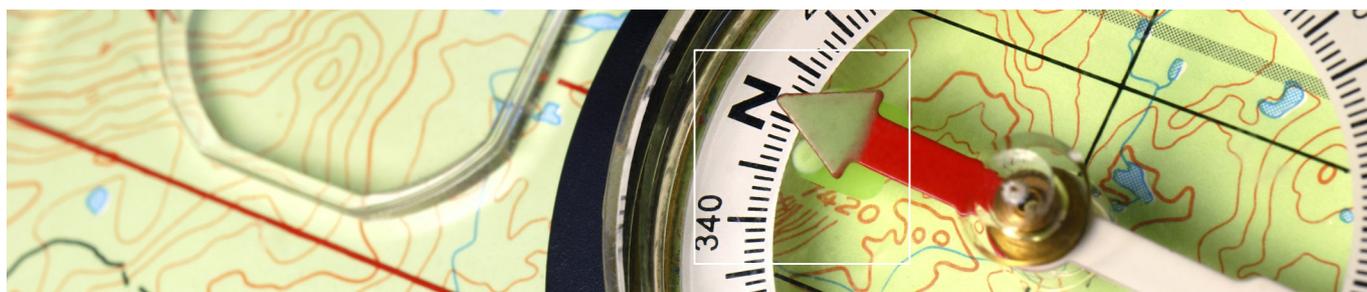


Setting priorities in the crisis

Why fundamental principles still hold good



Since 1997 Arthur D. Little has been investigating the common factors that underpin the exceptional performance of six global companies. Revisiting these companies during the current crisis, we have established that the findings we made during the recession of the early 2000s¹ still hold true. In general, our selected companies still outperform their peers. The eight common factors identified by ADL over ten years ago still form the basis of each company’s strong performance as well as supporting the overall hypothesis that, especially in turbulent times, focusing on the “basics” can make the difference between mediocre and exceptional performance.

“Back to Basics” still valid

Our original investigation identified eight common factors that underpinned the extraordinary share price performance of six global companies: Avery Dennison, Mettler Toledo, Fisher Scientific, Donaldson, IFF and Nitto Denko (see Figure 1). None of the factors was new, but each was deeply rooted in the management philosophy of these companies. In a sense, these companies had gone “back to basics.” Today, their approach can show us where and how to set priorities in the current climate.

Our intention is that the results of our investigations (which did not take the form of a scientific survey) should be read as credible hypotheses to inspire executives responsible for assessing their business strategy and setting priorities in today’s crisis. Our findings should not be read as a simple and imitable business recipe that guarantees sustainable success.

Figure 1: The eight factors underpinning extraordinary business performance

1	Diversity of customer segments	Constantly search for new applications for core products, and roll them out to new market segments and new customers
2	Multiplication of products/services	Multiply products, in close collaboration with customers, and generate a recurrent stream of revenues from your offerings
3	Platform	Grow a diverse customer base and multiply your products <i>economically</i> by leveraging a set of shared assets: technologies, brands, and delivery infrastructure
4	Globally integrated	Anchor the assets that make up your platform – technologies, brands, delivery infrastructure – worldwide, and manage them according to a globally integrated concept
5	Deeply rooted	Preserve and enhance your legacy, by skilfully building your platform, without straying far from your original business
6	Global leadership	Make the strengthening of your leadership position an objective in itself, both for external and internal reasons, through product multiplication and acquisitions
7	Systematic acquisitions	Create value from acquisitions by verifying that the acquired company obtains leverage from your existing platform, and that the acquired company’s business strengthens your existing platform
8	Aggressive cost management	Manage costs aggressively in all economic conditions (product portfolio, facilities, productivity, working capital, procurement)

¹ Prism 1/2003; Prism is Arthur D. Little’s management review of current business issues, published twice a year.

Business performance revisited

The companies we selected are active in “unglamorous” yet highly competitive industries, including automotive, food and pharmaceuticals. Their share prices more than withstood the shock of the 2001–2002 stock market collapse.

A look at their development over the entire period 1997–2008 shows their performance has been well above that of their peers and is still robust in the turbulent business environment (see Figure 2). The exceptions are Avery Dennison and IFF: these two companies were performing least well during the period 1997–2002 and also failed to outperform their peers and the general stock market during the period 2002–2008.

However, an investment in the portfolio of the six companies at the end of 1997 would have yielded a compound annual return of 9.4% by the end of 2008, compared with a 2.7% return for their peer group and with a negative return for the market as a whole. Also, following the worst stock market decline in decades, the six firms are holding their investment value better than their peers.

The purpose of this paper is not to give investment advice but to understand the management philosophy underpinning strong performance and stability, and derive insights for executives in other businesses. By taking a closer look at one of the six selected companies, Mettler Toledo, we can get a better understanding of how this company has used an approach based on the eight “basics” to secure its current success.

Focus on Mettler Toledo

Mettler Toledo is a leading global supplier of precision instruments and services, in particular weighing instruments for use in laboratory, industrial and food retailing applications. Its performance is exceptional, with a strong emphasis on three of the eight basics: a diversified market franchise, long-term commitment to the core business and striving for global leadership.

1. Diversity of customer segments

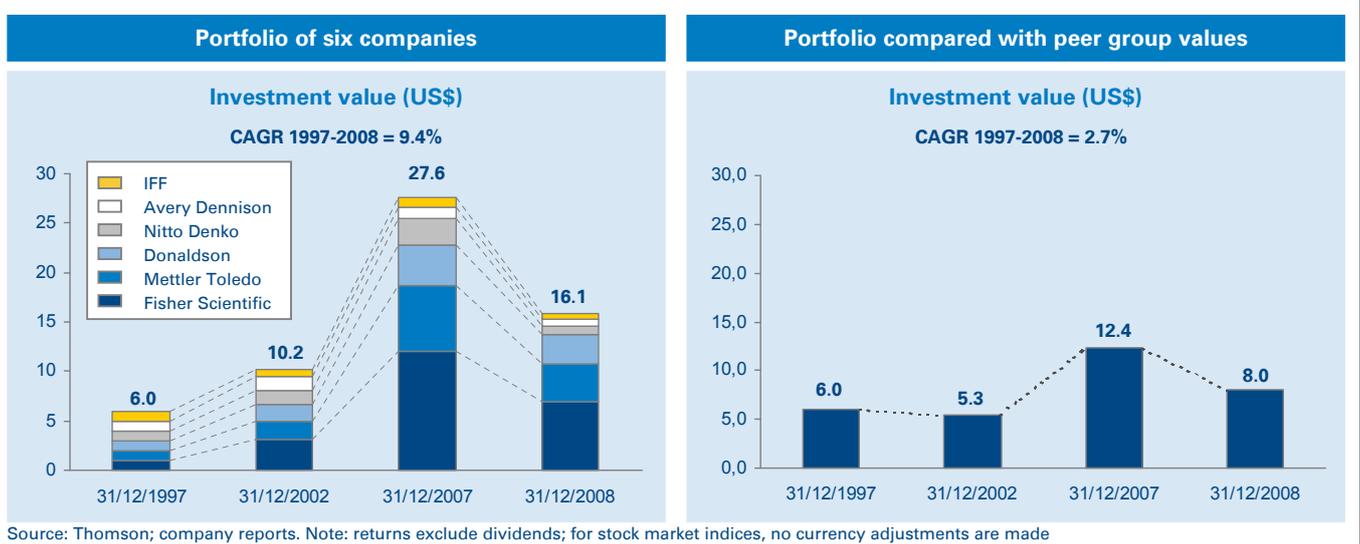
Mettler Toledo’s diversified franchise is the basis of its success. Its business is spread over many countries, end-use applications (laboratories, industrial and retail applications) and individual customers, of which none accounts for more than 2% of sales and products. This diversity lends a great degree of inherent stability to the business.

2. Multiplication of products and services

By constantly renewing and extending its product line, Mettler Toledo succeeds in maintaining the world’s largest base of installed weighing instruments. This large base makes it cost-effective to offer service contracts, which in turn provides a strong, stable source of recurring revenues.

The company’s broad product range and ongoing relationship with customers increase the switching cost to new suppliers. At the same time, the robustness of the products and their very long lifetime compels the firm to create a replacement need. It does so by showing its customers the economic case for replacement, e.g. an increase in their productivity.

Figure 2: Investment returns 1997–2008



3. Platform of shared assets

Within its specialist customer community, Mettler Toledo has an extremely strong brand position. For example, the company's brand name is so well recognized that laboratory balances are sometimes referred to as "Mettlers". The company also sells products under the "Ohaus" brand with less features and service.

In terms of delivery infrastructure, Mettler Toledo has the most extensive global sales and service organization among precision instrument companies. Half of its employees are involved in providing sales and service in 35 countries.

4. Globally integrated

On the commercial side, Mettler Toledo's global market presence confers a competitive advantage among global customers looking for suppliers who can match their international network. Increasing standardization of products due to harmonized regulation is also driving global integration. With plants in three continents, Mettler Toledo's manufacturing is truly globalized.

5. Deeply rooted

The company was created in 1945 by Erhard Mettler in Switzerland. In 1989 Mettler acquired Toledo Scale Corporation, the largest US manufacturer of industrial and retail scales, giving birth to Mettler Toledo. Sticking to its core business is a central part of the company's strategy. It will only enter areas that are adjacent to its existing business. The company leverages its existing platform to grow mainly organically and profitably.

6. Global leadership

Mettler Toledo's objective is to be the market leader in most domains in which it is active. Today 75 % of its revenues come from products with a global number one position. However, given its long-term orientation, it may be satisfied with, say, the number four position initially, and then work its way toward the number one position, step by step. Being number one is important because it gives the company a competitive advantage, particularly for R&D spending in absolute terms, which is crucial to Mettler Toledo's strength on a global scale. Of the company's approximately 9,500 employees, more than 900 work in R&D and product engineering.

7. Systematic acquisitions

Mettler Toledo takes a cautious approach to acquisitions, as growth through M&A is considered to be much more risky than organic growth. If the company does make an acquisition, it is synergistic with its existing business from a customer

and/or product point of view. For example, in 2001 Mettler Toledo acquired Rainin, the leading manufacturer of pipetting solutions in North America, yet with almost no export business. However, by leveraging Mettler Toledo's existing worldwide service network, Rainin was able to increase international sales dramatically.

8. Aggressive cost management

While cost leadership gives the company a competitive advantage, cost management does not occupy the top "share of mind" at Mettler Toledo. Instead, management's focus is on innovation and being in the market leader. However, the firm has had operations in China for 22 years, an experience that has taught the company how to cope with local competitors.

Mettler Toledo is single-minded in its determination to build its business around fundamental management principles: customer delight, long-term orientation, business focus and leadership.

Insights for executives

The hypotheses formulated by Arthur D. Little as a result of our initial analysis 11 years ago are increasingly proving to be accurate. Sticking to the basics, whatever challenges the economic environment might present, bears fruit. Referring to the eight common factors we identified in 1997 can help executives set priorities in today's crisis.

The companies studied make sure they maintain a solid platform. The technologies, brands and delivery infrastructure that make up their platform are kept at the leading edge. Our selected companies manage costs aggressively and dispose of non-core businesses in order to keep the platform in good shape. Furthermore, they are masters at leveraging the platform, either through organic development or acquisitions, in order to multiply the market segments they address and the products they offer these markets.

The combination of a solid platform with effective multiplication confers a competitive advantage. It provides employees and shareholders with the security and stability that makes them loyal. It also creates a barrier to imitation by competitors.

We hope to be able to get back to you again once economic conditions improve and bring you "Setting priorities – Back to Basics – Again". In the meantime companies like Mettler Toledo demonstrate that sticking to the basics can be an extremely effective strategy for success even in the current extraordinary conditions.

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Arthur D. Little

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