



The Strategy Development Process of Chemical Companies in China

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Currently, strategy development is somewhat neglected in chemical companies doing business in China. For foreign companies, this is mostly due to the dependency of headquarter decisions and the lack of strategy development expertise in China. In contrast, domestic companies often lack a clear strategy development process altogether and rely on opportunistic decisions, which sometimes later are then called a strategy. However, long-term research has clearly proven the superior success of businesses with a well-defined strategy. This paper will therefore describe some broad characteristics of a suitable strategy development process for companies active in the chemical industry in China.

In contrast to a plan, a strategy focuses on the outcome and the broad directions taken to get to this outcome. It thus needs to be determined before developing a plan, which will focus primarily on the individual steps rather than on the overall result. Basic characteristics of a strategy are its longer-term, broader perspective, the description of a chosen end point or situation and its flexibility and adaptation for change. Strategies are particularly relevant in circumstances with both high complexity and substantial adversity (e.g., strong competitors). These circumstances exist in almost any segment of the chemical industry in China, highlighting the importance of strategy. However, developing a suitable strategy can be a challenge, particularly if within a company there is limited experience with this process.

The strategy development process can be described as a circular four-step process covering situation analysis, strategy design, strategy implementation and strategy review (Fig. 1). It is important to pay attention to all 4 parts, not only the strategy design. This is an error frequently occurring – however, it needs to be avoided as it leads to either the design of unsuitable strategies, the inadequate implementation of such strategies, or lack of flexibility to adapt

strategies to changing circumstances.

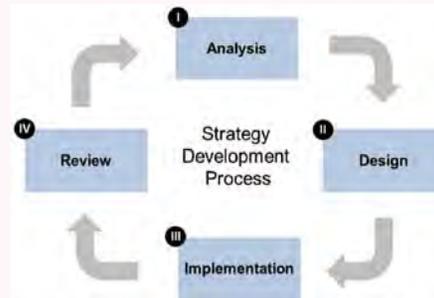


Fig. 1: Generic Strategy Development Process

Essentially, each of these four steps aims at answering a single key question:

- What is the situation of the company relative to the current and likely future market situation? (Analysis)
- What is the best realistically achievable position for the company in the next few years, and how can we broadly get there? (Design)
- Which detailed steps are necessary to get

to this position? (Implementation)

- Once implementation has started, which checks and modifications are necessary to ensure the chosen path is still correct? (Review)

While this process is generic, it has specific issues that are particularly relevant when it is applied to chemical companies doing business in China. Table 1 gives examples for some of these specifics.

For each of these steps, a multitude of tools are available – some highly useful, some only applicable in specific situations and some more or less useless. Below, some of the better ones will be briefly discussed. For practitioners, the challenge is less to gather theoretical knowledge about these tools. Rather, practitioners lack the knowledge to select the most suitable ones, and the experience to utilize them in a way that maximizes their value while limiting the time and other resources required for their usage.

The first phase, the analysis of the

Tab. 1: Examples for Specifics of Strategy Development Process for Chemical Industry in China

Step No.	Process Step	Specifics of Strategy Development Process Step for China Chemical Industry (Examples)
I	Analysis	Market requirements change more rapidly than in mature markets (e.g., Europe) and in other industries (e.g., rapid tightening of environmental regulations in China)
		Faster market growth than in mature markets
		Strong political influence, e.g., westward shift of chemical industry due to government policy, impact of newest 5-Year-Plan
		Quickly rising salaries
		Rising quality demands
		Increasing technological and marketing competence of local players
		Strong market presence of SOEs, partly with non-profit driven interests
II	Design	Overcapacities, strong competition and price pressure in many segments
		Parts of China strategy may have to be more flexible/more short term than in mature markets due to more rapid changes
		China strategy needs to be broadly consistent with global strategy while allowing for local conditions (e.g., China may require growth strategy even if other markets are mature)
		China strategy needs to have a strong element of localization and empowerment while also taking into account the existing local limitations in resources and capabilities
III	Implementation	Strategy in chemicals needs to make assumptions regarding further progress of environmental protection in China
		Due to rapidly changing Chinese situation, strategy has to examine areas that may not require change in other regions, e.g., distribution, organization, local production vs. import
		Observance of restrictions imposed by limited local resources
		Frequent control of implementation steps (milestones) and communication with HQ
IV	Review	Adaptation of implementation speed depending on local laws and circumstances (e.g., time to get approval to build new plant)
		More frequent review and modification than in more mature and stable markets
		Greater willingness to restart strategy development process in case of major changes
		Alignment of reviews with HQ



Aspect	Tool (example)	Comments
Best practice	Competitor Benchmarking	Highly valuable but difficult to execute. Analysis may have to rely on estimates based on expert interviews
Company situation	SWOT, Gap analysis, internal financial data	A vital part of the analysis, however, requires understanding of many of the other aspects of the analysis to be conducted properly
Competition	Competitor SWOT	Not only provides benchmarks but also allows for preparation of a strategy that anticipates the most likely competitor moves
Customer portfolio	Internal sales and profitability data	Basis for strategic approach to customer selection. May require additional customer segmentation (e.g., by profitability) if not available already
Market situation	Porter 5 Forces or modified (extended) version thereof	The somewhat limited Porter perspective may be widened by including aspects such as political, legal and socioeconomical environment
Market trends	Interviews, online research	Of high importance in the rapidly changing Chinese market. Trend analysis may be complemented by scenario analysis if necessary
Organization	Responsibility Matrix	Highly relevant if long-term suitability of current organization is doubtful, or if strategy foresees major changes („structure follows strategy“)
Product portfolio	Portfolio Analysis (several approaches possible)	Several tools available for portfolio analysis, e.g., product lifecycle, BCG matrix (role of product for current/future company revenue stream) etc.
Profit	Value Chain Analysis	Important to reexamine own value chain participation and open options regarding outsourcing or upstream/downstream integration

Outcome

- Understanding of current company position regarding all relevant aspects
- Understanding of current market position
- Hypotheses / scenarios regarding future market situation
- Gaps in current company capabilities/resources regarding future market requirements

Fig. 2: Tools and outcome of analysis phase of strategy development process

situation, is about understanding the company position relative to the current and future market situation. It is important to ensure that both the internal and the external perspective are taken into account - Chinese chemical companies tend to neglect the internal perspective, which is one of the reasons for the intense competition in the Chinese chemical market whenever a new technological opportunity arises, such as coal chemicals or solar technology. So instead of only asking which markets are attractive, an equally important question is which capabilities the own company has which will make it more successful

in specific markets than likely competitors. These capabilities need not be on a purely technological level but can include aspects such as access to channels, a specific customer portfolio, brand reputation, access to raw materials etc. Experienced consultants have lists of potentially relevant capabilities – these lists can be used to quickly examine core strengths of a company.

For the analysis phase, a particularly large number of tools are available, some of which may be difficult to employ due to lack of good data (e.g., benchmarking) or internal capacity to analyze data. This makes the selection of the preferable tools – which

Aspect	Tool (example)	Comments
High-level goals and objectives	Mission and vision of company	If mission and vision are not available, a suitable proxy needs to be defined (e.g., sustainable long-term profitability)
Drivers of success	Key performance drivers	Key performance drivers to be selected from larger pool but should be restricted to 4-7 key aspects, and should exclude hygiene factors without large differentiating effect
Strategic options	Generic business strategies, additional creative ideas	Basic options such as organic growth, upstream/downstream integration etc. used as starting point but to be modified/changed depending on company and market situation
Evaluation of strategic options	Set of evaluation criteria based on mission/vision	5-10 evaluation criteria to be derived from company mission/vision and to be weighted. Evaluation may include assessment of likelihood of success
Strategy selection	Result of previous step followed by risk analysis	Mathematical calculation of strategy to be selected should be followed by risk analysis and qualitative assessment to confirm selected option
Organizational review	Consistency check (Does structure follow strategy?)	In case of major strategic change and/or insufficient current organization, a review of the organization structure should be conducted
Key actions by lever	Definition of actions by process team	As a first step towards later implementation, high-level actions by key lever should already be determined as part of the strategy development process
Target results	Targets to be defined by HQ and local organization	Allows later control of the success of the selected strategy

Outcome

- Selected high-level strategic option based on company goals
- Definition of high-level key actions to execute strategy
- High-level targets to be achieved by selected strategy

Fig. 3: Design phase of strategy development process with outcome

the company should gain some experience with beforehand, either in practice or via trainings - all the more vital. Fig. 2 shows some of them along with some comments regarding their application. It may not be necessary to utilize all of them – however, in any case the analysis phase should result in a clear understanding of where the company is currently positioned relative to the market and its competitors, and where it is likely to be in 3-5 years if no measures are taken.

The second phase, strategy design, may be regarded as the core of the overall process, though in terms of time consumed it is actually the shortest of all four phases, and its success depends both on the understanding gained in the previous phase and the professional execution in the subsequent phases. The core issue for this phase is to define the future position of the company and the broad approach to reach this position. Particularly for the China strategy, there will be limitations given by the headquarters which provide an important input for the design phase. Other input may come from local resource limitations, though it may also be decided to try and overcome these. However, the key input comes from defining the key drivers of success in the respective business, outlining actions for each lever, and bundling corresponding actions to a strategic option. Several strategic options are then evaluated, either by a quantitative approach (though the reliability of the input data may be an issue), or by a more qualitative evaluation. The evaluation criteria used should be based on the company's core objectives, ideally as stated in the vision and mission, alternatively derived from statements of top management. After the strategic option has been chosen, it may also be necessary to review the organizational structure. Finally, key high-level actions are defined for each lever.

On a more practical level, it is important to utilize a wide range of contributors (primarily internal, but ideally also some external ones) for strategic options and suggestions. This can be achieved, e.g., via general methods such creativity techniques, interviews, workshops etc., which cannot be discussed in this paper. However, there are also specific tools which are shown in Fig. 3 along with the outcome of this phase of the strategy development process. It is important to be familiar with the practical application of these tools before using them



Aspect	Tool (example)	Comments
Implementation team	n.a.	A dedicated implementation team should be determined, chaired by a high-ranking manager (e.g., CEO). It should meet regularly
Actions	Time table with tasks and responsibilities	Prepare detailed time tables for separate task areas and define responsibilities (time tables to be prepared by persons responsible but to be checked by superiors)
Resources	Resource plan	Strategy may require additional resources (e.g., staff with specific skills). Resource plan assures timely acquisition of these resources
Implementation controlling	Milestone plan	Prepare milestone plan that is checked regularly by Implementation team. Define process/actions in case of time lags

Outcome

- Detailed implementation plan including actions, resources, responsibilities, timeline
- Process for implementation controlling, allowing constant monitoring of process

Fig 4: Implementation phase of strategy development process with outcome

Aspect	Tool (example)	Comments
Key assumptions	Definition of key assumptions behind current strategy	The basic assumptions behind the selected strategy (e.g., China market growth of 7-8%, tightening of environmental laws etc.) should be formulated
Strategic controlling	Periodic check of key strategic assumptions	Periodically (e.g., every 3-6 months), these assumptions should be checked for their continuing validity. Actions (see below) should be determined in case of deviations
Wildcard	Check for additional wild card changes	Apart from deviations from the assumptions, there should also be a regular scanning for other, unexpected larger changes in the relevant environment (e.g., in the past an example could have been the rise of shale gas)
Minor adaptations	Plan change	In case of minor deviations, the overall strategy may be kept unchanged but individual action plans should be changed
Strategy revision	Decide on major strategy revision / new strategy development	In case of major deviations from the strategic assumptions, or if an important wild card item occurs, the strategy development process should be started anew even if the target year is not reached yet

Outcome

- Confidence in the general validity of the selected strategy
- Adaptation in minor areas due to changes in situation

Or

- Initiation of development of new strategy due to major changes

Fig. 5: Review phase of strategy development process with outcome

in the actual process. Such familiarization may be achieved via trainings and case studies.

Despite the high importance of the implementation phase, it is harder to make general statements about this part of the strategy development process than about the previous steps. This step is highly operational and depends strongly on the quality

of the individual employees implementing the strategy in their individual areas. The tools applicable are similar to those generally applied in project management and include a variety of plans, e.g., for tasks, responsibilities, resources and milestones. Similar to other projects, it is important to have a high-level team responsible for the progress and control of the overall step (see Fig. 4).

The final phase, strategy review, takes into account that a strategy is determined at a specific point in time in which specific conditions exist. In the review phase, these assumptions are regularly reviewed in order to assure the validity of the strategy. Apart from leading to minor changes in the strategy, the main objective of the review phase is to initiate another strategy review process in case of major deviations between the strategic assumptions and reality (see Fig. 5). Deviations between the strategic goals (e.g., regarding revenue) and reality, as identified in the strategy review phase, may also trigger a rerun strategy development process. In this case, the overall process returns to phase 1 (analysis) of the strategy development process as shown in Fig. 1.

Overall, the strategy development process is less of a theoretical exercise than the description above suggests. Key to a successful process is the appropriate use of tools, which in itself is more an issue of experience than of deep theoretical knowledge. The complete strategy development process may then look like what is shown in Fig. 6, though for the sake of space not all tools are shown that should be used in a typical process.

The strategy development process for a specific chemical company can be executed with or without external help. While the functional expertise and outside perspective of external consultants can substantially improve the quality of the strategy, their contribution will also add to the cost of the process. An intermediate solution is to have some of the internal staff later involved in the strategy development process attend external trainings. These trainings cannot provide a specific company strategy but are a cost-efficient way to familiarize the staff with the different tools (which in this paper could only be listed) and the process employed in defining a winning strategy. In such trainings, the different tools are practiced using case studies to design the strategy of fictitious (but realistically designed) chemical companies. Management Consulting – Chemicals offers such courses, and the author of this paper is happy to provide additional information upon request (kai.pflug@mc-chemicals.com).

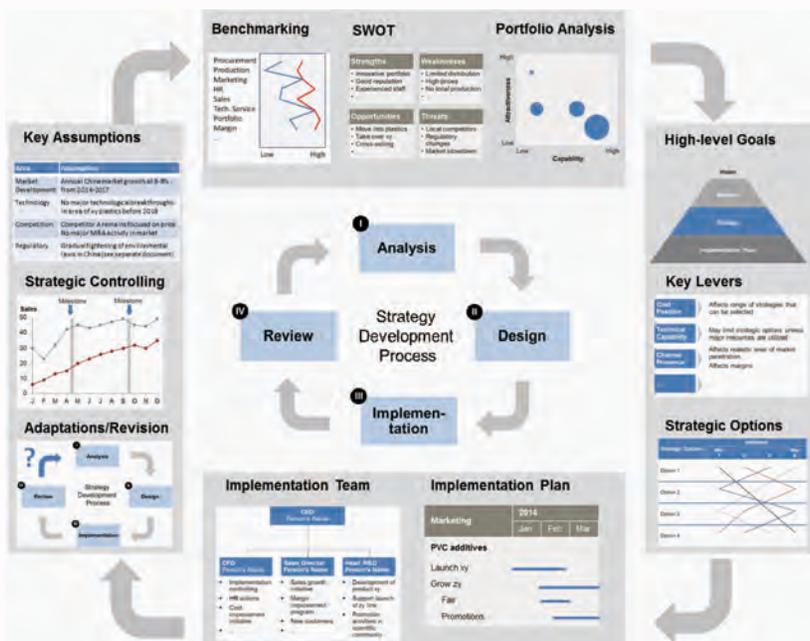


Fig. 6: Example of use of selected tools in strategy development process