Wealth

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This paper raises the issue of robustness of strategy over financial market cycles. Using an inductive approach, it examines the performance of companies in term of relative value creation or destruction over a bull and bear market cycle. The sample for this research consists of 54 large US firms from seven industries (airlines, banking, computers, network equipment, pharmaceuticals, retail, and semiconductors). The findings demonstrate that few firms performed well in both the bull and bear markets but those that did achieve superior performance over the market cycle employed innovative strategies that competitors struggled to imitate. These superior strategies resulted in lower cost structures and/or the ability to charge premium prices. It concludes by offering lessons that managers should integrate into their business models to obtain similar competitive advantage that is robust to drastically changing market conditions.


## Introduction

> '…How do we know when irrational exuberance has unduly escalated asset values…' Alan Greenspan on December 5, 1996

Emerging from the recession that began in the late 1980s, the US economy strengthened during the early and mid-1990s. The stock market also began to gather steam. The late 1990s witnessed an explosion of equity values and corresponding price/earnings ratios. The climbing market indices reflected the roaring of the bulls in the market. Alan Greenspan declared the dangers of 'irrational exuberance' when the Dow was around 6,400.[1] On January 1, 1995, the Dow and Nasdaq stood at 3,834.44 and 751.96, respectively. They reached highs of 11,722.98 and 5,048.62 on January 17, 2000 and March 10, 2000, respectively. However, the markets would not remain at these lofty

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heights. *By August 31, 2001, the Dow stood at 9,949.75 and the Nasdaq stood at 1,805.43.* Between the last quarter of 2001 and the end of the third quarter of 2002, these two indices fell further, despite occasional upward excursions.[2] During the economic boom of the late 1990s, many North American firms made important strategy and investment decisions based on the seemingly ever-increasing capitalisation of earnings streams and the resultant low cost of equity. This phenomenon also occurred among some European firms, especially those in the technology sector.

The rapid growth in the stock market values produced many distortions. For example, Yahoo.com was worth \$125.04 billion on January 3, 2000 (with 1999 revenues of \$588.6 million, and 1999 net income of \$61.1 million), while on the same date Ford was worth \$59.55 billion (with 1999 revenues of \$162.6 billion, and 1999 net income of \$7.2 billion). Near the peak, firms with relatively modest profits were often selling at p/e multiples of over 100 and were using their high valuations to acquire other more profitable firms. In fact, calculation of how fast and how long some firms would have to grow to justify their valuations resulted in nonsensically large numbers. Under such circumstances, it was easy for strategy and resource allocation to become highly distorted. Gravity, however, would not be denied.

Some valuations began softening in 1999, and by early 2000 the entire North American stock market had entered a period of substantial decline. Equity values for many firms plummeted. The bears growled as many firms failed. Declines of more than 90 per cent were not uncommon for large technology companies, while many small technology companies disappeared. For example, Cisco went from \$523.8 billion on March 27, 2000 to \$99.1 billion on April 6, 2001, a staggering loss of 81 per cent in just over one year. Similarly, JDS Uniphase went from \$102.61 billion on September 20, 2000 to \$8.54 billion on August 30, 2001. Many technology CEOs, whose pictures had appeared on the cover of business publications in the preceding two years, found themselves without jobs. For large firms outside the technology sector, declines may not have been quite as dramatic, but they were still often huge. Procter & Gamble reached a high of \$154.74 billion on January 11, 2000, only to lose 47.9 per cent of its value, falling to \$80.49 billion on June 18, 2001. Similarly, Home Depot lost 33.6 per cent of its value, falling from \$158.29 billion on December 31, 1999 to \$105.01 billion on July 10, 2001.

*Declines of more than 90 per cent were not uncommon for large technology companies*

The purpose of this paper is to reflect on the comparative performance of firms in the most recent bull/bear market cycle, and by implication future cycles, including the next one. We examine how well firms in various industries did in both the bull and the bear periods of the market, identifying several important lessons relating to organisational strategy. Before delving into the data and findings, two components that form the foundation of this study must be discussed. First, the notion of business cycles is reviewed, including the placement of this most recent cycle in historical context. Next, we discuss shareholder wealth creation as the ultimate long-term performance measure of strategy and executive effectiveness. We examine the comparative wealth generation/destruction by firms in several industries in both bull and bear markets. Using an inductive approach, we studied a sample of 54 large firms drawn from seven different industries (airlines, banking, computers, networking, pharmaceuticals, retailing and semiconductors) to explore the strategies that were robust to changing financial and economic conditions. These industries were chosen to span a wide range of characteristics from high-tech to low-tech and from service to manufacturing. To make the analysis useful, we compare firms against peers in their industries. The data show that many firms that performed well in the bull market, performed poorly in the bear market (*compared with their industry peers*). Surprisingly, superior relative performance is often not sustained in downturns. It is equally surprising that a small number of firms managed to perform relatively well in both bull and bear markets. Superior performance was