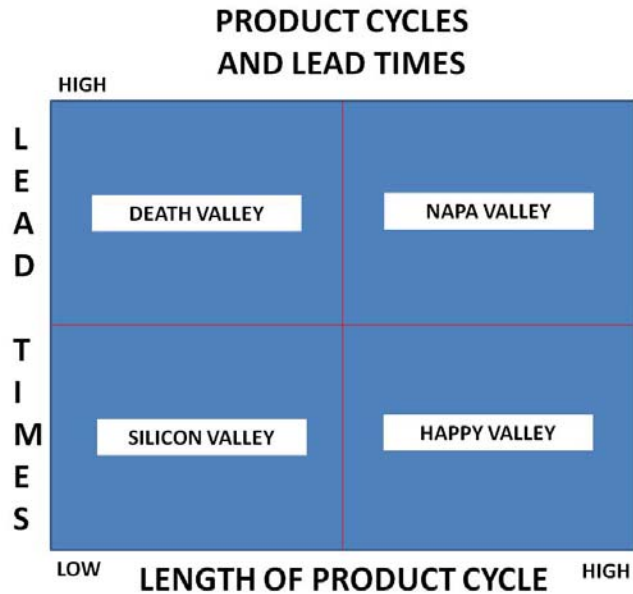


## Executive View - How should a chemical company measure risk when evaluating investment opportunities? Part 2 of 2.

January 2010

The Four Valleys question

Do you work for a Napa Valley kind of business? Is it in Happy Valley? Or could it be heading for Death Valley?



[Last month](#), we looked at strategic risk – how a company might evaluate different growth opportunities by using the Ansoff Matrix.

This month, we look at how a company can manage operational risk, using the above matrix. By this, I mean matching its culture and ways of working to the markets in which it operates.

Take a business like chemicals, or pharmaceuticals, for example. These are normally a **Napa Valley** type of market. It takes time for things to happen. And when it does, the product life cycle is often also quite long. So a company has to put in a lot of patient money, perhaps over many years. But if it is successful, it can expect to receive good earnings for a reasonable period of time.

Contrast that, though, with the needs of a business in **Silicon Valley**. This is completely the opposite. Lead times are very fast – new products are emerging all the time, and often the only way to compete is to release ‘beta versions’, maybe even before the product is really finished. Equally, product cycles are very short – in mobile phones, for example, Motorola were once all the rage, then Nokia, and now its Apple.

A current example of this type of culture clash can be seen in the threat now being posed by generic companies to traditional pharma businesses. Generics tend to move very quickly, often trying to sell in advance of actual patent expiry taking place. This has produced a

variety of innovative responses from traditional pharma companies. Novartis, for example, have unified all their generic businesses under the Sandoz name, to help boost their speed to market. And an increasing number of pharma companies, including Pfizer, GSK and AstraZeneca, are also trying to outflank the generics, for example via the adoption of new continuous manufacturing processes to dramatically reduce their costs.

These companies know that matching your culture to the markets in which you operate is very important. Sadly, many other companies have failed to understand this, particularly if they have traditionally been a Napa Valley type of business. And **Death Valley** summarises the outcome. Here we find companies trying to operate with long lead times, in a market which has short life cycles. The risk of failure is going to be very high.

Finally, of course, there is **Happy Valley**. Some markets (breakfast cereals, or sodas, for example) have been around for decades, and their products are still very similar to their original offerings. Even better, from their point of view, was that it didn't take very long to develop these products, once the potential market had been identified. Unfortunately, though, these opportunities are very infrequent.

This matrix is also worth bearing in mind if your company operates across a range of different markets. Sustained success comes to those companies who really do understand the needs of their customers in different market sectors, and who have ensured their business model is in line with these.

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](mailto:imp@acs.org).

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