DELIVERING PROFITABLE GROWTH

Daniel S. Murad
President

The ChemQuest Group, Inc.
Cincinnati, Ohio

Adhesives & Sealants Industry (ASI)

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Delivering consistent profitable growth is difficult even in the best of times. In times of economic uncertainty, it is instinctive to retreat to the core and search for profits there by cutting discretionary costs. Successful companies have shown that uncertain times however provide unique opportunities. I'm reminded of GE's former leader Jack Welch, who responded to such a situation by stating he intends to increase his efforts because it is a "great opportunity for GE to outdistance itself" when the rest of his competition is pulling-in its horns.

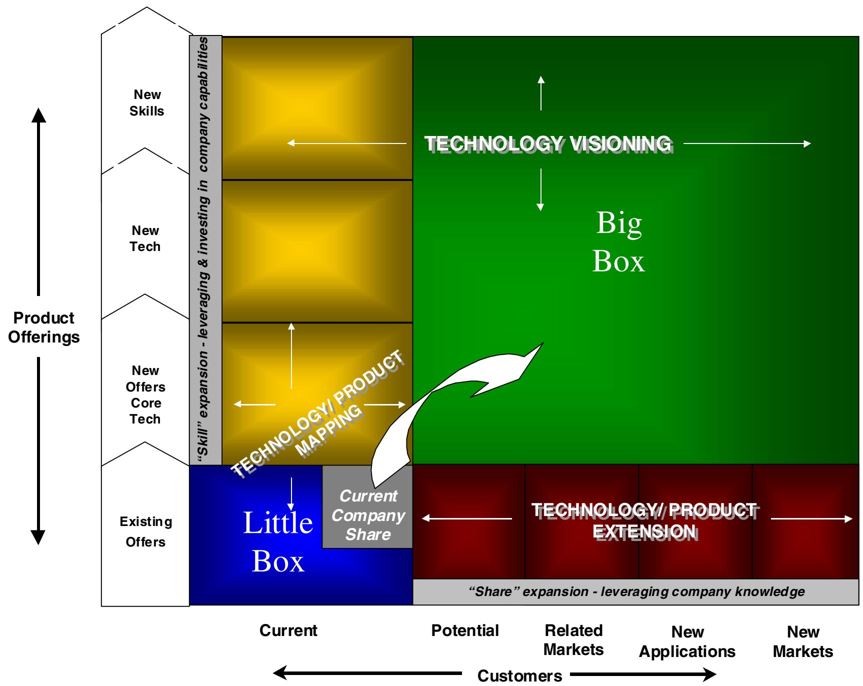
So how do successful companies manage to seize opportunities during uncertain times? We've learned the answer to that question is the ability to balance focus with opportunism.

It was only a short two years ago, following a decade long effort of cost cutting, reorganizations, and restructuring that companies began focussing on top line growth pursuing the principle that companies cannot "save their way to earnings." Before the bubble burst, the market space was full of neighbors trying to outdo the Smith's. Companies were tripping over each other to attract investors by trumping each other's moves with one blockbuster deal after another not to mention creative accounting practices. But, once the bubble burst it was "back to basics"- slashing costs, cutting heads, and back to concentrating on the core.

But, what was true two years ago is still true today, "you cannot shrink your way to greatness." Today's investors are even shrewder than back two years ago, they want their cake and eat too- focus, leanness, and profitability topped off by healthy growth.

How can a company manage for both earnings and growth? The answer lies (Figure 1) in managing simultaneously the interface between core opportunities- "Little Box", and periphery expansion- "Big Box."

Figure 1: Balancing Core "Little Box" & Periphery "Big Box" Opportunities



Our research indicates that most organizations tend to emphasize one facet at the expense of the other. In fact, within many organizations, the core is regarded as stagnant, as something to be defended at best, while the periphery holds the seductions of the Promised Land.

Instead, we would like to outline six principles to help you manage such interaction opportunities:

1. *Begin by developing knowledge of your customers' total economic equation.* Knowing this space will provide advance indications of required new offerings, and new skills based on trends, and discontinuities, i.e. disruptive technologies. More importantly however, knowledge of your customers' total economics will allow your organization to offer solutions that capture more value per customer.

2. *Develop a single holistic approach-"One Strategy"- but plan two different paths to execution.* Develop and comprehend the boundaries of your vision, i.e. what's

within the scope of your capabilities and what's out of bounds. While this exercise varies by company, most don't exhibit the discipline to truly understand or communicate the dimensions of their playing field. Next, overlay the business opportunities to determine:

a) Opportunities within the bounds of your scope that apply to the core versus those that are periphery; and

b) How to allocate the investment between core and periphery

Execution of the plans requires two approaches, primarily because the business processes vital to the core are distinctly different and more cumbersome than the periphery. Often we find companies squashing new opportunities before they find out if the "bud" is a flower or a weed. Periphery opportunities require "Quick Insight" analysis designed to assess market information, economics, customers' needs definition and value mapping. This is a "hit and run" process- lean, flexible, focussed, and objective. Avoid burdening this process with the weight of analysis required by running a core business.

3. *Develop your strategic technology plan.* Analyze the business opportunities that lie within the core, i.e. technology extension and those within the periphery, i.e. technology mapping and visioning.

   a) <u>Technology Assessment/Product Mapping</u> - This process provides an evaluation of current technical projects and checks the alignment of the technical plan with business goals.

   b) <u>Technology Extension</u> - The development of a new product that requires the extension of an existing formulative technology and perhaps the extension of one, or more, component technologies.

c) Technology Visioning - The development of a new product that requires the development of a new formulative technology with either the extension of component technologies or the development of new component technologies.

Throughout this process, it is critical to manage the disruptive technology process. Disruptive technologies threaten the core. Therefore, it is critical to employ a monitoring process that scans the periphery space for potential disruption and developing reasonable scenarios that would activate your company's "emergency response" plan in the event of occurrence.

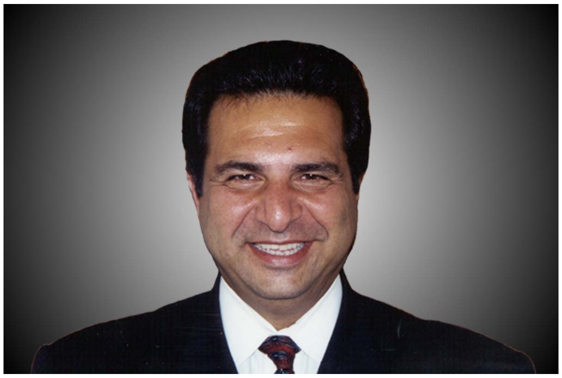
4. *Develop a business design process to identify and select the appropriate business model, as well as key capability needs.* The output of this process should be relatively simple and straight forward, designed to answer five key questions:
   i. Who pays the bills?
   ii. What is the customer paying for?
   iii. How do we protect our profits?
   iv. What is scope of functions that we perform and activities required to execute?
   v. What is needed to make it happen?

5. *Evaluate capability needs.* Identify the best-in-class capabilities needed to execute the final business design choices and the resultant performance gaps within your organization.

6. *Align the organization.* It is critically important to develop internal communication means and metrics to align the organization in support of the execution plan.

Balancing the focus on the core, with the opportunism of growing the periphery is vital to steady profitable growth and to overcoming the knee-jerk reaction of retreating to slashing costs, cutting heads, and back to concentrating on managing the core in a singular dimension.

About the Author



Dan Murad

President
The ChemQuest Group, Inc.,
an international strategic management consulting firm specializing in the Adhesives, Sealants and Coatings industries, headquartered in Cincinnati, Ohio.

Dan joined The ChemQuest Group, Inc. in 1996 from the Rohm & Haas Company where he was most recently European Director, Industrial Coatings. Prior to R&H, he spent thirteen years with Unocal Polymers where his career took him from technical service positions to Director of Marketing. He directed the sale of the Unocal Polymers Business to Rohm & Haas, working closely with Morgan Stanley, numerous attorneys, as well as the FTC. His entire career has been dedicated to the Coatings and Adhesives Industries. His particular strengths lie in strategic assessment and value creation on behalf of clients. He holds degrees from Wabash College (BS Chemistry) and William & Mary (MBA).
Contact Dan at (513) 469-7555 or dmurad@chemquest.com

Questions or request for additional copies of this paper may be directed to the author at:

The ChemQuest Group, Inc.
8150 Corporate Park Drive
Suite 250
Cincinnati, OH 45242

(513) 469-7555
(513) 469-7779 – FAX

www.chemquest.com