

Can we crack the code for growth?

A recent reader survey by ICIS, in association with Oliver Wyman, reveals some of the organisational factors within companies that can lead to higher than average growth



The ICIS/Oliver Wyman survey sought to “crack the organisational code for growth”

JOHN BAKER LONDON

Five years after the financial and debt-driven crisis plunged global economies into turmoil, chemical companies continue to operate in a difficult business environment. But many continue to post growth in revenue or earnings, with some achieving both top and bottom line improvement.

To find out whether there is an “organisational code for growth”, ICIS and management consultancy Oliver Wyman recently surveyed ICIS readers using an online questionnaire designed to look into a number of key dimensions of business organisation.

Laurent Thomas, leader of the Organisation Transformation practice in North America at Oliver Wyman, believes that few studies to date have delved deeply into the organisational factors that drive or constrain growth by industry. The aim of the survey, he explains, was to understand what internal levers chemical companies can use to improve growth performance.

The results show an industry with strategies focused very much on growth, delivered through a strong emphasis on products and services. It is also one that puts a high value on customer focus and innovation – the latter largely intended to support near-term new product development, and hence also growth.

FINANCIAL RESULTS

Companies responding to the survey posted revenue growth over the past three years of 15% on average, with a high proportion seeing revenue increase by 10-20% (27% of respondents) and by over 20% (22%). But 15% of companies said they had seen either no growth or a decrease of as much as 20% in a small number of cases.

In terms of growth in earnings, we asked about earnings before interest, taxes, depreciation and amortisation (EBITDA). Over a third of companies said they had seen average EBITDA growth of 0-10% over the past three years, with 22% enjoying an increase of 10-19%, and 15% seeing 20%+ growth. Again, there were companies in negative territory – with 9% seeing no growth, and 10% a decrease of up to 20%. The average across all respondents was a growth of 21% in EBITDA over the past three years.

Analysing the responses by plotting revenue growth against EBITDA growth for all respondents shows companies can be described as belonging to one of four broad categories: high growth in both revenue and earnings (“highly profitable growth”) (35%); high EBITDA growth but lower revenue growth (“efficiency play”) (16%); higher revenue growth but low earnings growth (“less or unprofitable growth”) (9%); and low or negative growth on both axes (“falling behind”) (40%). The proportion in each quadrant, says Thomas, matches earlier studies by Oliver Wyman of chemical company performance between 2007 and 2011.

STAND-OUT QUALITIES

So, when it comes to high performance, what are the key organisational attributes that drive revenue and profit growth? Comparing the responses of companies in the “highly profitable growth” segment with those in the other three sectors throws up a number of findings.

Companies achieving profitable growth tend to have integrated sales and marketing with shared responsibilities; they use partnerships more often to drive growth, and are less focused on the day-to-day running of the business, allocating more time to growth and other activities.

They also score developing talent higher than lower performing companies and have a more balanced expectation of when their innovation efforts are expected to pay off.

STRATEGY

When asking about strategy, it comes as little surprise that companies allocate the highest part of their strategic planning effort to growth (37% of effort), with a significant share also being allotted to improving efficiency (31%). Managing risk was allocated just 12% of effort, with the balance taken up by other activities.

Companies expect most growth to come from their core business (58%), but a quarter is expected to come from moves into adjacent business areas. Moving into new business areas was identified as providing only 16% of growth. There is little difference across the four financial categories (referred to as segments from now on) outlined above, implying that strategic approach alone seems to have little impact on profitability.

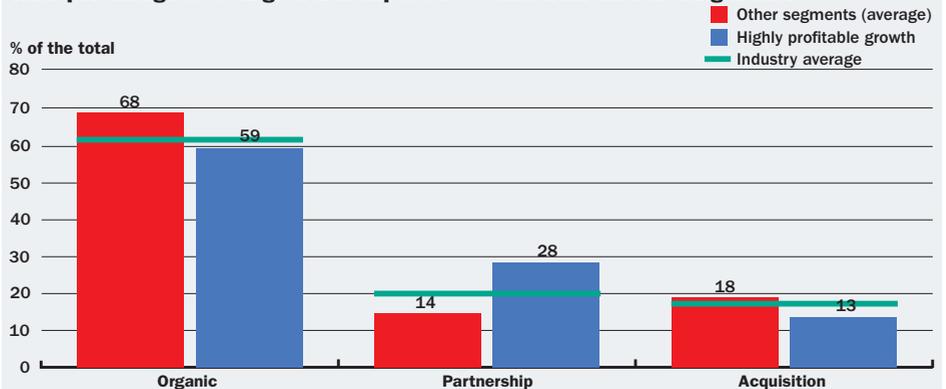
Organic growth tops the list of growth methods (63%), with partnerships bringing in 23% of growth and acquisitions just 15%. Companies in the highly profitable growth segment use 30% more partnerships than average or low performers, who place more emphasis on acquisitions, which may have higher due diligence and execution risk.

Where acquisition is used, product diversification is seen as the prime reason, followed closely by reaching new customers groups and filling in missing capabilities. In terms of segments, those companies falling behind are seemingly missing out on opportunities to reach new customers and have a stronger product orientation. Companies that are falling behind seemingly miss out on opportunities to reach new customers and niches as they orient excessively on product improvement.

Not surprisingly, products and service are seen as the primary internal drivers of growth (82%), with people and strategy also seen as highly important. But firms allocate only 30%

PARTNERSHIPS PAY OFF

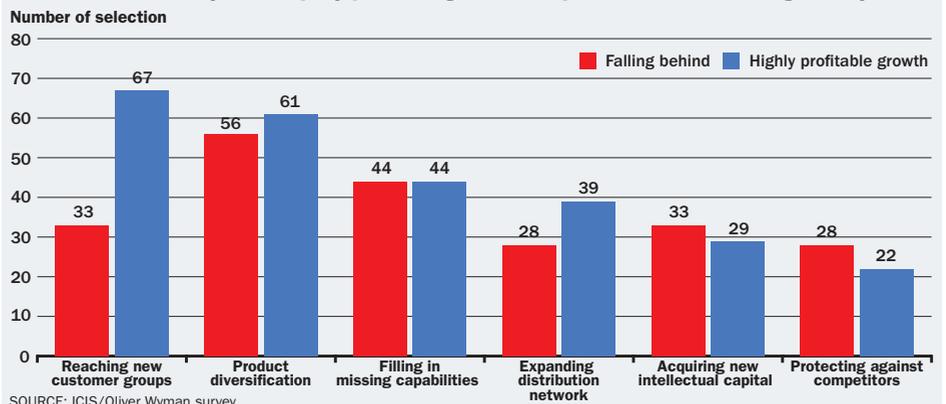
What percentage of total growth is expected to come from the following areas?



SOURCE: ICIS/Oliver Wyman survey

PREFERENCES FOR M&A

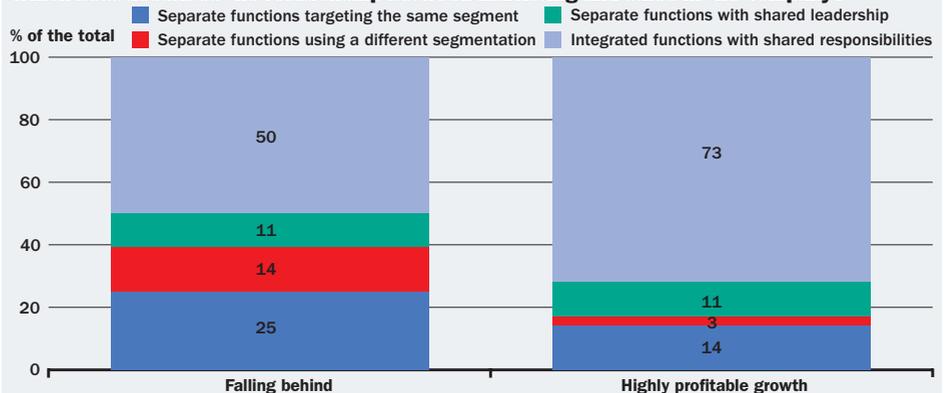
In which areas does your company prefer to grow via acquisition rather than organically?



SOURCE: ICIS/Oliver Wyman survey

RELATIONSHIP BETWEEN MARKETING AND SALES

Which best describes the relationship between marketing and sales in the company?



SOURCE: ICIS/Oliver Wyman survey

of their resources to executing the growth agenda, with 62% of resources going into managing the business on a day-to-day, as-usual basis.

A full two-thirds of respondents said that “significant changes” would be required in their company’s growth strategy over the next few years, and 7% believed “disruptive” change would be required. Surprisingly, more than one-third of companies “falling behind” do not think they have strategic issues, and

need only minor tweaking in this respect.

To summarise, there seems to be little difference between high and low performers in their strategic orientations. So, says Thomas, either performance remains at a more granular level of strategy, or in the quality or execution of the strategy. Also, he adds, companies should spend more time looking at the acquisition/partnership ratio, and at the client needs rather than the product dimension.

» ORGANISATION AND CULTURE

When it comes to the way companies are organised, there were one or two surprises. Given that three-quarters of respondents said their company was culturally customer oriented, the business model is primarily focused around products and services in well over half of companies (57%). Just a quarter say they are organised primarily around customer segmentation and only 9% on geography.

Thomas notes that there are underexploited opportunities here as a result. It is easier to organise through client segments, he adds, when a company has homogeneous technologies. "But this becomes a challenge when companies are leveraging a broad range of technologies. Today, the largest chemical companies tend to organise their global business units (GBUs) around technologies, but at GBU level more and more adopt a customer segment set-up, the regional dimension still being the dominant pattern."

In terms of support functions, there is an unexpected lack of centralisation and service sharing. Only 74% of companies say they operate IT as a shared service, and this figure falls to 60% for finance and 53% for logistics and distribution. Procurement is shared in only 45% of companies.

This lack of centralisation and shared resources runs counter to the responses when executives were asked about accountability in their company's management model. Over half (57%) of firms appear to have a centralised accountability, with a "command and control" model, while only 43% said that accountability was pushed down the organisation.

Comparing the segment results, it is evident that centralisation tends to go with efficiency-oriented companies, and decentralisation with growth-oriented ones, says Thomas.

Asked where they thought the corporate

SURVEY RESPONDENTS

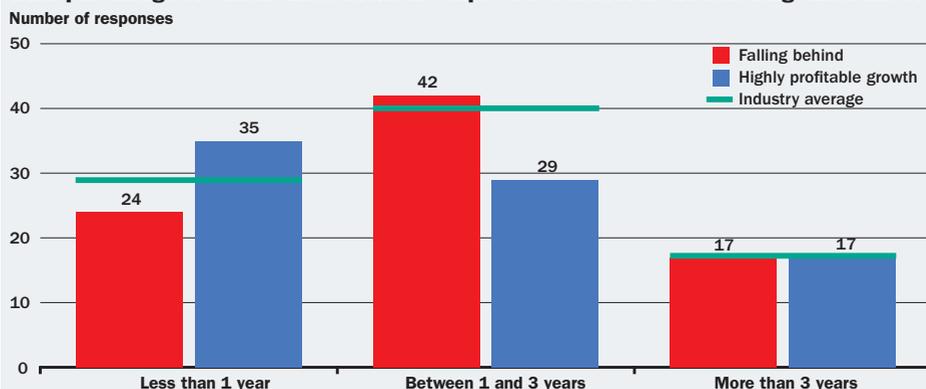
The survey was carried out online by ICIS at the end of May/early June. Over 500 people responded, predominantly senior managers (29% board level and 27% general managers). They were located primarily in Europe and North America (54%), with a good spread over the rest of the world.

Sector coverage was broad, encompassing petrochemicals and polymers, specialty and consumer chemicals, and chemical distribution/logistics/shipping. Average company size was \$7.7bn turnover in 2011, with 45% having sales over \$200m and 18% with sales over \$5bn.

A full set of slides can be accessed at <http://tinyurl.com/OWslides>. Anyone interested in the full analysis of results should email john.baker@icis.com.

TIMELINE FOR INNOVATION DELIVERY

What percentage of current innovations are expected to deliver in the following timeframes?



SOURCE: ICIS/Oliver Wyman survey

centre could make the most impact on the business, respondents primarily identified guidance on business direction and strategy (44%), identifying and fostering cross-business revenue opportunities (39%) and coordinating customer/account management (30%). These three can be regarded as best practice for fostering highly profitable performance.

INNOVATION

Innovation is still largely seen as an in-house affair, but open innovation is also a relatively common practice, cited as being used by 42% of respondents. However, some new practices are growing with 22% of companies funding external start-ups to foster disruptive innovation, 14% using spin-offs and 10% incubators. When it comes to the key driver, new product development was identified by 66% of respondents.

Given the emphasis on growth, companies had ambitious targets for their rate of innovation. Two-thirds of innovation projects now underway were expected to deliver in the next year (27%) and within three years (39%), with longer term projects (over five years) accounting for only 13%.

Highly profitable growth companies present a different profile with even more ambitious expectations on short-term results (35%) and lower expectations between 1 and 3 years (29%), says Thomas. "They have a more pragmatic approach to innovation and are looking for tangible results."

"Many companies are looking for breakthrough innovations and are therefore facing delivery challenges in the short term." Companies falling behind, he adds, seem to adopt a "Tomorrow will be a better day" syndrome, in that they are betting on innovation that will deliver results in a few years, but that never comes. "A better balance or mix between short and long term innovation is often a critical choice. The mindset that states that innovation has to be on a 4-5 year horizon has to be changed in the industry", believes Thomas.

BUSINESS EXCELLENCE

We next looked briefly at the way commercial strategy is defined. Respondents identified extensive understanding of customer needs as the most important factor (74%) in formulating account strategies, with profitability running a close second at 63%.

When it comes the organisation of the sales and marketing effort, 57% of companies say these are run as integrated functions with shared responsibilities. In most companies they are run as separated functions, albeit in 21% of cases with a shared leadership.

Companies in the highly profitable segment have predominantly integrated functions with shared responsibilities, but those falling behind have mainly separate sales and marketing functions, often targeted on the same product segment but sometimes even using different segmentations. Disconnecting strategy and execution seems to be clearly hurting results.

In terms of effort, 55% is targeted at key accounts, 29% at medium accounts and just 17% at small accounts. There is no obvious difference between high and low performers. Asks Thomas, "What is the right balance here? Is there an opportunity to spend more effort on medium accounts instead off everyone chasing the same key accounts?"

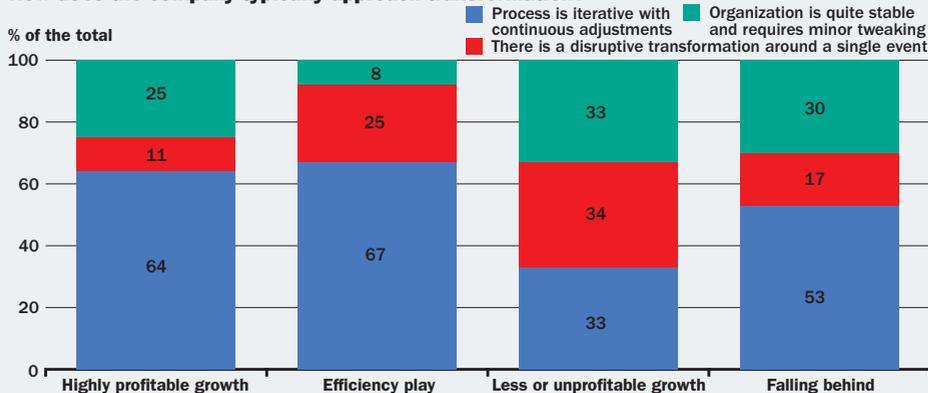
TRANSFORMATION

When approaching transformation, most companies prefer to use an iterative process (58%), with continuous adjustments. But a good quarter of companies say they are quite stable and only need minor tweaking, leaving 13% typically believing the best approach is via a disruptive transformation around a single event.

However, in terms of transformation activity, respondents said that on average, a "major organisational redesign" had taken place within the last three years. A quarter had seen a major redesign in the past year, and a further 30% within the last three years. The most commonly cited rationale for such activity was aligning to

NATURE OF THE TRANSFORMATION PROCESS

How does the company typically approach transformation?



SOURCE: ICIS/Oliver Wyman survey

a new strategic positioning, but financial performance was also cited as a common reason, with ineffective organisation and M&A activity much lower down the ranking. Nearly two-thirds of companies benchmark themselves against their competitors every 1-2 years.

In terms of segments, high performers make adjustments to their organisation more often than low performers. Indeed, 28% of falling

behind companies and 33% unprofitable growth ones declared their organisation as stable and requiring only minor tweaking.

It appears also that the highly profitable growth players question their effectiveness more often than their peers. Two-thirds of high performing companies undertake transformations to improve organisational effectiveness or to align the organisation following a change in

strategy, in equal measure, compared to 40% in the overall results.

Thus, concludes Thomas, “The chemical industry is changing and everyone is undertaking transformation, but with different results in terms of performance. We have to conclude again from this, just as with the findings above on strategy, that there are important organisational factors that explain in large part the difference in outcomes.”

According to Thomas: “Our experience shows that chemical firms that wish to pursue a successful transformation require an alignment of the leadership team on the objectives of the transformation, an organisational design that is right and specifically tailored for the company, and a constant attention to the challenges and change resistance along the way.

“Leadership teams that properly prepare before embarking on such transformation journeys will be able to navigate these inherent risks present and obtain rewards for their firms exceeding that of their industry peers.” ■

This survey is part of a broader study by Oliver Wyman. For more information, go to: www.oliverwyman.com/6006.htm, or contact philomena.hillick@oliverwyman.com if you are interested in receiving the results.



Produced by:



The ICIS Chemicals and Coatings Conference

End-to-end insights into markets at every stage of the coatings supply chain

Wednesday 18th – Thursday 19th September 2013, Amsterdam, The Netherlands

Would you like to stay on top of the latest developments in the global coatings and coatings raw materials markets?

Attend this event to:

- Receive a **global market outlook** for the **coatings industry**
- Investigate **drivers** and **challenges in coatings raw materials** – a closer look at **pigments, resins and solvents**
- Learn about **trends and opportunities in emerging coatings markets** with a spotlight on the **Middle East and Africa**
- Obtain an **overview of the entire coatings value chain**
- Hear **leading coatings manufacturers' perspectives** on the status of the industry
- Analyse **latest developments in coatings technologies** and its **effects on the supply chain**
- Get a vital **perspective on the 'greening' of the supply chain**

The ICIS Polyurethane Chain Conference is a must attend event for commercial executives and industry experts involved in the coatings supply chain.

For more information and to book, please

visit www.icisconference.com/coatings or email events.registration@icis.com or call +44 (0) 20 8652 3233.

For Full page advert: Quote promo code JEG78203 when registering