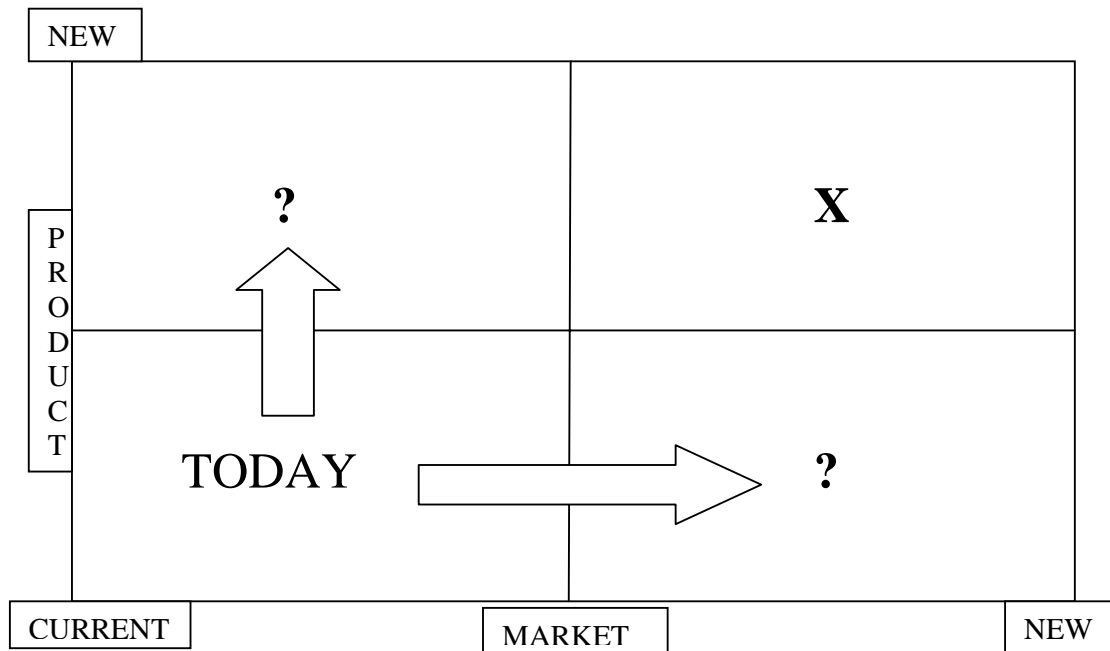


Executive View - How should a chemical company measure risk when evaluating investment opportunities? Part 1 of 2.

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Ever wonder how your company’s executives make their decisions in this recession? Difficult times, such as today’s, require companies to pay close attention to the risk element when considering any investment. Consider the recent mergers in basic chemicals for Dow Chemicals and Rohm & Haas, in pharmaceuticals for Pfizer and Wyeth, and the [recent bid](#) from Reliance for chemical giant Lyondell-Basell. Luckily, there are some standard tools available for helping with this process.

One tool often applied in executive boardroom is the ‘Ansoff matrix’, developed by Prof Igor Ansoff and first published in the Harvard Business Review in 1957. A typical modern template for this is below:



The idea is to focus on 2 core aspects of the proposed investment – the end product, and the market in which the company will be operating. The matrix starts from the position where a current product is selling in a current market, and then helps the executive to consider whether it is possible to either:

1. Sell the same product in a new market or
2. Sell new products into the same current market

It also highlights the benefits of moving incrementally, rather than trying to move directly into new markets with new products.

The key element of Ansoff’s insight, now over 40 years old, is to make one think hard and long about market needs, and how the company might create competitive advantage in

meeting these with new or current products. For example, if one is selling detergents, could one also try to sell razors in the same markets? Creative thinking about how to de-risk this move was then partly responsible for Procter & Gamble's decision to buy Gillette in 2005.

Equally, companies can use the insights provided by the matrix to develop a mix of defensive and expansive strategies. Both Pfizer and Wyeth, for example, are currently facing the loss of major sales from drugs coming off patent (Lipitor and Effexor XR). The decision to merge the companies allows them to cut costs, and thereby reinforce their position in the current product/market box (defensive). It also allows them (a) to build a strong biopharmaceuticals business by utilising each other's channels to market, thereby taking current products into new markets and (b) to use their combined position in small/large molecules to develop new products for current markets (expansive).

Next month, we will look more closely at how chemical companies might apply Ansoff's insights to likely market conditions in the 2010s. For a preview you may want to check out the [Paul's blog](#) on Reliance Industries' most recent bid for the chemical giant Lyondell-Basell. Stay tuned and happy year-end holidays!

This business insight is brought to you by Paul Hodges, Chairman of International eChem and renowned ICIS Chemicals and the Economy blogger, and Samuel Toba of the American Chemical Society. We welcome your comments. Let us know if you find this information useful, or if you have a topic you would like us to discuss. Please write to us at imp@acs.org.

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