

**COMMENTARY**

# Asia-Euro Holidays saga: A cautionary tale for SMEs

**By Nitin Pangakar**

**I**N May, the media reported on the abrupt closure of family-run travel agent Asia-Euro Holidays. It is a case of business failure that I believe holds several lessons for companies, especially SMEs. Staff at Asia-Euro Holidays were simply told to go home early and some 500 customers, several of whom had left their passports with the company, were left high and dry. The company's downfall, it seems, was S\$2 million in losses on property dealings.

Why had a travel company ventured into the property sector and exposed itself to such losses? Did diversifying from its core business lead to its downfall? Going by news reports, this seems to be the case.

One lesson from this saga is that companies should tread carefully when venturing beyond their competencies.

It might be argued that in a fast-changing business environment, companies must adapt to survive even if this means developing new competencies. But adaptation has lit-

tle to do with unrelated diversification – a highly risky move that should only be undertaken after careful consideration.

High leverage (or taking on big chunks of debt) simply adds to the riskiness of a diversification move and could magnify the effect of a temporary downturn or adverse environmental development. And leverage tends to be more easily available for investments in tangible assets such as property because of the collateral value that these assets have. However, companies would do well to remember that in the event of an adverse development they have much more to lose than the lender, which typically protects itself from fluctuations by lending much less than the market value of the asset.

Also, just as leverage amplifies your returns when asset prices are rising, it also amplifies losses when the asset prices are falling.

SMEs are especially vulnerable to some of these risks for three reasons. Firstly, they may lack the pool of management expertise that many of their larger rivals might have. Their

management capacity can easily become overstretched because of diversification – especially unrelated diversification since it requires different skills.

Secondly, their balance sheets also may not be as robust as those of larger companies and hence any fluctuations because of poor performance in a new business might threaten their solvency. Thirdly, SMEs typically have centralised decision-making models dominated by the CEO or a few top managers which means that decisions don't get vetted through the same processes at a larger firm.

## REINVENTION

One could argue that reinvention is necessary when a company operates in a sector with dim future prospects such as the travel agency. But while it is true that the rise of online bookings has taken some part of the traditional travel and tours business, there are still plenty of travel agents who flourish even in the new environment.

Some, for example, have specialised in

more complex and value-added services such as ecotourism, or through developing more personalised services.

It is also far easier to find new ways of creating value for customers in your existing industry – since you have knowledge and insights about the drivers of value creation in that business – than to compete in an entirely new industry about which you may know little.

Reinventing your business therefore, doesn't necessarily mean embarking on something completely different.

Another vital lesson from this case is resisting the temptation to chase easy profits. In fact, some of these may be deceptively hard to achieve. What appears to be easy profits to an outsider are being earned by incumbents because they possess some specialised skills.

It may also be a matter of timing, specifically the economic cycle. Easy profits might have been available in boom times and the fortunate few who booked their profits during the boom times probably made easy money.

Many others who were not so fortunate

may still "be on the stage long after the music has stopped" and incur losses.

This has been repeated in almost every bubble over the last few centuries, be it the Dutch tulip mania in the 17th Century, the tech stocks bubble of the late 1990s or the more recent housing price-fuelled bubble in the US.

In fact, even mega banks such as Citigroup and UBS were almost felled by the housing crisis, while more nimble players with deep expertise such as Goldman Sachs escaped with much less damage.

The story of Asia-Euro Holidays then is an instructive one. It offers lessons about not straying from core competencies, not being seduced by what appear to be easy profits, and putting priority on seeking greater competitiveness in one's core business rather than venture into chasing rainbows.

SMEs would do well to heed this cautionary tale.

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