Money meets Strategy
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1. **Money meets Promoters**
   Until a few decades ago, lenders drew comfort from promoters. 'Reputed' promoters could easily obtain loans for their profitable and not-so-profitable companies. The cost of funds was not very different between these two categories of companies of the same promoter. There was confidence that the promoter will protect her name by not allowing any company in the group to default. The scenario could be described as '*Money meets Promoters*'.

2. **Rising corporate failures**
   The last couple of decades have seen a major upheaval in corporate failure rates, driven by the following:
   - Slow moving companies are unable to match up to fast-paced changes in economic, regulatory and technology environments;
   - Scale economics and advances in technology are pushing up investment requirements, while behavior of markets, customers and consumers has become more fickle, whimsical and unpredictable;
   - Corporate governance legislations and awareness have made it difficult for promoters to dip into the coffers of their deep-pocketed companies to support financially-stretched group companies.

3. **Money meets Companies**
   The realization that promoters are unable or unwilling to use their own cash-rich companies to bail out troubled group companies forced lenders to prioritize company financials. A sound promoter reputation was a necessary but not a sufficient condition to approve loans. The borrowing company needed to have sound financials too. Thus *'Money meets Promoters'* transitioned into *Money meets Company'.*

   The gap between cash-rich and financially-stressed companies was bridged for some time through promoter funding i.e. promoter would borrow personally against the value of her holding in the valuable company, and channelize the money into the group company. This bridge too vanished when lenders lost money in situations where stock market valuations crashed on account of external factors or factors intrinsic to the borrower groups.

4. **The need for Strategy Consulting**
   Strategy consulting started as an esoteric "want". Promoters would engage strategy consultants in order to talk about it in cocktail circles. The reports of strategy consultants would gather dust in the promoters' shelves. The "want" became a "need" in response to rising corporate failure rates. Promoters needed strategy to ensure they would survive in an environment of rising corporate failure.

5. **The need for Investment Banking**
   Simultaneously and independently, the need for investment banking too rose. In a *'Money meets Company'* environment, investment bankers were required to make the company bankable. They were also required to help strong companies acquire other companies, and assist weak companies find a honorable exit.

6. **Strategy and Money – Disconnect at the top, Opportunistic extension elsewhere**
   Although the need for both Strategy and Investment Banking rose, the convergence was missing. Isn't it interesting that the world's premier strategy consulting firm, McKinsey does not engage in resource mobilization? Concomitantly, the global investment banking powerhouse, Goldman Sachs does not engage in strategy consulting.

   These two blue-blooded firms stuck to their core competency; their marquee clients who are big and successful had the management depth to manage the disconnect between strategy and money in their business.

   The not so blue-blooded firms (in both consulting and investment banking) found opportunistic extensions irresistible. Consulting firms recruited investment bankers and set-up corporate finance desks; Investment banks did not even feel the need to hire consultants or set up dedicated consulting desks. They only had to look around at successful companies and peddle their stories as consulting advice to their gullible clients, who were happy to receive "consulting" free or at a negligible cost. (Read my note, "The 10X Consultant".)

7. **Problems of a 'Strategy meets Money' World**
   Strategy is at the core of any organization. Money is meant to be a facilitator to make the strategy happen. When '*Strategy meets Money'* i.e. strategy is tweaked just to make the money happen, the tail starts wagging the dog. The service provider can walk away with the fees, but the business and its financier are left holding the baby; they blame each other for their predicament. This is the scenario one sees right across the debt and private equity market today.

   Now consider two scenarios –

   - Scenario 1: The promoters are a team of freshers from an IIT with no business background;
   - Scenario 2: Promoters have built their business through several years or decades of toil.

   The downside of a failed 'Strategy meets Money' story is not so significant in Scenario 1. The team will be richer with the experience; they will find some other financial partner for their next business.

   On the other hand, 'Strategy meets Money' can finish the long-established business in Scenario 2. The promoters will be branded as failures who burnt their way to doom. They will find it difficult to revive.

   Promoters of existing businesses need to value their business at least as much as the service providers value their fees!

8. **Money meets Strategy**
   The time has come for a '*Money meets Strategy'* world, where strategy gets primacy, and money performs a supporting role. Strategy needs to be set for every company considering the unique strengths, weaknesses, opportunities and threats of the company and its promoters. Thus, every company will not try to be Uber, Google or Facebook. The realistic strategy that emerges will boost corporate survival rates and minimize risk for both promoter and financier. Money will thus meet a strategy that is realistic.

   This new world requires businesses to have inhouse competency to bridge potential disconnects between strategy and money. Service providers need to be equally strong in both strategy consulting and investment banking. Can we visualize a merger of McKinsey and Goldman Sachs?

Feel free to get in touch at team@mavuca.in to share your experiences or discuss how we can help you.