

# CRACKING THE ORGANIZATIONAL CODE FOR GROWTH IN THE CHEMICALS INDUSTRY SOCIETE DE CHIMIE INDUSTRIELLE

Annual Meeting - December 18<sup>th</sup>, 2013, The Yale Club, NYC

**Dr. Joachim Krotz, OLIVER WYMAN**

**Mr. Andrew Hanff, P.Eng., OLIVER WYMAN**

# About Us

**Dr. Joachim Krotz**  
Partner



- Leads the Oliver Wyman Chemical practice
- Former CFO of the German chemical group SKW Trostberg AG (today part of the BASF Construction Chemicals division)
- Focuses mainly on holistic programs for corporate development (strategy definition and realization), corporate performance (operational excellence) and restructuring

**Andrew Hanff, P.Eng.**  
Associate Partner



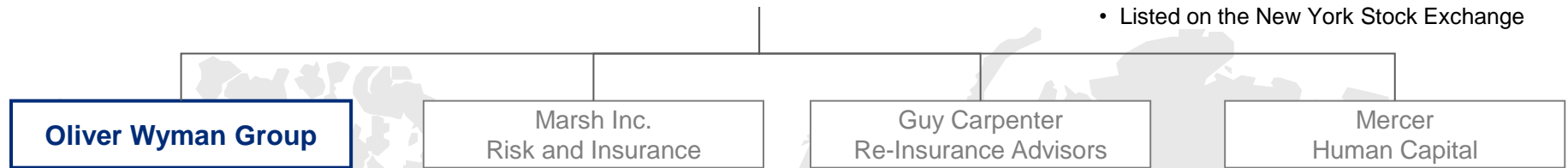
- Co-leads the N.A. Organization Transformation practice
- Focuses on strategy definition, organization design, operations improvement and business unit effectiveness
- Multi sector asset-intensive industrial experience (e.g. chemicals, plastics, mining, utilities)
- Leads the “organize for growth” initiative within the banking sector

# Oliver Wyman is a global management consulting firm that combines deep industry expertise with horizontal capabilities



**MARSH & MCLENNAN  
COMPANIES**

- Revenue 2012: US\$12 BN
- Staff: 53,000
- Clients in more than 100 countries
- Listed on the New York Stock Exchange



## Industry knowledge

More than 40 years of experience in consulting with leading companies in following industries

- Automotive
- Aviation, Aerospace & Defence
- **Chemicals**
- Communication, Media & Technology
- Energy
- Financial Services
- Health & Life Sciences
- Industrial Products
- Retail & Consumer Products
- Surface Transportation
- Travel and Leisure

## Capabilities

Broad expertise in functional areas

- Strategy & Growth
- Corporate Finance and Restructuring
- **Organization Transformation**
- Marketing & Sales
- Mergers & Acquisitions, Capital Markets
- Efficiency, Restructuring & Lean Management
- Procurement & Supply Chain
- Intellectual Property
- Transfer Pricing
- Strategic IT & Operations
- Risk Management

## Presence

US\$ 1.5 BN revenues in 2012

Staff of 3,500 in 50 offices across 25 countries, e.g.

- |              |                |                 |
|--------------|----------------|-----------------|
| • Abu Dhabi  | • Keller       | • Pittsburgh    |
| • Atlanta    | • Leatherhead  | • Portland      |
| • Bangalore  | • Lisbon       | • Princeton     |
| • Barcelona  | • London       | • Reston        |
| • Beijing    | • Los Angeles  | • Riyadh        |
| • Berlin     | • Milan        | • San Francisco |
| • Boston     | • Madrid       | • Sao Paulo     |
| • Chicago    | • Melville, NY | • Seoul         |
| • Columbus   | • Mexico City  | • Shanghai      |
| • Dallas     | • Milwaukee    | • Singapore     |
| • Detroit    | • Montreal     | • Stockholm     |
| • Dubai      | • Moscow       | • Sydney        |
| • Dusseldorf | • Munich       | • Tokyo         |
| • Frankfurt  | • Mumbai       | • Toronto       |
| • Hamburg    | • New Delhi    | • Washington DC |
| • Hamilton   | • New York     | • Wilmslow      |
| • Hong Kong  | • Ottawa       | • Zurich        |
| • Houston    | • Paris        |                 |
| • Istanbul   | • Philadelphia |                 |

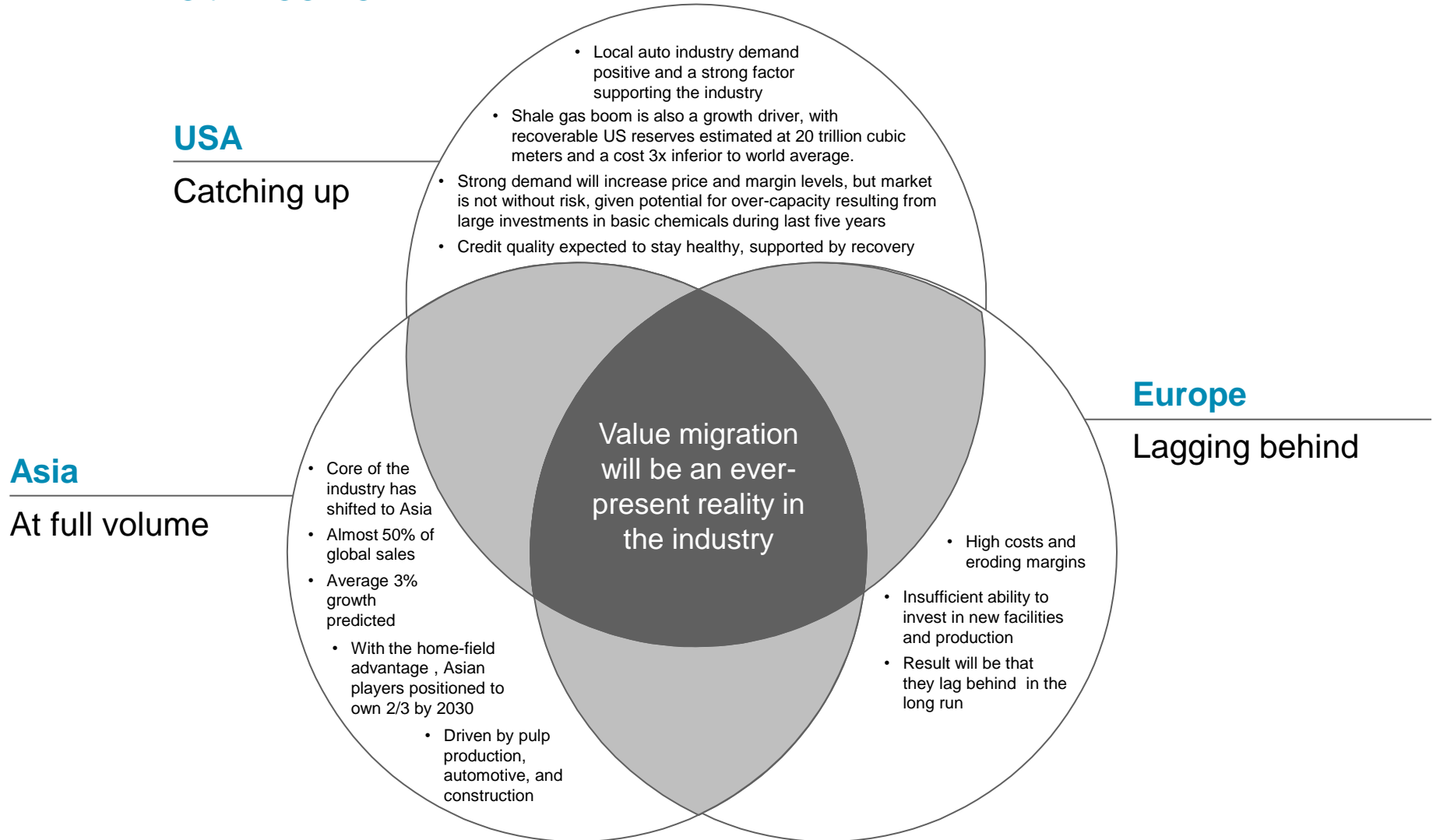
# Agenda

1. Context of the study and our presentation today
2. Summary of outcomes and supporting elements
3. A few takeaways to think about
4. Finding out more

# 1 | Context of the study and our presentation today

# There are distinct geographic realities within the chemicals space

## American firms are the ones to watch in 2014, while Europeans are increasingly lagging behind



# Challenges in the chemical industry

Three main types of organizational challenges have been identified

Firms must be able to satisfy **shifting demands**...



- Migrating from being a product- to a solution- and service-provider
- Implementing customer-oriented processes
- Tailoring customer-interaction models and channels
- Expanding geographical footprint of clients

They need to acquire new **capabilities**...



- Designing alternative organizational models to address new growth opportunities
- Developing a growth-nurturing culture
- Achieving the right power and resource distribution between business lines, regions, and the corporate center
- Putting in place the right organizational and management models in emerging countries

...and ensure the delivery of **high performance**



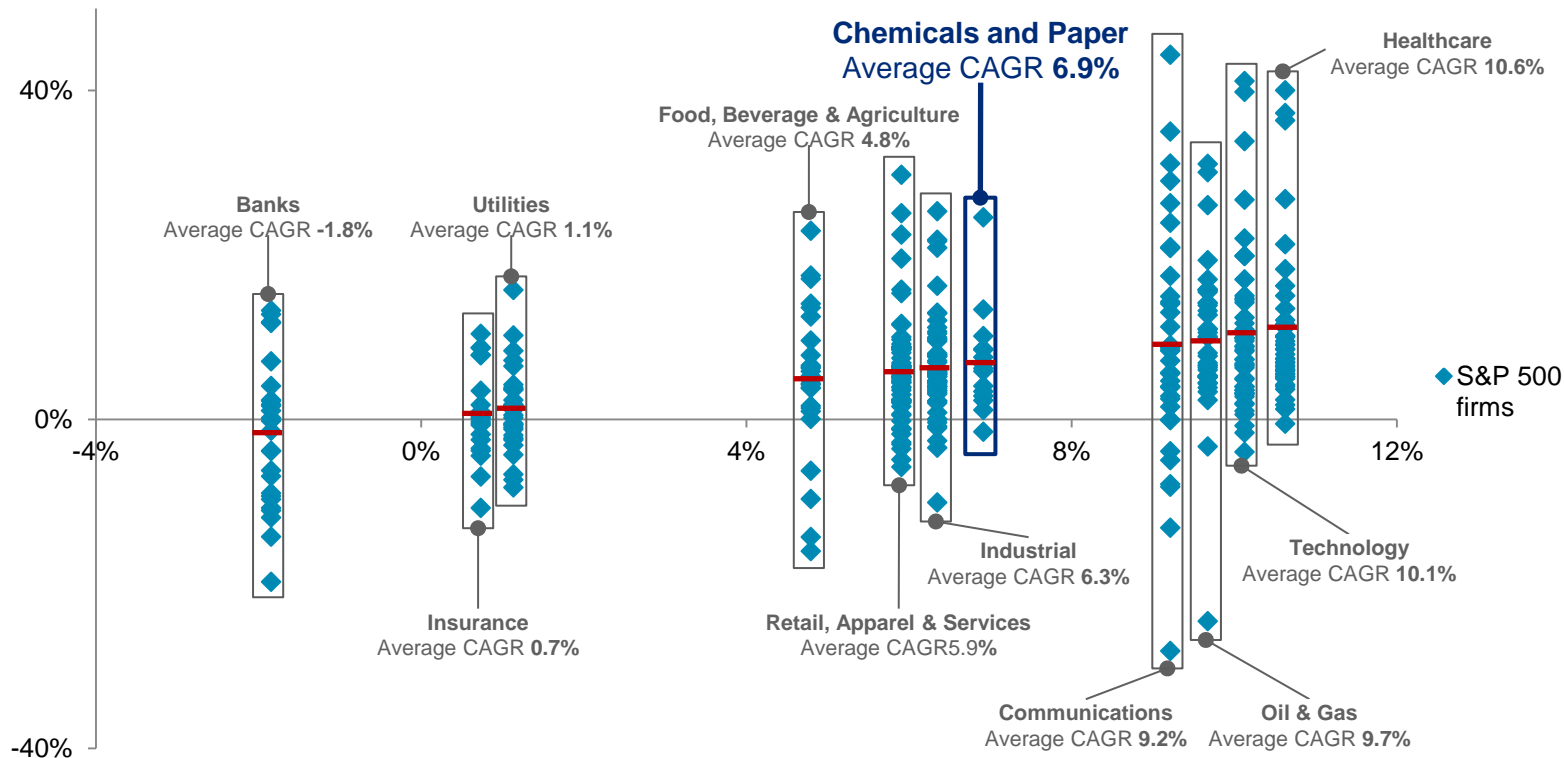
- Preparing for the future while delivering short-term results
- Risk mitigation
- Shareholder revenue and profit
- Customer satisfaction
- Employee engagement

# Individual firm revenue vs. industry average CAGR

## Growth averages are very differentiated by industry

### Individual firm (y-axis) revenue vs. industry average (x-axis) CAGR

From 2006-12, in %



There are 'stars' in any industry that consistently beat their sector's average

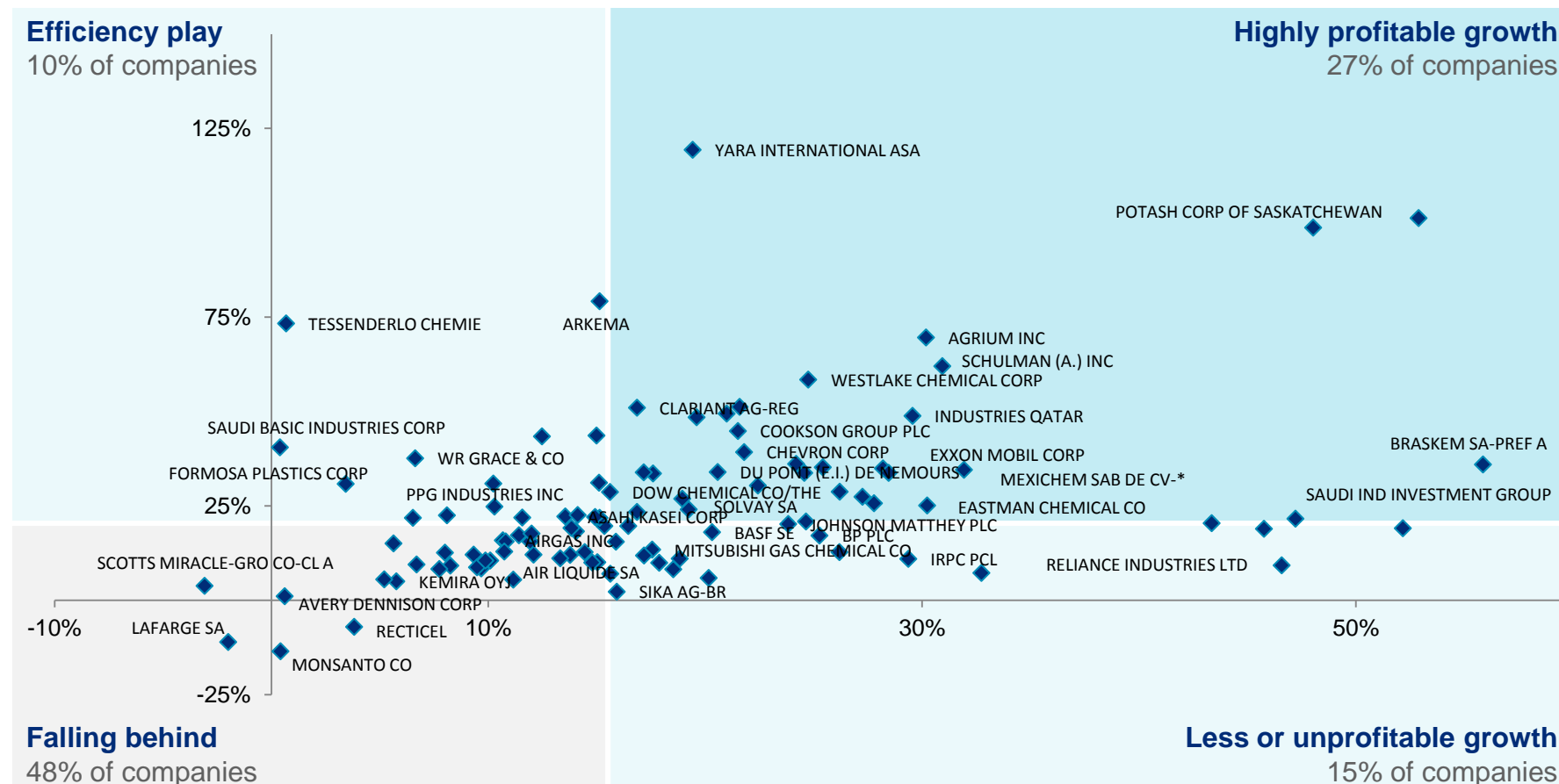


# Should growth or efficiency be pursued within the chemicals space?

## 73% of firms that beat average EBITDA growth over the long-term did so by pursuing a growth vs. efficiency play

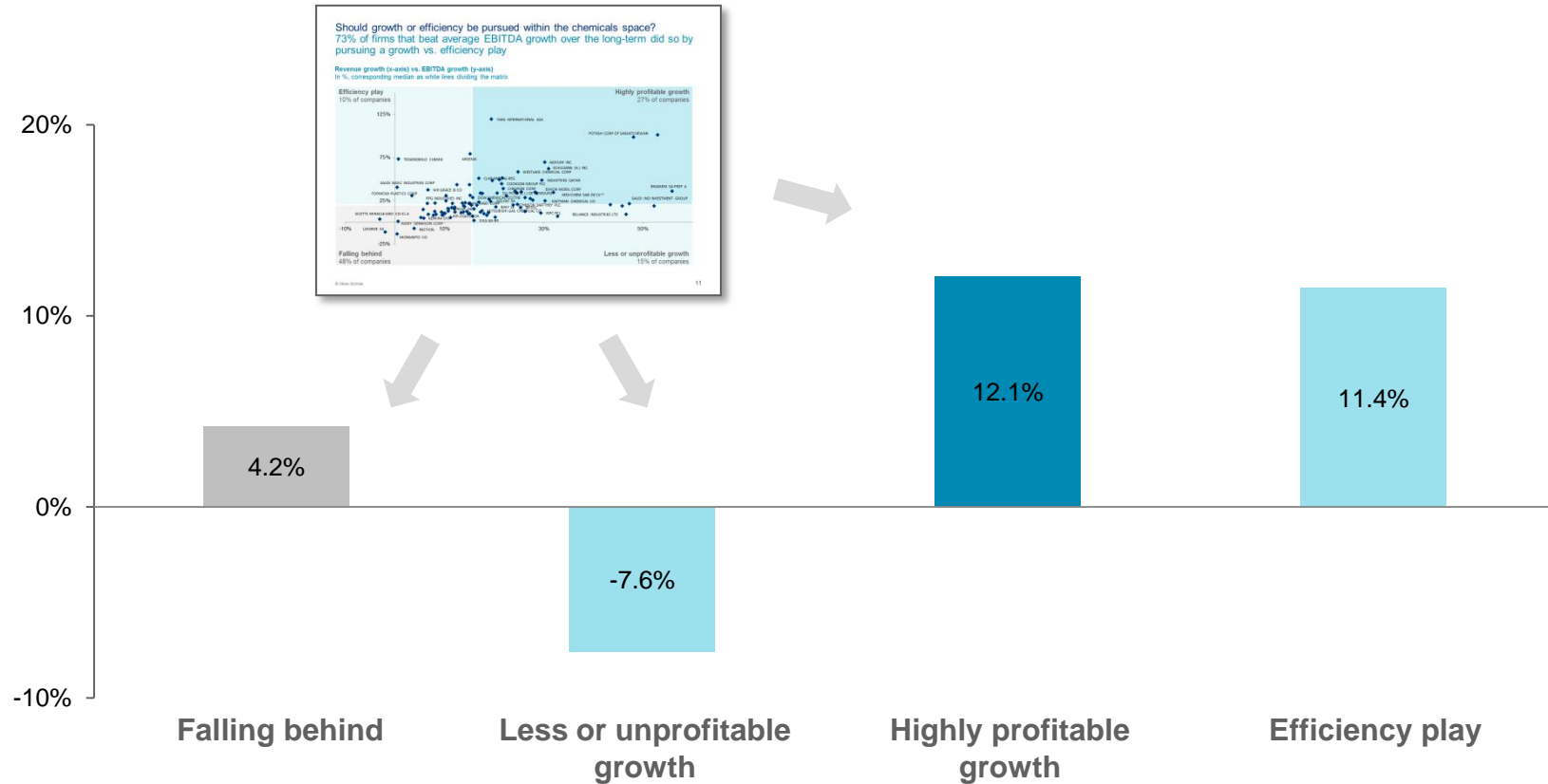
### Revenue growth (x-axis) vs. EBITDA growth (y-axis)

In CAGR%, corresponding median as white lines dividing the matrix



Market capitalization performance is highly correlated to growth...  
 ... with companies that show highly profitable growth outperforming the market capitalization performance of their competitors

**Market Capitalization**  
 CAGR in %, 2009-2011

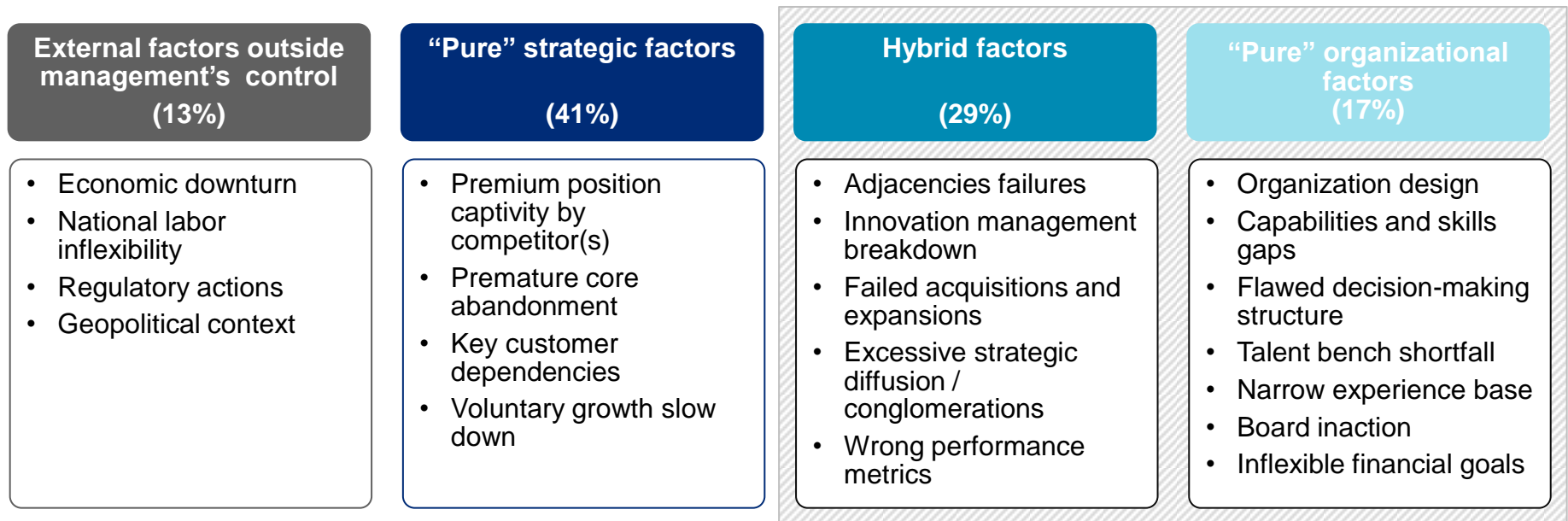


# Root causes of stalling growth

The outline of the external perspective *Stall Points* by Matthew S. Olson of the Corporate Executive Board

## Root causes of stalling growth

A partial list of elements



- **Root causes are fairly evenly distributed between strategic and hybrid / organizational factors**
- **Organizational deficiencies have the double effect of also inhibiting the firm's ability to respond to strategic factors impacting growth or adapt adequately in the face of negative external environments**

# Some facts regarding the study

Based upon a broad dataset, key organizational findings and insights for promoting sustainable growth were uncovered

## Methodology

- **Quantitative aspects**

- Compilation and review of companies' revenue, EBITDA and market capitalization growth over a 6 year time period
- Segmentation of firms into the different performance categories

- **Qualitative aspects**

- Investigation of companies' organizational practices at different levels within the corporate structure
- Comparison of observed practices across the different performance levels
- Deduction of focus areas and best practices

## Participants

- **477 participants** from a diverse set of major chemical companies
- **2/3** of respondents at the level of General Manager or above
- Coverage of **20 segments** within the chemical industry
- Geographical location from around the globe, with **42%** headquartered in Europe
- Average revenues of **7.7 billion USD** in 2011

## Key areas investigated

- **Strategic focus**
- **Organization & processes**
- **Culture & talent**
- **Innovation**
- **Acquisitions**



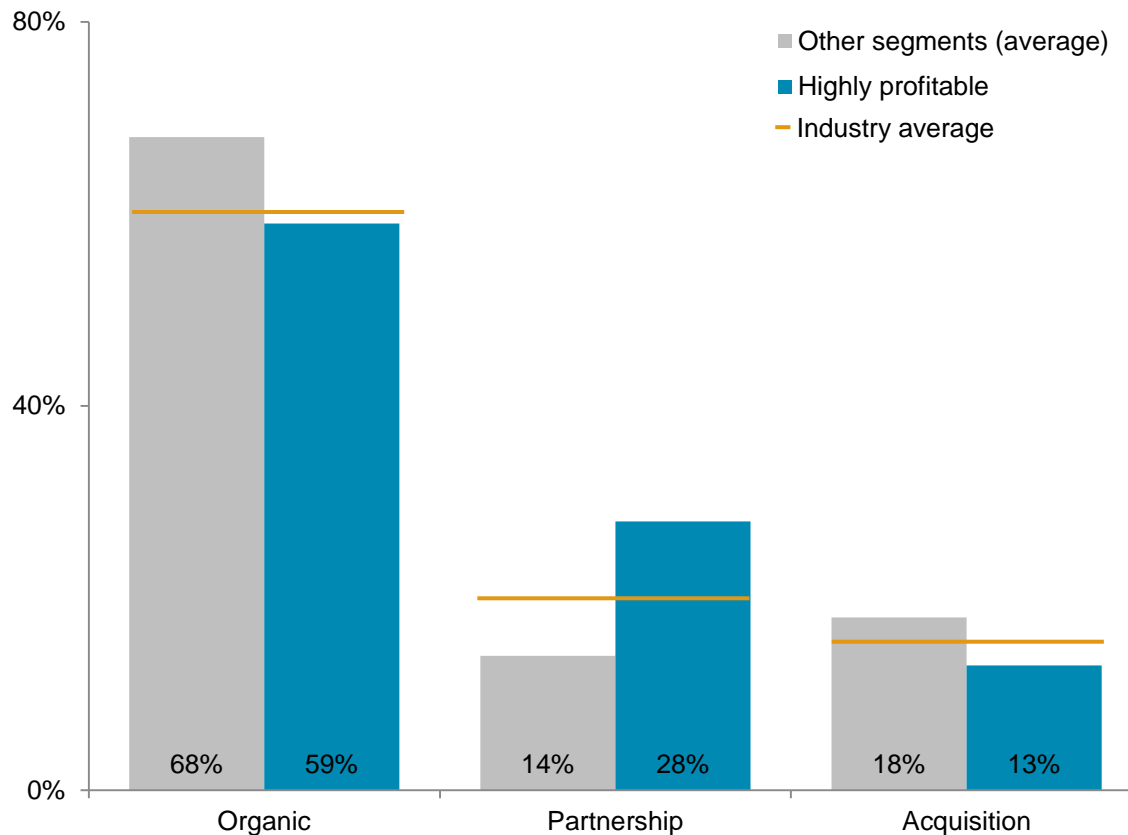
## 2 | Summary of outcomes and supporting elements

# Strategic focus

## The path chosen to achieve growth

### Growth paths

In % of total

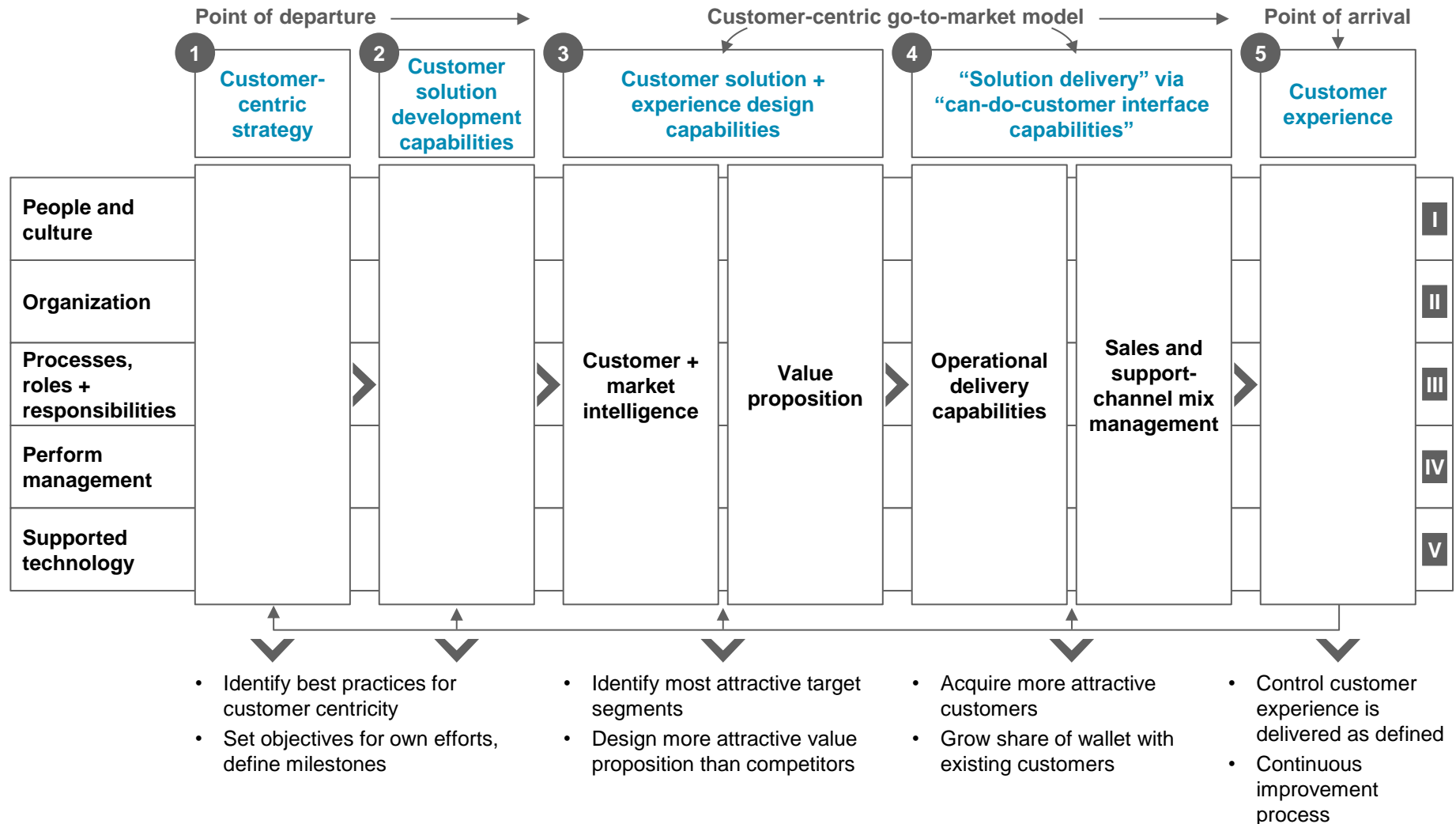


### Main insights

- Higher focus on growth as the objective
- One third of growth originates from adjacent and new businesses
- Partnerships are leveraged twice as much as acquisitions
- 70% consider that significant changes to the strategy will be required in the near future

# Achieving customer-centricity through an aligned sales & marketing org

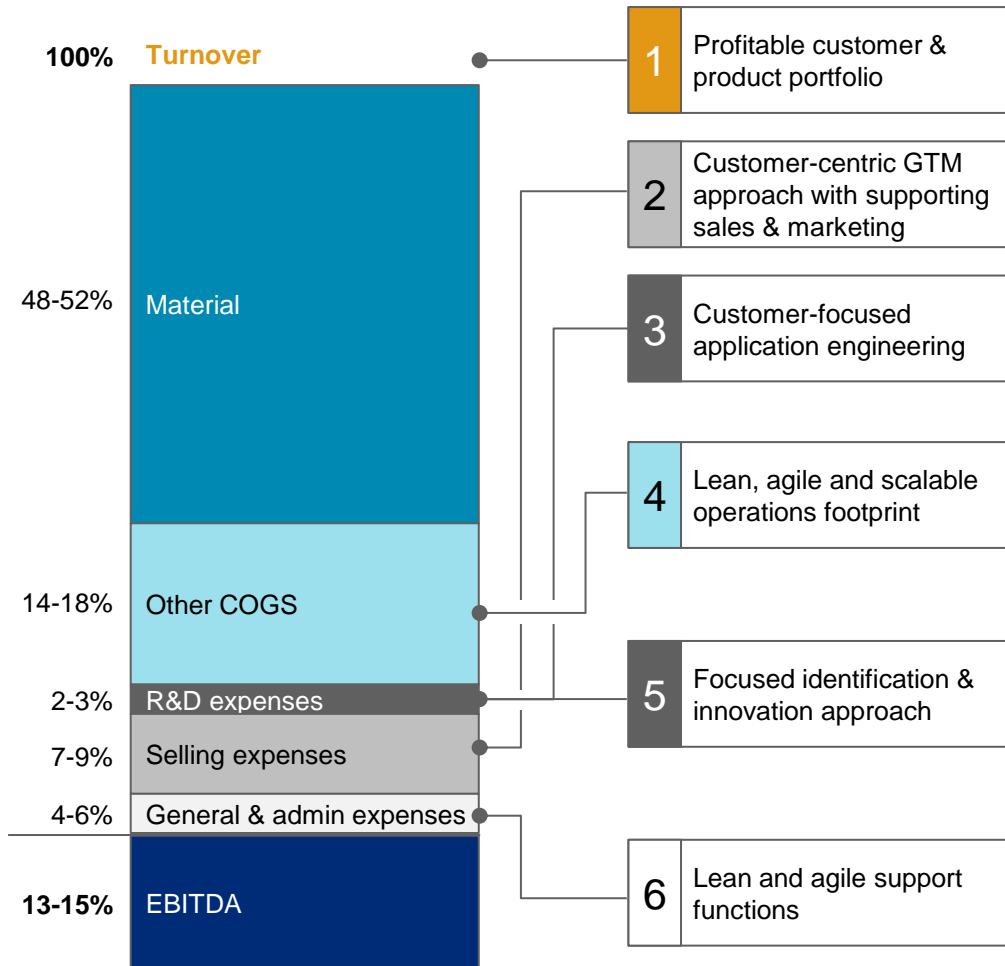
## The organization to support the transformation towards customer-centricity has to balance five building blocks and five enablers successfully



# Top-down greenfield design – target P&L structure and six building blocks

For each of the six building blocks client's greenfield will have clear targets closely linked with a target P&L with 13-15% EBITDA (coming from 5%)

## Target P&L structure



## Building Block along Value Chain

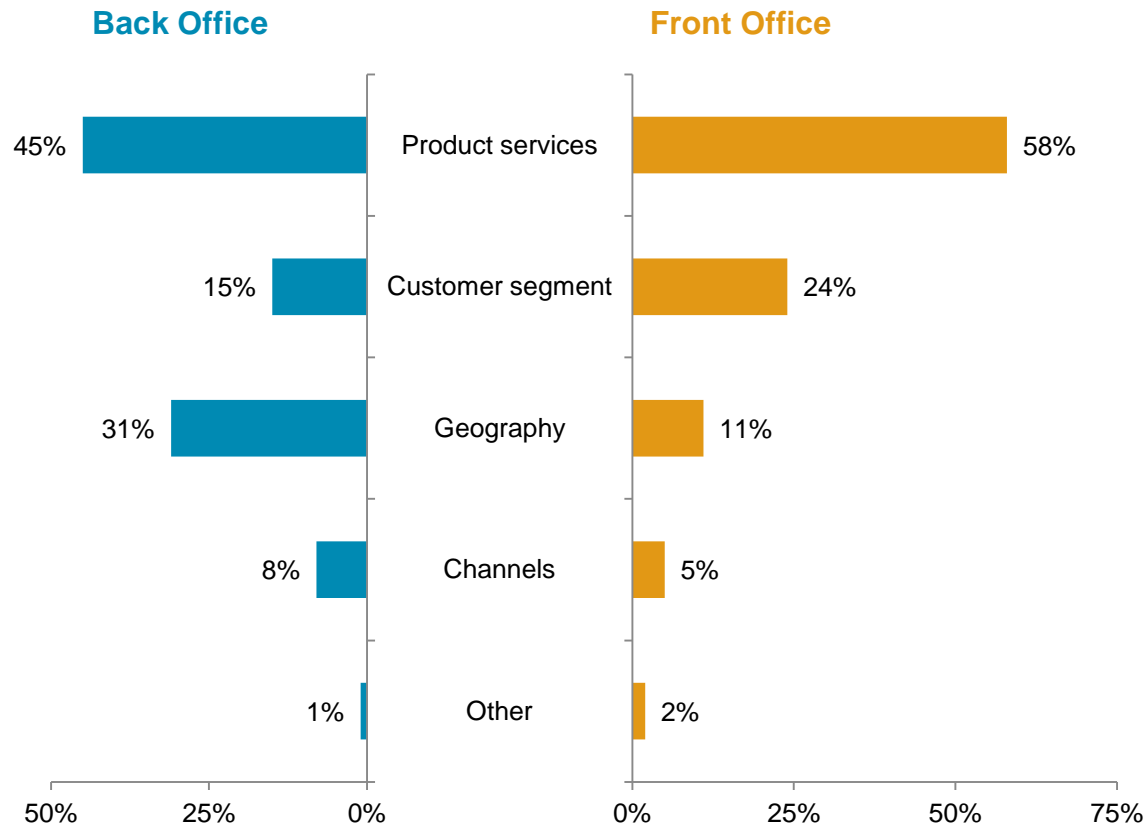
- 1 Profitable customer & product portfolio
  - Focus on **premium chemicals segment**, eliminate low-margin products and customers
  - Serve **selected global automotive OEMs**, tier 1&2 suppliers
- 2 Customer-centric GTM approach with supporting sales & marketing
  - Act as **custom solution provider** or **value chain integrator**
  - Establish **global key accounts** with **regional support**
  - Establish centers of excellence for defined functions
- 3 Customer-focused application engineering
  - Establish **dedicated** network of **resident engineers** supporting OEM along **all steps of product process**
  - Establish **joint-labs** with OEMs and other partners where suitable
- 4 Lean, agile and scalable operations footprint
  - Establish **central management system** as production and outsourcing approach
  - **Disaggregate production steps** to **enable hub and spoke** approach with **scalable capacities**
  - Manage **distribution to OEMs** as core competence
  - Use group **integrated supply-chain** for sourcing benefits
- 5 Focused identification & innovation approach
  - Establish **end-customer scouting** to provide deep insights
  - Focus on **quality enhancing** and **cost per unit reducing** product and process **innovations**
  - **Collaborate** with dedicated external partners in a **R&D network** with **centers of excellence**
- 6 Lean and agile support functions
  - Only establish **core support functions** with management impact such as **Controlling**
  - Establish **shared/ corporate functions** for accounting, treasury, HR, and IT



# Strategic design of the organization

## How are foci of the front and back-offices distributed?

Distribution of key activities to back and front office  
In %

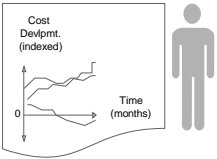
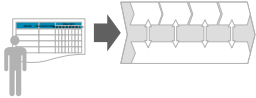
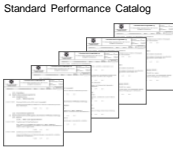
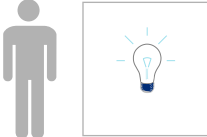
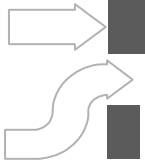
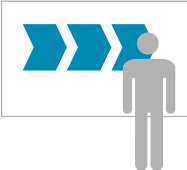


### Main insights

- Sales and marketing tend to be integrated
- Front offices are mainly focused on products and services, as well as customer segmentation
- Geographic delivery is handled to a greater degree in the back-office
- Decentralized purchasing, centralized logistics and distribution
- Accountabilities are well-defined and pushed down throughout the organization

# Greenfield design – target customer interaction model

To ensure efficient client interactions, the GTM approach will focus more on being a customized solution provider or a value chain integrator

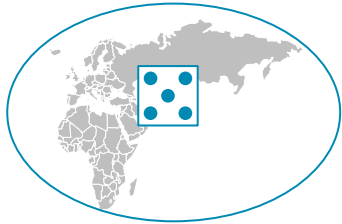
Trader / transactional supplier	Lean / reliable basics	Standard package provider	Product / process innovator	Customized solutions provider	Value chain integrator
					
<ul style="list-style-type: none"> <li>• Numerous anonymous or shallow buyer-supplier relationships</li> <li>• Spot market behaviour/ index price exists</li> </ul>	<ul style="list-style-type: none"> <li>• Trusted buyer-supplier relationships</li> <li>• Supply reliability is important buying factor</li> <li>• Customers see certain differentiation</li> </ul>	<ul style="list-style-type: none"> <li>• Customers need certain breadth of offering but cannot pay for complete customization</li> <li>• Customers can configure own packages</li> </ul>	<ul style="list-style-type: none"> <li>• Customer interested in superior performance</li> <li>• High spending in R&amp;D required to fulfil market needs</li> </ul>	<ul style="list-style-type: none"> <li>• Customer willing to partner to develop solution</li> <li>• Customers ask for customization to fulfil specific needs</li> </ul>	<ul style="list-style-type: none"> <li>• Customer open to shift parts of own value chain</li> <li>• Substantial transaction cost and risk reduction seen by customer</li> </ul>

Each of these require different organizational elements and capabilities to best deliver on the product, service, pricing, channel and branding requirements

# Greenfield design – footprint optimization

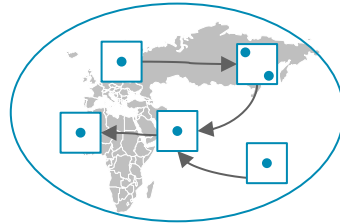
To meet local needs and leverage maximum scalability, very often a hub and spoke approach is suggested

## World factory



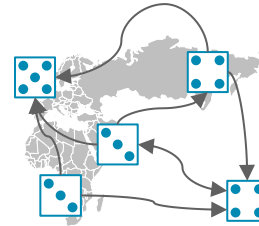
- One product / product line is produced at one site to fulfill global demand
- Little exchange of goods and information

## Process chain



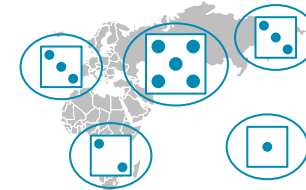
- Maximizes economies of scale and scope for each production step/process step

## Network



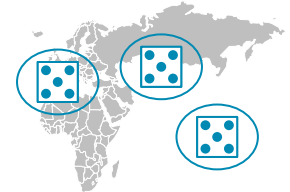
- Suitable for companies with high depth of value add
- Allows for balancing of capacities

## Hub and spoke



- Demand from all prime product facilities within region steered to one facility for production and assembly
- Provides for closeness to markets
- Improves scale effects
- Suitable for lower sensitivity to demand fluctuation

## Local for local



- High closeness to markets
- Suitable for market specific production with low value-density or high delivery standards

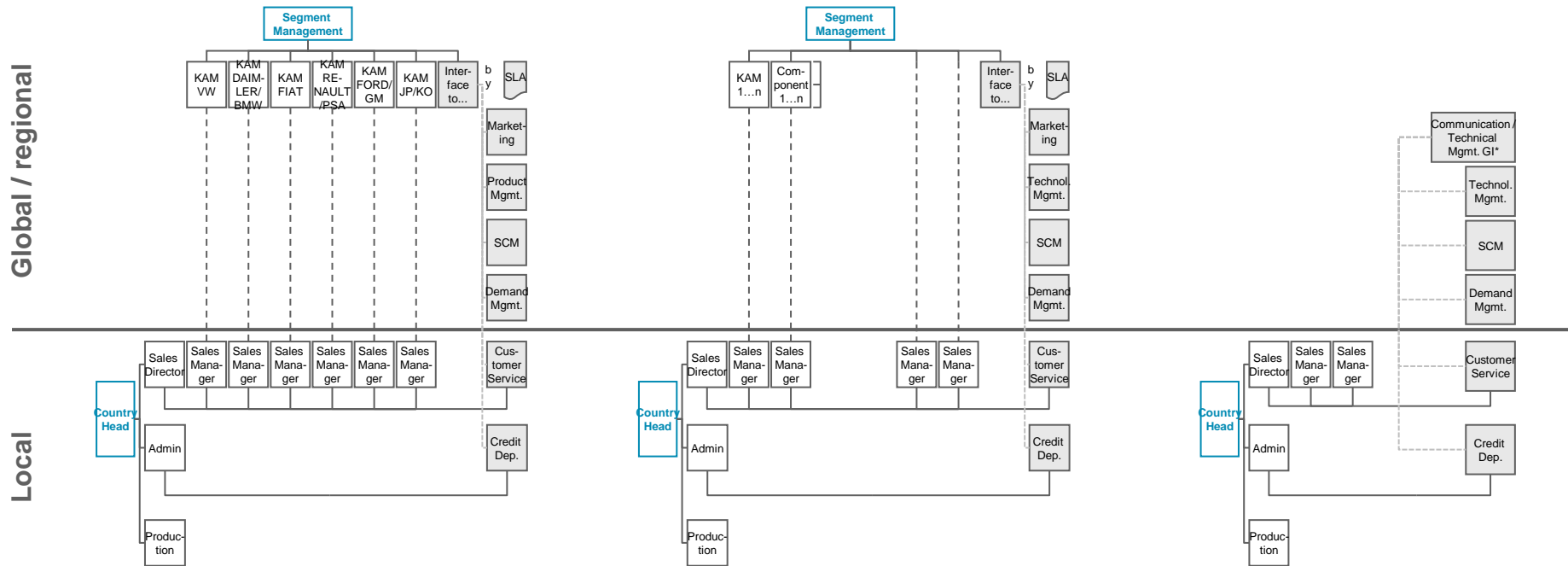
# Creating a market-oriented organizational design

Market requirements drive the organizational design, with large companies having to develop the capabilities to manage several commercial situations simultaneously

**Global Accounts: centrally managed and dedicated sales staff**

**Regional Accounts: mix of centrally managed and dedicated sales staff, and locally managed sales force**

**Local Accounts: managed by local sales organization**



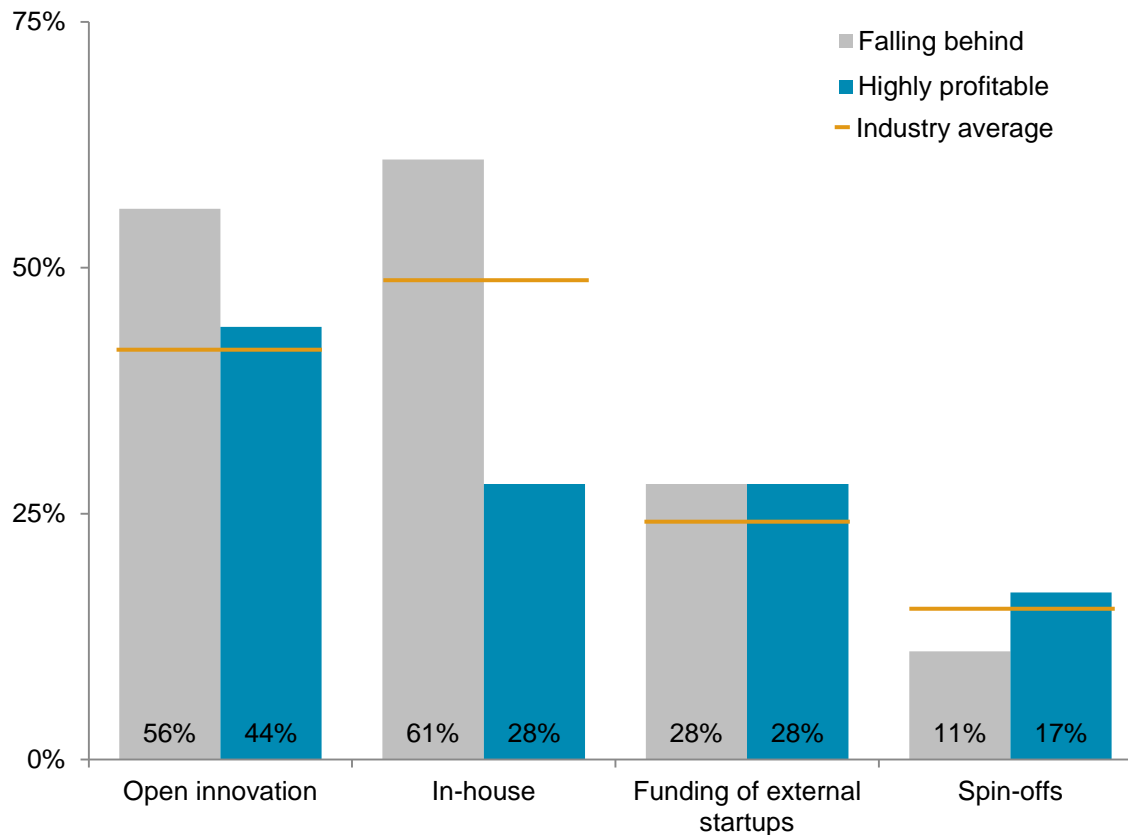
Appropriately managing the global / local balance has significant organizational implications

# Innovation

## A view on the mechanisms used to foster disruptive innovation

### Mechanisms to foster disruptive innovation

In % of total respondents



### Main insights

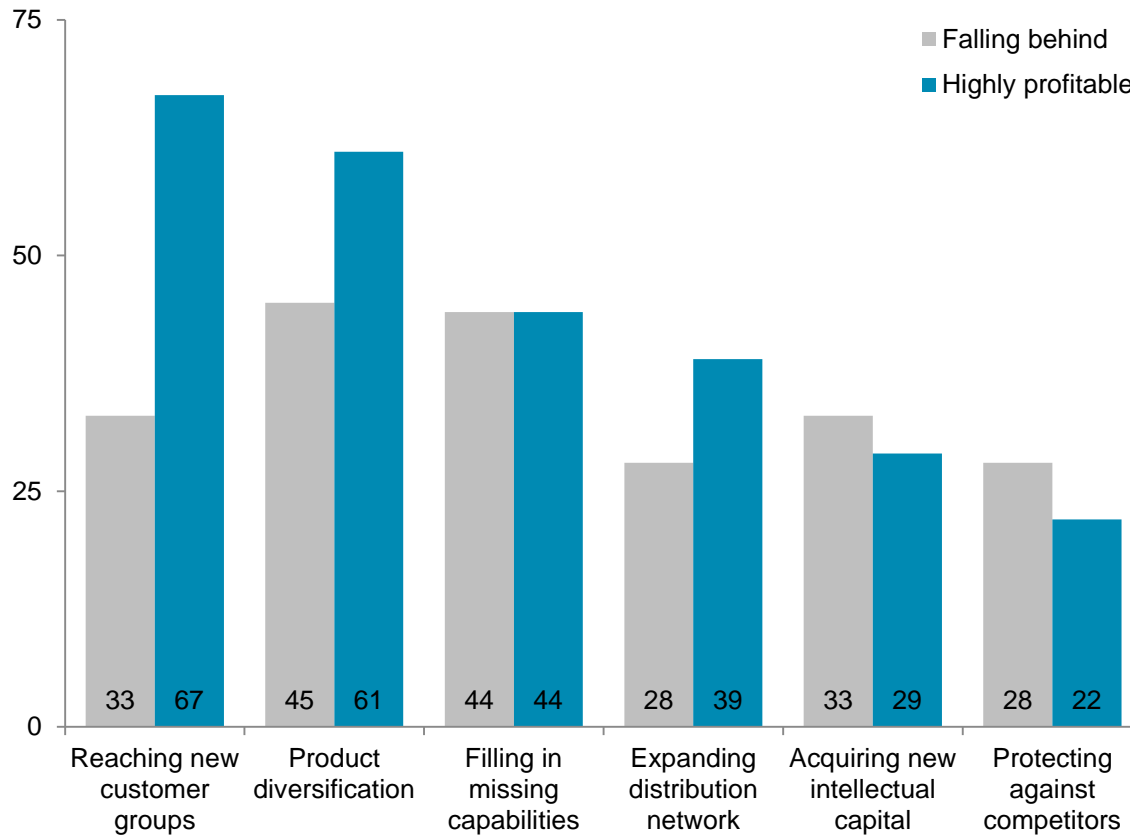
- Open innovation is a relatively common practice across all segments
- There is a low-level of confidence that in-house disruptive innovation can be successful
- Spin-offs are a relatively important component of the innovation portfolio
- 24% of the total innovation portfolio is expected to produce results in the current year

# Acquisitions

## What are the main rationale for acquisitions?

### Acquisition rationales

# of selection



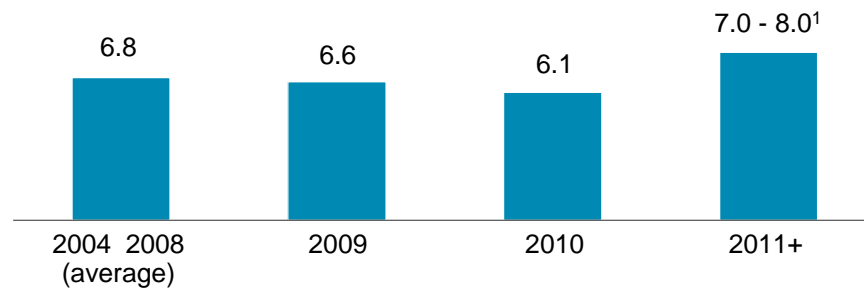
### Main insights

- Accessing new customer groups, product diversification and building missing capabilities are the prime drivers
- Integration problems resulting from cultural differences are one of the key root causes for failure

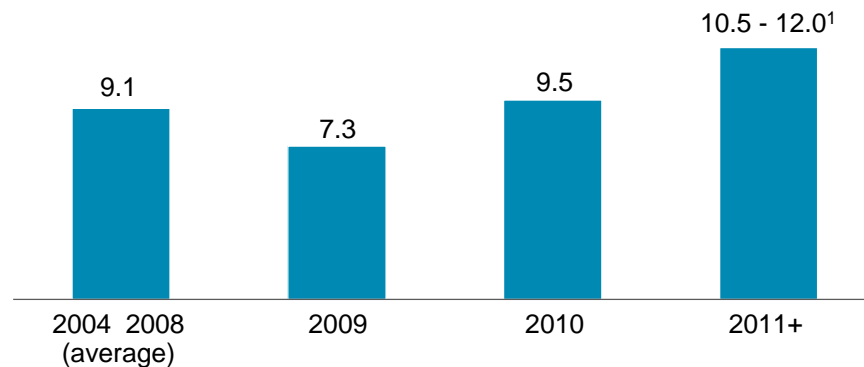
# Valuations on the rise – average enterprise value (EV/EBITDA) multiple

Transaction multiples are on the rise, with strategic buyers tending to have an advantage over their private equity counterparts as they can achieve more synergies and thus pay a higher price

## Commodity chemicals EV/EBITDA Multiple



## Specialties chemicals EV/EBITDA Multiple



## Transaction rationale

- Synergies/cost savings
- Market leadership
- Enhance entry barriers for smaller, less sophisticated players

## Results

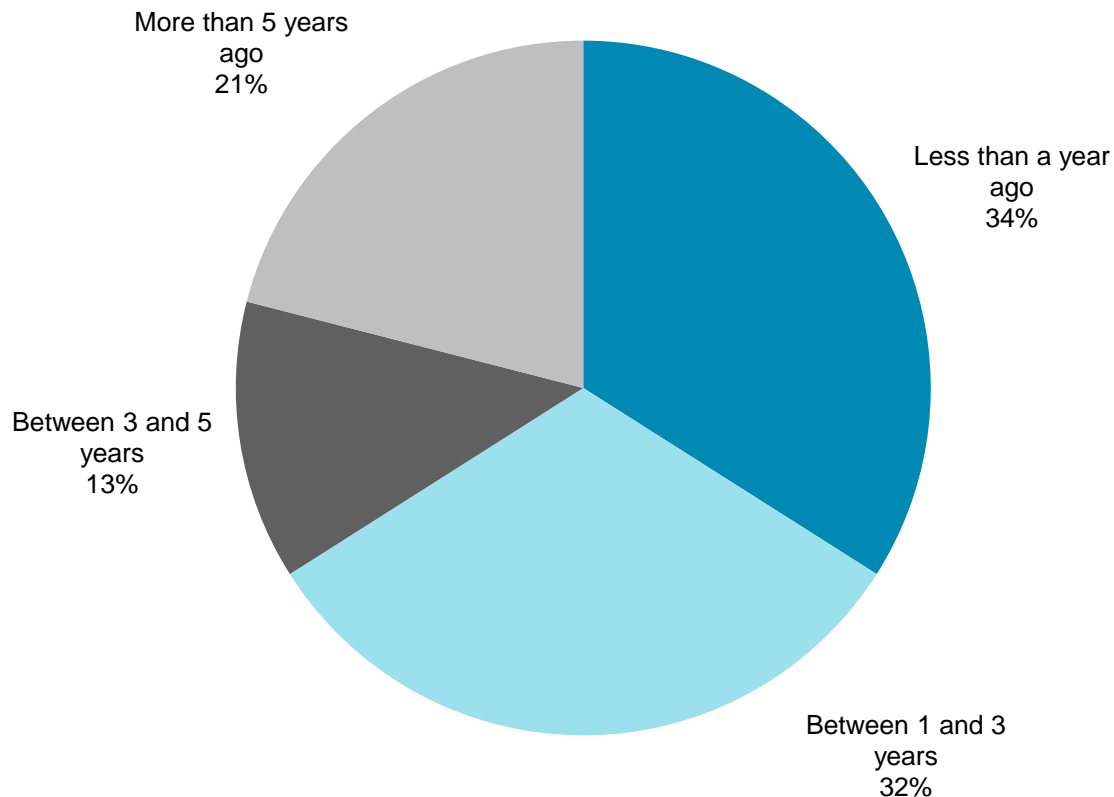
- Increasing market potential of specialties chemicals attracts global players, as well as financially strong Chinese and Middle East investors

1. The acquisition of SÜDCHEMIE by CLARIANT has a multiple of 10.5 times 2010 EBITDA

# Approaches to organization transformation

## Occurrence of major transformation journeys

**Time since last major transformation**  
% of the total



### Key observations

- Two third of companies most recently re-organized less than 3 years ago
- High performers continuously adjust their structure and question their effectiveness more often than low performers
- High performers reorganize to align on new strategies and increase effectiveness
- Poor performers seem to have experienced an enduring need for transformation due to merger or divestment consequences



3 | A few takeaways to think about

# Organization transformation

## Possible reasons for failure during the transformation journey

A

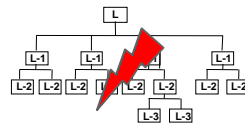


### Weakness in setting clear and shared objectives for the transformation

#### Examples

- Unclear objectives, goals and end state definition
  - Inability to associate the change with clear business and strategic drivers
- Absence of continuing Board or CEO commitment and support
- No robust and compelling case for change demonstrating that the status quo is not an option

B



### Weakness in defining the target organization system

#### Examples

- “Copy/Paste” emulation of organizational blueprints from other entities - one size fits all syndrome
- Over emphasis on the structure with inadequate consideration of capabilities or soft aspects
- Inconsistencies between governance and decision making attributes and the organizational architecture
  - Failure to consciously steer the required culture, behaviors and talent development

C

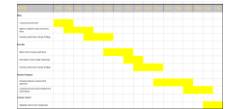


### Weakness in engaging stakeholders and overcoming resistance

#### Examples

- Over estimation of the level of senior team alignment
- Unclear accountabilities between business leaders and the transformation project team
  - Insufficient understanding of new operating models by middle management and individual contributors
  - Failure to anticipate and manage responses and behaviors that derail progress

D



### Weakness in planning and managing for excellence in execution

#### Examples

- Design considerations as the end point of the overall exercise
- Under estimation of the resources and effort required to manage the transition
- Lack of change monitoring/early warning mechanisms indicating deviations and risks
- Inadequate follow-through and accountability surrounding execution

These interrelated risks must be continuously anticipated and intentionally managed

# A few takeaways when planning the journey for your chemicals organization

Take away	Features
<b>1 Do your homework</b>	<ul style="list-style-type: none"><li>• Start with a long term strategy, communicate it to the organization and get understanding and buy-in</li></ul>
<b>2 Push down accountabilities</b>	<ul style="list-style-type: none"><li>• Don't create global structures for the sake of it</li><li>• Be close to your customers</li></ul>
<b>3 Adopt customer interaction models adapted to your business</b>	<ul style="list-style-type: none"><li>• Adjust to market segments and customer requirements</li><li>• Different interaction models might exist within the same BU</li></ul>
<b>4 Adapt top down and bottom-up processes</b>	<ul style="list-style-type: none"><li>• Integrate the management vision into day-to-day operations and take into account local constraints in setting the vision</li></ul>
<b>5 Adjust the footprint to match your business model</b>	<ul style="list-style-type: none"><li>• Don't build a 'worldwide' plant if you need to be close to your customers and change formulations on request (in this case the hub and spoke approach might be more successful)</li></ul>
<b>6 Think partnerships</b>	<ul style="list-style-type: none"><li>• Often prove more efficient than acquisitions and definitely boosts innovation</li></ul>

4

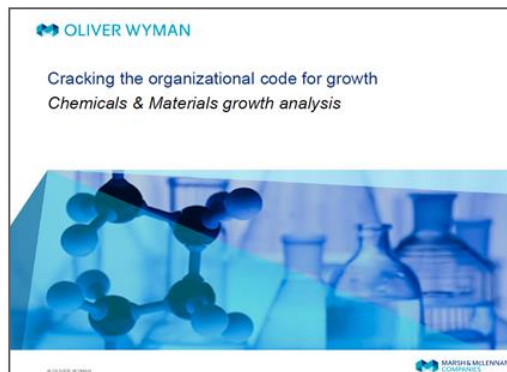
Finding out more

# To learn more about the study, specific results and how you can get involved



## Press Release - Dedicated article

ICIS Chemical Business  
15 – 28 July 2013



## Upcoming global report

- Full survey results
- Customized for your company
- Oliver Wyman point of view



## A dedicated webpage

<http://www.oliverwyman.com/6006>



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