WEEKLY INSIGHT
Vivendi, a crumbling empire

Vivendi Universal (VU), the media conglomerate is going through a profound crisis. The value of its shares has plummeted 60% and its losses last year totalled 13,600 million euros. Furthermore, the group’s accumulated debt runs to 33,800 million euros. Its disastrous results and the pressure from the Board of Directors forced Jean-Marie Messier, President of VU up to early this week, to resign. In the wake of his departure it was revealed that the company had massaged its 2001 accounting to hide losses of 1,500 million euros.

Moody’s, the credit-rating agency, downgraded its bonds to “junk” status, which made Vivendi’s share price fall by 25%. Jean-René Fourtou, Vice-President of Aventis, will face the challenge of refloating the devalued company. (From EBCenter) [Full Story]

Highlights
- In 1983, the one hundred-year-old Compagnie Générale des Eaux (CGE) took a stake in the creation of Canal+, the French television channel. In 1996, Jean-Marie Messier took over as President of the company and two years later changed its name to Vivendi. In 2000, Vivendi, Seagram (the owner of Universal Studios) and Canal + merge, giving rise to Vivendi Universal the second biggest communications giant in the world after AOL-Time Warner. A year later Vivendi Universal bought the entertainment division of USA
Networks and its numerous cable television channels.
- Today Vivendi Universal is present, through its six divisions in the music industry, the publishing world, television and films, telecommunications, the Internet and, through Vivendi Environment, in the sectors of water, treatment of waste, energy and transport.
- In the last two years, Jean-Marie Messier invested more than one hundred thousand million dollars in acquisitions, which has placed Vivendi at the top of the so-called New Economy. However, this intense policy of expansion in the media left the company with losses of 13,600 million euros in 2001, the highest ever recorded in France.

**Press Review**

**From IBLNews**
"Messier takes with him the peculiar interpretation that multinational companies, consulting firms and investment bankers have made of the Internet Age. The vertical addition of assets or, euphemisms apart, buying companies to add on to the traditional water business, simply has not worked, just as is the case of other huge mergers like AOL and Time Warner. The media giants (Vivendi is the second) with a plan, straight from the laboratory, for them to create the content and distribute it to their subsidiaries, was not a successful business. At least the investors, who are the ones that financed the dreams and adventures of their capricious bosses, do not believe in it.

Another immediate conclusion is that the transatlantic experiments with cultures and civilisations so proud of themselves (American and French) tend to fail. In New York, Messier was a Frenchman who spoke English with a French accent, and in Paris, he was an American who appeared to weakly defend the cultural difference. The main cause of the fall is none other than the enormous loss in value of Vivendi’s shares. Capitalism is like football; the result is all that matters. The rest is tolerable."

[Full Story]

**From Libertad Digital**
"Messier took over at Vivendi when it was just a water company, a long established one founded by Napoleon III. He changed it into a services company and made it grow with an ambitious project in the field of communications and leisure. Everything went very quickly, at an unheard of speed: Vivendi grew in urban cleaning, construction, real estate, films and television, but it did so without consolidating some of its foundations and the once star of the nineties must now reconstruct itself on what is left of its excesses. The services side of the business is going well but the communications and leisure side is in the red and has been like that for some time. Vivendi invested in multi-million dollar projects like Canal Plus and Sogecable or bought film studios and now it must ponder over the withdrawal from certain areas of business that in the past seemed very promising and now are a bottomless pit.

Messier's departure, therefore, puts an end to a period of pipe dreams, dreams that have vanished in the face of reality. His successor will have to learn the lesson well and implement strategies with his feet firmly on the ground because castles in the air quite simply end up falling apart."

[Full Story]

**From Libération**
"In a universe obsessed by creating value on the stock market, the boldness and speed of operations outweighed the solidness of the company. Communication was more profitable than uprightness in management.

(...) This revolution has devoured its own children. The real economy and the law have recovered their status of untouchable stars. "Irrational exuberance" has given way to the terror of the markets."

(...) The first mission of the future General Manager, whether he is interim or not, will be to make peace between
the European and American administrators, whose relationship over the last few weeks has divided them into two opposing sides, even to the point of both being against Messier. The Americans are in favour of dismantling Vivendi Universal, while the French fear losing their flagships, namely Vivendi Environment, Cegetel and Canal+. In short neither side appears to have the same objectives."

[Full Story]

From Le Monde
"One scenario would be to separate the American side (films and music), as well as the French and American publishing units from the rest of the group. These could then be taken over by an investment group close to the Bronfman family. Other parts such as Canal+, could be transferred to French investors, in so doing the audiovisual law of 1986 would be respected and a new polemic about the cultural difference or the financing of French films would not rear its head: Jérôme Seydoux or the Lagardère Group should then decide if they are interested or not. Once the separations are made there would be a group with the two essential areas of business that would regroup the present subsidiary companies of Vivendi Environment and Cegetel.

(...) One can also hear these days two less favourable scenarios. Before going back to reconstruct the former Générale des Eaux, some people recommend a clear separation between services and telephony, which would be sold to Vodafone. Another plan would be to completely merge Vivendi Universal (VU) and Vivendi Environment (VE), distributing the shares of VE to VU. At the same time, the telephony and Canal+ divisions would be sold. The inconveniences of this plan are that it would create a group in which the point of balance would be very American."

[Full Story]

Commentary by...
Juan Miguel López
Vivendi, back to reality
The spectacular expansion of Vivendi between 1999 and 2001 was due to certain business behaviour and beliefs that, in a short space of time, are changing from being admired and followed without question to being reviled and rejected by the business and financial worlds, that at their height benefited from them. In fact, we are faced with a breakdown of the model in which some of the paradigms adopted just two years ago have proved to be false and are driving many important groups to unsustainable business situations

Traditionally, the utilities business, such as water and the associated services, which originally gave rise to Vivendi, has had moderate growth and stable stock market prices. Its strength lay in the huge network of distribution capable of generating enormous sums of cash flow and, in many cases, in the security provided by a structure born at the heart of monopolies. Protected by this type of business and faced by the illusion of rapid success created in and around the Internet and the New Economy some visionary entrepreneurs steeped in charm, such as Jean Marie Messier, emerge whose only consideration is size and growth through the entrance of new businesses and technologies. In the case of Vivendi, the idea was translated into the creation of a mega corporation that, beyond the scope of its traditional businesses, tried to cover the whole value chain of the New Economy businesses: from the creation and production of content to its distribution to end users via the different technological platforms, including the network infrastructures needed to do so.

On paper, the success of this vertical integration stems from the economies of scale and the attainment of synergies between the different businesses. Another of the hypotheses is that a good part of the financial resources required to carry out this expansion (via purchase) comes from getting capital from the variable income markets, supposing of course that the stock markets allow for an indefinite growth of the share price of the business.

However, nothing could be further from reality. To start with, the growth cycle through the capital markets waned when the share prices started to fall; investment was reduced and the demand for profitability was
increased. This put the survival of Vivendi and other similar groups, strangled by heavy debt, seriously at risk. On the other hand, the much voiced creation of synergies between the different business units rarely took place and, in many cases, the companies do not work as true groups but as "conglomerates" of enterprises with very different management styles and problems and, in some cases, with opposing shareholder interests.

The crisis of definition the telecommunications and content businesses are going through must be added to this internal dynamic, which in turn transmits the insecurity and pessimism to the rest of the businesses within a business structure. Of course, we must not underestimate the pressure put on management teams to get short-term results with the consequent reflection on the financial markets, which may lead to the temptation of forcing financial practices to the limit (and in some cases even cross the line of what is admissible), with the resulting damage to business and the confidence of the shareholders. In the face of these circumstances, it seems reasonable to think that the future of Vivendi will depend on the application of certain reorganisation and rationalisation measures. One can envisage the reduction of the levels of debt through the sale of assets and the search for a more stable and homogeneous group of shareholders; a more rigorous management focussed on profitability with a more realistic approach to lead the group to focus on the businesses with greatest possibility of bringing in income and achieving true synergies. However, none of this will be enough unless the codes and norms of good management are renewed and applied as well as a business ethics behaviour that enables the company to restore the confidence of the markets and the shareholders.

EBCENTER ARTICLE

The Internet, the best medium for spying on the competition
By Neus Palomeras, Ebcenter Collaborator

The net allows companies, both big and small, to follow their competitors moves closely in a continuous and economical way. [Full Story]

REPORTS

Global electronic commerce is bogged down
Title: Global eCommerce Report
Source: Taylor Nelson Sofres
Date: June 2002

Abstract: The percentage of Internet users that shop online has not grown in 2002 with respect to 2001. This has been confirmed in a study carried out by Taylor Nelson Sofres, who attributes the growth of online shopping to the increase in the number of users, and so rules out that electronic commerce is becoming popular. What is gaining ground is buying holiday and leisure trips through the net, which also contributed to the volume of business generated by e-commerce.

The United States, with 32%, is still the country with proportionally the highest number of users that shop online, which is much higher than the world average of 15%. The study shows that 15% of Internet users buy products and services offline after having gathered information on the Internet, which is a figure that has not changed since 2001.

Security is still the greatest worry at the time of shopping online. 30% of those who refrained from shopping online claimed that they refused to provide their credit card details as against 25% who did the same in 2001. Just like last year, Germany is the most reluctant country to give credit card details (73%). [Full Story]

Pre-pay, crucial to European i-Mode success
Title: iMode in Europe
Source: Datamonitor
Date: April 2002
Abstract: Datamonitor forecasts **one million i-mode subscribers** in Germany, the Netherlands and Belgium combined by **2003**, fuelling a much needed ‘second coming’ for the entire mobile value chain. The consulting firm warns that "with no pay-as-you go alternatives available, subscription and transmission charges could hinder uptake and restrict the service’s appeal to the important youth segment, which often prefers the pay-as-you-go option". Ignoring this category of user by only allowing i-mode through subscription is likely to shrink the potential user base by a substantial margin. Datamonitor believes that a designated pay-as-you-go pricing model must be developed for the pre-pay segment, in order to drive use through viral marketing, as well as to guarantee returns as quickly as possible. In Datamonitor's view, in terms of content genres, agreements with content providers and handset form factors, i-mode's business model is highly transferable. The argument that mobile data in Japan has taken off due to low Internet penetration and cannot therefore be repeated in Europe (where fixed Internet is widespread) has been over-emphasized. [Full Story]

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Google, the search engine preferred by 50% of Internet users
**Title:** Search engines in Europe
**Source:** NetValue
**Date:** June 2002

**Abstract:** Almost half of those who use search engines in Spain use Google, a percentage far above the second highest engine, Altavista, that is used by **6.2%** of the Spanish audience.

These data were published by NetValue, an Internet mediation company that carried out a study on the use of pure search engines (it does not include the search engines found in portals) in Spain, France, The United Kingdom and Germany in April 2001 and April 2002.

According to the report, the use of these tools has grown in all the countries studied. More specifically, the average length of a connection through search engines increased by 11.8 minutes in a year.

The Spanish are the ones who most use search engines (59.4%), followed by the British (54.7%) and the Germans (51.7%) and the French trail far behind (38%). Spain is also the country that devotes more minutes per month to search engines (32.8). [Full Story]

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COMPANIES
**Eresmas buys StarMedia**
In spite of being up for sale, the Auna Group portal bought Starmedia.com and Latinred.net for **eight million dollars**. The acquisition includes all the trademarks and portals of Starmedia and LatinRed in the 18 Latin American countries it operates in plus those in Spain and the United States. By so doing, EresMas will add **12.3 million new users** to its 2.8 million clients in Spain and to the total of its Spanish-speaking audience. From **Yahoo! News**. [Full Story]

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US search engines must distinguish between publicity and content
The Federal Trade Commission has **warned** the operators of several major Internet search engines to make it clearer to their users when companies have paid to be included in Web search results. The letters will go to AltaVista, AOL Time Warner, iWon.com, Looksmart, Microsoft, Terra Lycos and Direct Hit, now a part of Teoma. From **New York Times**. [Full Story]

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WE RECOMMEND
**The technological sector under the syndrome of Peter Pan**
The representatives of the North American technological industry, especially those from Silicon Valley, are struggling to establish a difference between the Internet bubble and the boom of technology. The great
technological development, they argue, gave rise to a period of fundamental transformation of industry and a sustainable growth over a long period. For this reason they are anxiously waiting for the storm to abate and for everything to return to what it was before. However, this is never going to happen. This is what an article in World Economic Forum maintains. It reproaches the technological industry that is suffering from the syndrome of Peter Pan. In other words, the sector is convinced that the companies and the technologies can grow indefinitely, but never grow old. However, the electrical industry was also involved in a revolution at the beginning of the 19th century and today nobody dreams of making himself rich with an electrical company. The author puts this immaturity of Silicon Valley down to its North American west coast position so obsessed with being young and urges the industry to proudly display the grey in its temples. There is much to say for being mature. From Worldlink. [Full Story]

**Intelligent Business**

Artificial intelligence (AI) has begun to fulfil its promises and offer real business applications. McKinsey Quartery distinguishes between three types of artificial intelligence that can help companies to get a real economic benefit.

In the first place, there are numeric analytic systems suitable for resolving problems like the detection of fraud, where it is necessary to set up norms from a huge number of numeric data. The decision systems based on norms are useful for automated workflows. Lastly, the automated execution systems are ideal for carrying out automated tasks in which information from different organisations intervenes, which is shared through the Internet. With this type of system, for example, the distributor of Arrow Electronics components managed to reduce the time devoted to its orders by 50 to 75%.

McKinsey's experts warn that although these applications are promising they are not suitable for all companies. The consultant recommends limiting this type of application to complex repetitive activities based on information and within companies whose businesses are sufficiently standardised. From *McKinsey Quartery*. [Full Story]

**Zara, fashionably early**

Zara, the fashion company for teenagers, has become an international reference for the efficiency of its supply chain that is 12 times faster than that of GAP, the North American company. Its garments are hardly more than a few hours in the logistic centre of the company from where they are distributed to the 519 shops the company has in Spain, Europe, the Middle East and America. Business 2.0 devotes an article to the company founded by Amancio Ortega, whose success stems from a simple principle: in fashion, nothing is more important than the time to market. The managers of each shop input the state of their inventory into their PDA's, which are connected to the Internet, and send the information to their headquarters in La Coruña. The designer team are there and they analyse these data daily together with the suggestions they receive from each shop. From the study of these data, they create new garments or modify existing ones. The textile factories of the group complete the circle. They are capable of replacing or redesigning any garment as fast as a teenager changes her mind. From *Business 2.0*. [Full Story]

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