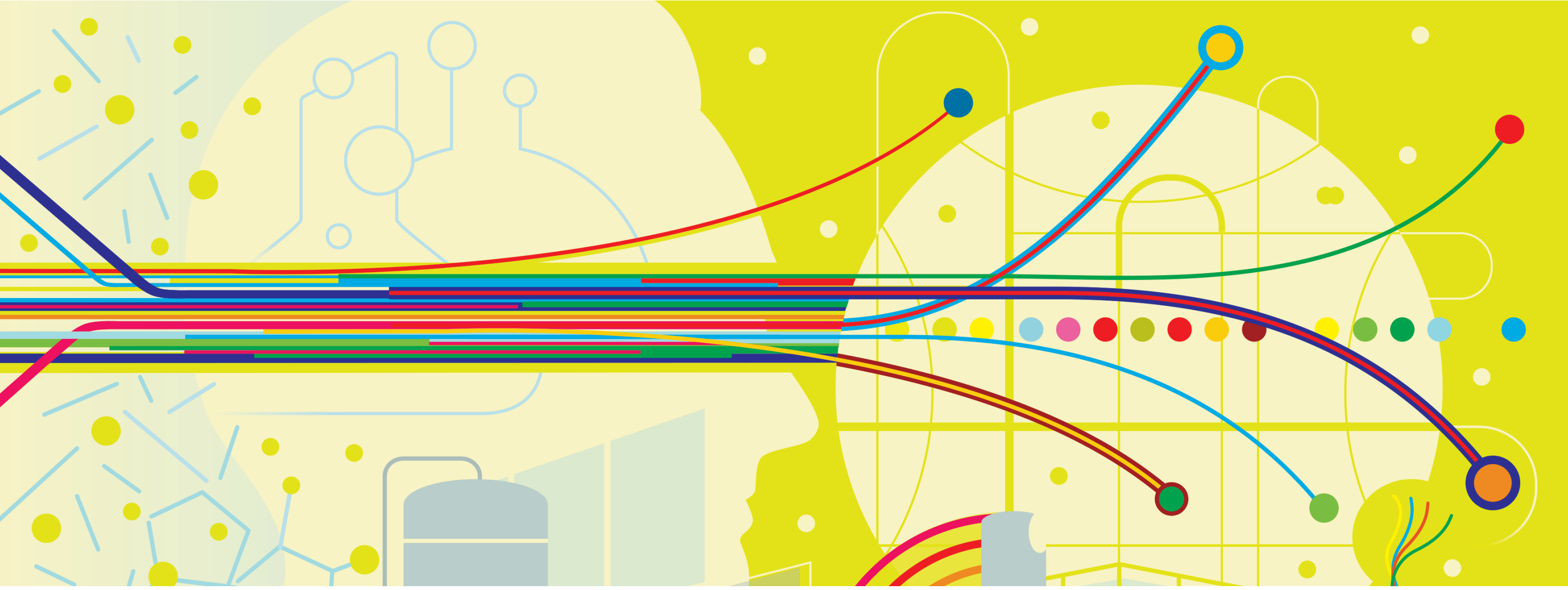
APRIL 2016



CHEMICALS & AGRICULTURE

The turnaround at Clariant: An interview with Hariolf Kottmann

The CEO of the Swiss specialty-chemical company has steered it back onto a growth path through restructuring and an aggressive continuous-improvement program.

Florian Budde

When Hariolf Kottman became CEO of Clariant in October 2008, the company was a high-cost specialty-chemical player heavily weighted to Europe and increasingly under pressure from emerging-market competitors. Built from the 1997 merger of the specialty-chemical businesses of Hoechst and Sandoz,[1] Clariant had struggled since its launch to balance divestitures and acquisitions and had achieved limited profitability at best.

Kottmann led a two-year restructuring program, simplifying the company's structure, reducing personnel numbers, and optimizing the production network. He also put in place Clariant Excellence, a continuous-improvement program that has been embraced by the company's workforce. Kottmann acquired the catalysts and adsorbents maker Süd-Chemie in 2011 to accelerate Clariant's move toward higher-margin, less cyclical businesses, and then divested less profitable operations in textile, paper, and leather chemicals.

Clariant's EBITDA[2] margin before extraordinary items in 2015 was 14.7 percent on sales of 5.81 billion

Swiss francs ($5.83 billion), up from 8.6 percent in 2008. R&D spending in 2015 was 3.5 percent of sales, up from around 2 percent in 2008. The contribution generated by Clariant Excellence totaled more than 140 million Swiss francs in 2015, up from 50 million Swiss francs in 2010. Clariant's share price had been on a downward trajectory in the decade before Kottmann's arrival; it has since doubled.

A PhD chemist, Kottmann started at Hoechst in 1985 in research. After its breakup, he continued his career at former Hoechst companies—first Celanese Corporation and then SGL—before coming to Clariant. In this interview at his office in Basel, Kottmann talked about the approach he has taken to turn Clariant's performance around over the past seven years, as well as his goals for the future.

McKinsey: *You started as CEO two weeks after the collapse of Lehman Brothers. Did that make you change your plans?*

Hariolf Kottman: My plans in October 2008 were all focused on restructuring. I was convinced Clariant needed to get to a completely new level of competitiveness to survive, and that was going to require emergency surgery. The plans had nothing to do with the financial crisis or economic crisis, which you could not predict in October 2008.

McKinsey: *What gave you the confidence to make the drastic moves that you launched on your arrival?*

Hariolf Kottmann: I knew the company very well. Back in 1996, as a young manager at Hoechst, I was assigned by leadership to draft the plans to combine several large Hoechst businesses into one specialty-chemical division. These were the businesses that in 1997 became the "new" Clariant when Hoechst combined them with the original Clariant spun out of Sandoz. So I knew the businesses in detail, and subsequently I had a lot of friends and former university colleagues working at Clariant. I joined Clariant's supervisory board in April 2008, which enabled me to see the workings of the company close-up. In July 2008, when Clariant chairman Jürg Witmer asked me to become CEO, it was almost like coming home.

I'd received good training from the beginning of my career about how businesses should be managed, and I'd had plenty of opportunity to field-test my ideas about the right business model for running a specialty-chemical company. My first general manager-level responsibility was in 1996 running Hoechst's inorganic-chemical business unit: it was also a brutal restructuring situation, but within two years we had fixed the problems, and it became very successful. I ran a series of business units at Celanese, and we dealt with similar challenges at SGL—setting up the right business model for different businesses such as graphite specialties and carbon-fiber composites. When I arrived as CEO at Clariant, I already had a detailed road map of changes I was going to make.

McKinsey: *What did you do?*

Hariolf Kottmann: The moves we made were targeted at significantly reducing costs. First was a 25 percent head-count reduction. The second project was to try to reduce overcapacity across the company's worldwide network of plants; in the end, we closed 27 sites.

I already knew that eventually we would want to divest the most mature segments of the company—notably the textile-, leather-, and paper-chemical operations. But it was clear that we could not divest that division in 2008 and 2009 because it was the backbone of the company, especially in foreign countries. At that point, we could not have divested it and survived, because the other businesses would not have been able to absorb the remaining overhead. So we decided

Hariolf Kottmann

Vital statistics

Born in 1955 in Göppingen, Germany

Married, with 1 son

Education

Undergraduate studies in chemistry and biochemistry at University of Stuttgart; PhD in organic chemistry from University of Stuttgart, 1984

Career highlights

Clariant
(2008–present)
CEO

SGL
(2001–08)
Head of advanced-materials division and executive-committee member, responsible for SGL Excellence and technology and innovation corporate functions

Celanese Corporation
(1998–2001)
Member of executive committee and head of organic-chemical business unit

Hoechst
(1985–98)
Held numerous positions of increasing seniority, including roles in R&D, production, and finance; supporting executive committee; and serving as deputy head of basic-chemical division

Fast facts

Member of executive committee of European Chemical Industry Council (CEFIC)

Board member of International Council of Chemical Associations (ICCA)

Trustee of ETH Zürich Foundation

to continue with the current portfolio and focus on reducing cost and complexity, to improve cash generation, and to reduce the company's very high level of net working capital.

McKinsey: *Did you make management changes?*

Hariolf Kottmann: The day I started as CEO, the rest of the executive committee went on vacation for a week for the fall break. So I had a week in my office with my secretary and nobody around to disturb my preparations. Then the Monday everyone was back, I invited them to a three-hour meeting and explained what I was going to do.

All the changes were decided by me from the top. This may sound a bit brutal and arrogant, but it was the case: anybody who didn't follow had to leave the company, especially top management.

I replaced most of the executive committee in the first six months—the first change was made within five days. The sole survivor is our CFO, Patrick Jany, whom I recognized from our first meeting was someone I wanted to work with.

In the second quarter of 2009, I brought into the executive committee two former colleagues from my earliest days at Hoechst whom I had worked with for many years. With these trusted colleagues, we moved to implement the changes. And I should add that throughout this period I had strong support from my chairman, who gave me the freedom I needed to get the job done.

McKinsey: *What did you do when the financial crisis hit?*

Hariolf Kottmann: One of the low points was early March 2009, when our stock hit 3.51 Swiss francs, down from a peak of over 75 Swiss francs in the late 1990s. Our cash situation in 2009 was very tight, and we had to manage week by week. We started a task force for cash management, and we really worked hard to get through those weeks and months to stabilize the company. We continued to push ahead with the restructuring through 2009 and into 2010. But let me say that I never had any doubt for even one second about the company's ability to survive.

McKinsey: *What were the main steps to reorganize Clariant?*

Hariolf Kottmann: We changed the entire organizational structure, moving from large divisions to small business units with their own individual business-management committees—tankers into speedboats. From the beginning, we gave a lot of freedom to the management teams, and we introduced them to the performance cycle. We still have the same performance cycle today; it includes discussions with the business team in November and performance reviews four times a year. We discuss crafting new strategies, adapting strategies, transforming the strategies into business plans, and so on. This meant that the entire organization knew from 2009 onward what is important in each month of the year, with a very logical system.

I've never forced a business-unit head to change the business plan he was presenting. Even when a business-unit head undertook to deliver an unambitious target for earnings before interest and taxes of, say, 50 million Swiss francs, I'd accept it. But the gentleman got in deep trouble not only if he delivered 30 million Swiss francs but also if he delivered 80 million Swiss francs because in both cases it showed he didn't understand his business. If 50 is the promise, he has to deliver the promise. Leaders were astonished at the beginning because they couldn't believe that we didn't squeeze them. But by using this approach we have established a very trusting relationship among the businesses, the service units, the regional centers, and the executive committee and the board.

What I think has been most important has been the Clariant Excellence program. It had been clear to me from the beginning that just cutting costs was not going to make the company successful for the medium and long term. We needed to offer something more to the people of Clariant than simply cuts mandated from the top; we needed to show them there truly was hope on the horizon. My proposal to them was that we could reshape the way we operate from the bottom up based on continuous improvement and in this way raise our competitiveness and profitability. We launched the Clariant Excellence program in 2009, and today it is the heart and soul of the company and the blueprint for the way we operate.

McKinsey: *When did you become a believer in quality-management and continuous-improvement approaches?*

Hariolf Kottmann: My first contact was in 1992, when I was assigned to coordinate the quality managers of all the divisions of Hoechst. When I started as a production manager at Hoechst in 1994, I got a very good understanding about the continuous-improvement dimension of quality management, which focuses not only on production but also on people. Then I moved to Celanese in the US and had a lot of contact with how Six Sigma and lean were applied there, and I was involved in the development of the program that became Celanese Excellence. I became totally convinced that by applying this systematic, logical, and structured approach you could change a lot in businesses and companies. And I was well aware of the prominent examples where that recipe had worked very successfully.

So when I moved to SGL in 2001, I put in place a similar approach, SGL Excellence, covering personnel, operations, commercial, and innovation. A group of my Celanese colleagues joined me at SGL to implement the program; they are, so to speak, my troops. The program we launched at Clariant in 2009 was closely modeled on SGL Excellence, and many people from this team followed me again and are still with Clariant.

McKinsey: *What are the key features of Clariant Excellence?*

Hariolf Kottmann: Clariant Excellence initiatives have my personal backing—and let me say that I am very present in this organization. It's financed from the corporate center and participation is mandatory: businesses don't have the choice whether they are going to implement or not. Clariant Excellence now covers all areas of the company's activities, from operations to commercial via innovation, services, and HR, using standardized processes, tools, and methodologies under a single umbrella framework. To maintain the continuous-improvement momentum, we are now setting targets, and we rigorously track implementation performance. Our core team of Clariant Excellence experts—who move across the company doing diagnostics and supporting implementation with the businesses—comprises highly trained specialists in all the required areas, and they are absolutely top quality.

At the start when we launched Clariant Excellence, we made top-down decisions about which business units needed which tools and programs. As it turned out, all the businesses in fact got the full treatment because we found that in all of them there were big gaps—in innovation in particular, but also in the commercial area, in operations, and in the HR function. The process typically starts by sending a task-force team made up of six or seven experts to a production facility. They make analyses and apply lean methodologies such as 5S and workforce planning, and the end result is that you reduce costs and increase productivity and efficiency. Over the past five years, we have applied the program across all of Clariant's plants worldwide. We're now in the second, and in some cases third, round.

We've done the same kind of work in the commercial area. We've worked with our sales force on improving customer segmentation, transactional pricing, and value-based selling, while at the same time analyzing the capabilities of our sales force and improving their capabilities and replacing lower-performing salespeople as necessary. In some of our businesses, our people are good at segmentation and transaction pricing but are not yet able to do a good enough job selling the value that the product delivers to the customer, so we're working on that.

We've also done it in HR. When I arrived, Clariant had 150 different bonus systems around the world. Within four months, we reduced this to one system that is applicable worldwide. You can modify it to a Chinese version, or you can add individual features here and there. But the total company has

How chemical companies maneuver in China over the next five to ten years will determine who will be the industry's winners globally. . . .You have to move the Chinese market from being something on the periphery of your business to being at the center of your company.

the same objectives, the same strategies, the same ways to get to objectives, and the same bonus systems. I have the same bonus system as all my executives and my managers.

McKinsey: *How has Clariant Excellence developed?*

Hariolf Kottmann: There is a real pull today from the businesses to use it and get the resources to implement it from the corporate center, and I think that more or less everybody now understands that this is an excellent tool for improving the way we operate. In fact, the demand is so great that we don't have the necessary resources in our Clariant Excellence corporate-level center to meet all the requests and requirements coming from across the company.

Based on the work we've done, our teams have created a 25-chapter blueprint, setting out best practices in all aspects of production—maintenance, manufacturing operations, safety, and all the activities surrounding manufacturing and production. We call this the Clariant production system. We've posted the system blueprint on our Clariant intranet, and we can measure how many people are reading it by the number of clicks. We've created the same kinds of detailed systems to cover people excellence, innovation, commercial, and all aspects related to production operations, including procurement.

What we have today is a highly sophisticated overall system, and I've told my people that's enough, no more additional refinements or new tools: the priority is now implementation. In 2016, 2017, and 2018, we're going to work on applying what we have. I must say that I feel proud about the way that Clariant Excellence has developed and been accepted.

McKinsey: *When did you move beyond restructuring?*

Hariolf Kottmann: 2009 and 2010 were our years of restructuring, but by late 2010 the restructuring was done, we had no more head-count reduction on the agenda, and we could move to a new phase. We started negotiating to acquire Süd-Chemie in late 2010 and closed in April 2011. This was not initially well understood by financial markets: the day after the announcement, the share price fell by more than 10 percent because everybody said, "They're crazy and making the same mistake they made in 2000 buying BTP."[3] I always maintained that most of the financial markets simply did not really understand the Süd-Chemie business and the attractiveness of its portfolio, notably in catalysts. We communicated and communicated and eventually were able to get the market to understand, and our share price has fully recovered this ground. For us, Süd-Chemie was the beginning of our period of profitable growth: it gave us a foundation to build on, we increased the size of the company, and we increased the quality of our businesses in terms of profitability and growth. It also gave us the possibility to divest the most mature parts of our portfolio—the textiles-, leather-, and paper-chemical and detergent businesses.

McKinsey: *Did the Süd-Chemie acquisition signal that you thought Clariant was finally out of danger?*

Hariolf Kottmann: I honestly never had any doubt that the company would survive. Therefore, there wasn't a certain point in time when I thought, "Now the company is safe and sound." Even now, I don't think the company is safe. It continues to be in transformation mode and is always facing uncertainties. For example, back in 2011 and 2012, when we started to divest some businesses, everybody told me I'd never find anybody who would spend money for these businesses—even though, in the end, we in fact got a very good price for all of them. So there's never been a day in the past seven years when I felt I've completed the job. We're always on the move because of the competitiveness in the market, the consolidation pressure in the industry—everything is touching you in such a way that you don't ever get the feeling that now you are on the safe side of life.

Today, we have completed maybe 50 to 60 percent of what I intend. The company today doesn't look like what I have in my mind for what it could look like six or ten years from now.

McKinsey: *What about Clariant's business mix and geographical footprint?*

Hariolf Kottmann: There are clearly attractive businesses in the specialty-chemical sector where we don't yet have much of a presence. Examples include electronic chemicals and silicon chemistry, which is a very interesting, profitable, and healthily growing area. They also include everything related to biotechnology and enzymes, as well as everything related to lightweight materials, for instance, ceramic fibers, carbon fibers, carbon-fiber composites, aramid fibers, and so forth. I also think engineering plastics are very future oriented.

Geographically, Clariant is well positioned in Europe: we have enough people and production facilities. Latin America is going through a difficult time, while North America is for us a reemerging market. I'm convinced the region will make a success of the chances presented by shale gas as cheap energy and cheap raw materials. It will take time, but it will get there. India is an interesting market but a challenge for us. I know there is a population of 250 million people with European-level buying power, and I am convinced we have to be there, but there have been so many difficulties doing business in this region. In the meantime, we have plenty of opportunities to pursue there: for example, we have a successful joint venture in catalysts that we want to scale up.

It's my conviction nevertheless that Asia and especially China will determine the future of our company. Assuming continuing peaceful developments in the region, I would say that how chemical companies maneuver in China over the next five to ten years will determine who will be the industry's winners globally. We have to position ourselves in a completely different way from what we have done in the past decade: if you treat the Chinese market the same way you treat other markets, you will not be successful. You have to move the Chinese market from being something on the periphery of your business to being at the center of your company. And if you want to succeed in China, you have to differentiate yourself from other chemical companies. We at Clariant have already developed a clear understanding of what we want to achieve in the next three to four years in China.

McKinsey: *What's your vision for Clariant as a company?*

Hariolf Kottmann: We want to significantly increase Clariant's enterprise value and earnings margin. But besides size and profitability, I think it's even more important that five years from now, if one of our executives or managers is asked by a friend, "Where do you work?" and he replies Clariant, then his friend's immediate response should be, "Oh, that strong, profitable, innovative, very interesting Swiss specialty-chemical company." And this kind of association isn't firmly in place today. I would like to build a reputation for the company as a preferred employer, highly innovative, with an interesting working culture and a high-performing organization. Then the company would truly be positioned as I would like to see it. ■

Florian Budde is a director in McKinsey's Frankfurt office.

[1] Clariant was launched in 1995, comprising Sandoz's specialty-chemical business. In 1997, this operation was combined with Hoechst's much larger specialty-chemical business, increasing annual sales from 2.3 billion Swiss francs ($2.3 billion) to 10.2 billion Swiss francs.
[2] Earnings before interest, taxes, depreciation, and amortization.
[3] Clariant acquired the pharmaceutical-intermediates maker BTP in 2000 for £1.1 billion, just as that sector's growth peaked. Clariant subsequently took heavy write-offs to stabilize its finances.