CASE 5:
CHEMICALS, INC.

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Firm Style	Interview Round
All	2

Case Question:

The CEO of Chemicals Inc., a leading chemicals company with a long history of innovative products and application technologies has contacted you for assistance. In the past couple of years, the company's bottom-line profitability has slowly eroded to the point where EBITDA is hovering barely above 0, even though the company's overall sales growth is outpacing industry averages. Magnifying these financial problems are the reports he is receiving from his business unit leaders which are that revenues and volumes are up and profitability has never been higher. The CEO looks at you across the table and asks, "What do I do?"

Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
Tell me about the firm's product portfolio?	Many different kinds of chemicals products, sold to many different kinds of customers (large, small), in many different kinds of industries (automotive, medical, consumer products), all around the globe.
	Cont'd on next slide

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Clarifying Questions & Answers

Provide the following answers only if the interviewee asks the corresponding questions.

Question	Answer
How is the company organized?	The company is organized geographically and by the underlying technologies that drive products, not necessarily by product line. Definition of product line is technology-application (think industry)- geography ,e.g. Chemical A – Automotive – USA.
What industries are customers of the firm's products?	Automotive, Medical, Consumer Products (packaging), Manufacturing, Electronics, Drilling
How does the firm view the world in terms of regions?	North America, South America, Europe, Pacific
Who are their competitors? What does the competitive landscape look like?	Major competitors include large multi- national corporations as well as small, local, specialized firms with a single product. Some of these firms actually purchase our client's products and rework them and sell to the end customer.
What are the costs the company is incurring?	Revenues last year were $2Bn. The COGS is variable, about 25%, but all companies in this industry are dealing with fluctuating feedstock prices. SG&A expense is 30% of revenue and beyond the industry benchmark. Other costs are inline with industry norms.

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Framework / Structure

This is a Sales & Marketing case. The analysis may include, but is not limited to, the following areas:

1. Customers
   a) Who are they?
      i. Firms within the various industries, we can speak at the industry level for this case.
   b) Where are they?
      i. Global. No difference between same industry in different regions.
      ii. Customers in USA and Europe most profitable to serve because most closely located to Firm"s plants; however, Pacific is fastest growing region.
   c) What products do they buy?
      i. Automotive – Very price conscious for most parts, except in safety applications and where the consumer will be touching the product, e.g. interior
      ii. Consumer Goods (Packaging) – Very cost conscious, cannot pass costs on, e.g. plastic cups, plates, plastic wrap
      iii. Electronics – Varied products, generally need inexpensive products; however, willing to pay more for small lot sizes and specialized custom technical support.
      iv. Medical – Very specialized medical applications, think lenses, can pass costs along to customers.
      v. Drilling – Huge costs for broken parts, so want the best products available.

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2. Product & Service Mix
   a) What products are provided?
      i. Chemical Technologies A,B,C
      ii. Coupled with 5 different Industries yield 15 product lines
      iii. All supported using same shared service model and provided technical support, customer service, logistical assistance, financing terms.
      iv. See Exhibit #1 for Product Line Contribution Margins e. What services accommodate the products?
   b) What services accommodate the products?
      i. Presently customers of every product line have access to the full suite of services
         i. Small Batch sizes
         ii. Custom Logistics Servicing
         iii. Technical and Customer Support
         iv. Application Development Support

3. Organization: The company is organized into **3 business units** each representing Technology A, B,C respectively.

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Strong Plan

Since sales revenues and volumes are outpacing the industry while our profitability and specifically EBITDA is suffering, I hypothesize that there is a cost problem and will therefore focus on the COGS and SG&A. Within the cost problem, since the various business units are reporting gains while the company overall is sustaining a loss I hypothesize that there is a cost allocation problem and I will try to determine where this problem exists. Finally, I want to examine the marketplace for the client's chemicals products. I hypothesize that one reason revenues are up and profitability is down is that we are actually undercharging for the products and services we do provide. I;d like to understand what our client's customers need and are willing to pay for and to align our client's offerings with those needs.

Show interviewee Exhibit 1.

Interviewee: Do you know anything about the profitability of each product line?

Interviewer: Yes, Exhibit 1 displays the contribution margins of the 15 product lines with each bar a distinct product line. The colors correspond to the business unit that owns the particular product line.

Expected Insight: Much of the firm's product portfolio has undergone commoditization, given the wide range of product line contribution margins. Also, business units are spread across the contribution margin continuum. May want to realign product lines to business units based upon contribution margins. Those with higher margins get more service, those with fewer, treated like commodities.

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Recommendation

The recommendation should include the following:

- Reorganize the company into Specialty and Commodity Business Units.
- Specialty – High Level of Service; Commodity – Develop Low-Cost Service Model
- Assign 1 individual to manage each of the shared services and handle appropriate cost allocation.

Risks:

- Appropriate allocation of product lines to business units now and over time.
- Business units do not own manufacturing and supply chain so this can continue to be a holder of unnecessary cost. Little incentive to optimize.
- Reduced personal service will make company less competitive and reduce top-line and volume

Next steps:

- Study Manufacturing and Supply Chain to allocate these to business units where practical
- Increase partnerships with Specialty Chemicals customers for greater volume in high margin business
- Consider outsourcing or selling one or the other business units to focus in one area; or develop portfolio strategy with major customer, such as industry-specific sales teams that span business units.

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Strong Recommendation

I recommend that the company reorganize along the lines of contribution margin into a specialty and a commodity business unit. The specialty business unit should continue to provide a high-level of customized service to customers, while the commodity business unit should adopt a lower cost service model. This lower cost service model may include IT tools, a la carte service agreements, and less favorable terms and conditions to the end customer. Additionally, I recommend that the client develop a shared service model that embeds business unit-specialized functions into the business and retains general legal, hr, facilities, etc. services as part of a corporate core. Each shared service should have a single leader who is responsible for the costs incurred in that function and responsible for the allocation of those costs to business units. The shared function leaders should negotiate service agreements with the business unit leaders to ensure appropriate resourcing and allocation of cost.

Questions to Further Challenge the Interviewee

1. What additional changes might you consider to an organization that is facing increased commoditization of their product lines?
2. How might the organization reduce the volatility in its raw materials? To reduce the COGS?

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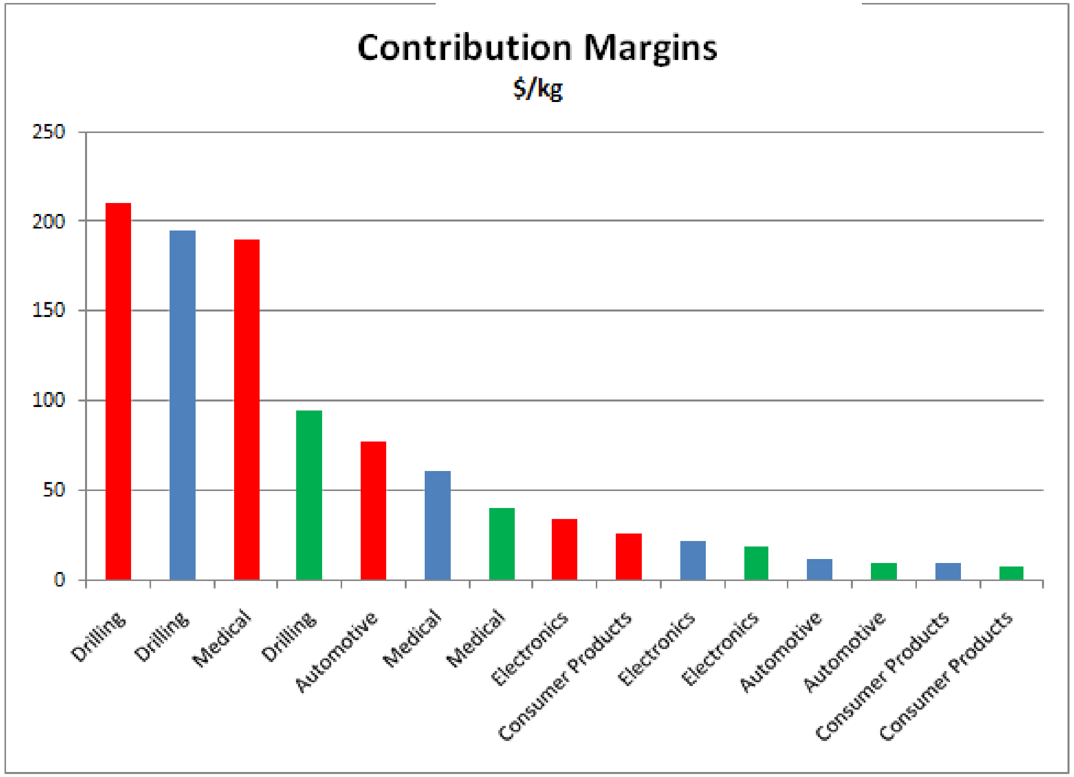
Exhibits



Legend:

Technology A	Technology B	Technology C