

### *Situation*

A highly diversified \$3 billion dollar specialty chemicals business had experienced marginal growth rates and declining margins over the past several years. After a period of across-the-board cost-cutting initiatives yielding some minor margin improvements, management asked us to develop a strategic growth plan for the business.

### *Approach*

Before examining growth opportunities such as product extensions and new market entry, we developed a detailed understanding of the financial performance of the business beyond reported segments across product markets and geographies on an economic profit basis (net income less a charge for the capital employed). This financial assessment yielded tremendous insights – while the business made barely \$5MM in economic profit overall, there were highly profitable pockets generating EP's of over \$60MM and highly unprofitable segments with negative EP's in excess of \$20MM and \$30MM. We compared these results against overall capital employed and recent capital investments, as well as overall operating expenses and the results of the cost-cutting initiatives across these segments. The results were eye-opening to management – they had over-invested in unprofitable businesses and under-invested in their most profitable segments, largely because of perceived growth opportunities. Next we put this financial performance into a strategic perspective through an assessment of overall market profitability and competitors' strategies and performance across these segments. This information allowed us to generate insights around the key drivers of performance and develop and evaluate potential strategic alternatives tailored to each business segment.

### *Result*

Ultimately very different performance improvement strategies were pursued across these business segments. In the most profitable segment, break-through growth strategies which had been tabled were resurrected leading to both significant top-line and margin expansion. Some of the unprofitable segments required fixing through additional expense and capital controls, while others pursued bolt-on acquisitions to enhance their product and service offering to customers. An overall shift in resources towards more profitable segments also required a reconfiguration and rationalization of their global manufacturing plant network, yielding significant cost savings. Through these efforts, the business had improved economic profits from \$5MM to over \$160MM in less than two years.