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Uncovering **Hidden Value** in a Midsize Manufacturing Company

by James E. Ashton, Frank X. Cook, Jr., and Paul Schmitz

IF YOU RUN a midsize business, you may be familiar with that anxious sense of being left behind. At every turn, someone is exhorting-no, admonishing-you to jump onto the latest strategic bandwagon before it's too late. "Create new market space," you are told-if you haven't already missed this "fleeting opportunity." Don't forget to "time-pace your initiatives" and, while you're at it, "map your strategy."

Although these concepts have their place, it isn't in the numerous midsize manufacturing companies we have run or advised. All too often, such novel approaches do nothing more than distract managers from the job at hand: getting the most out of their existing businesses. Even if it's not the latest management fad, per se, that takes people's eyes off the ball, it's the bold moves that such strategic nostrums often imply: the pursuit of the big acquisition or the huge new market opportunity. Recall your last off-site management meeting. The topic was undoubtedly something like, What new business should we be in?-not, What can we make of the business we're in right now?

But midsize companies can create tremendous value - in fact, growth rates of 15% to 20% per year, over the short term-by focusing on the untapped potential of seemingly mature businesses. Such an approach not only offers tremendous possible payback but also poses few of the risks associated with pursuing chancy acquisitions, untested ventures, or radical new strategies. While most of our experience has been with manufacturing companies, our method for setting strategic priorities can be useful to other midsize businesses, including those in service industries. That's because whatever the industry, most companies with revenue of less than, say, $750 million don't have the financial or human resources to do everything at once.

Take the case of Fiberite, which made advanced composite materials for military and commercial airplanes, among other things. For the two years during the mid-1990s that one of us, Jim Ashton,

was the CEO of the Tempe, Arizona-based company, its value increased threefold. And the value of the investment made by the owner, DLJ Merchant Banking Partners, increased eightfold. DLJ had purchased Fiberite in 1995 for $115 million, contributing $35 million in equity and borrowing the rest. In 1997, having tightly managed capital expenditures and making only one small acquisition, DLJ sold Fiberite to rival Cytec for $360 million, a net gain of $240 million after paying back the loan principal and interest. (During this period, Paul Schmitz headed two Fiberite divisions and Frank Cook served as a consultant to the company.) This wasn't a turnaround situation; Fiberite was a healthy business with EBITDA - earnings before interest, taxes, depreciation, and amortization - of 10% on sales of $207 million. But the company's incumbent management, with ambitious plans for the introduction of new products and the tapping of new markets, had ignored the tremendous unrealized value in what it already had. This oversight had occurred in part because, like so many companies, Fiberite didn't really understand what had made it successful in the first place.

The Strategic Pathway

Our experience at Fiberite only reinforced our long-held belief in the importance of establishing a disciplined sequence of strategic priorities. It also highlighted how few managers are conscious of the right sequence. So we have formalized the process in a simple and logical "strategic pathway," one that can drive strategy development at most midsize companies. While it acknowledges the potential of new products and markets, it dictates that going after them should not be the first priority.

The pathway has four stages. First, *protect* your existing business. After that, *penetrate* further into existing market segments with existing products or upgrades. Then, *extend* the business by creating new products for existing segments or by entering new segments with existing products. Finally, *diversify* into new markets with new products.

This sequence of priorities is not new; it has its roots in turnaround management, where protecting the core business is a matter of survival. It also has been used, for the same reason, in leveraged buyout situations. But formalizing the sequence helps focus people's attention and thereby helps the company resist the siren call of new products and markets. We'll look in greatest detail at the first step because companies invariably try to leapfrog over it.

Let us offer here two general observations about the strategic pathway process. First, you should focus on what's going on in the business units. Corporate strategy can guide acquisitions, divestitures, and market and product development efforts outside the scope of individual business units. But the importance of corporate strategy is often overrated. Even GE, during its successful run over the past two decades, based its success more on initiatives such as Six Sigma and "Be number one or number two in an industry or get out" than on any overriding corporate strategy. In fact, we would argue that the important strategic work to be done at most companies is at the business-unit level. Certainly, it is here that you go about protecting your existing business.

That's because-and this is our second general point-operational excellence at the business-unit level is fundamental to our prescription for success. What? Operational excellence? During the past 20 years, haven't U.S. companies achieved this, or at least come pretty darn close?

Well, that hasn't been our experience. While many companies may have improved their operational performance in certain areas-for example, product quality and reliability-most still have a long way to go. Continuing this improvement in other areas that contribute to customer satisfaction-such as customized design, improved lead time, and comprehensive technical support - can give them a tremendous competitive advantage. If a company's existing business doesn't have a firm foundation of operational excellence, any initiatives to protect that business, to further penetrate existing markets, and to extend and diversify the business are likely to prove mediocre at best and disastrous at worst.

Time and again, we have seen companies that hadn't achieved the operational excellence needed to allow their existing businesses to hum along without undivided management attention. Consequently, when the companies started venturing into new areas, their core generators of revenue began to sputter,

Managers typically underestimate market size and overestimate their company's share of it.

Consider the German maker of aluminum tubing for automobile radiators that sought to develop new markets for its product. One was the embryonic market for structural aluminum tubing as an alternative to steel beams in car structures; another was the potential market for radiator-like tubing in wall-mounted air conditioners. But because the company couldn't do everything at once, the core business grew increasingly vulnerable while the company explored new market opportunities. Competitors cherry-picked customers unhappy with the company's delivery record. Big automakers, unhappy with the company's performance and pricing, began to buy tube mills to bring production in-house. The company began a dangerous slide.

Or take the case of a U.S. construction services company whose core business was the rental, erection, and dis-

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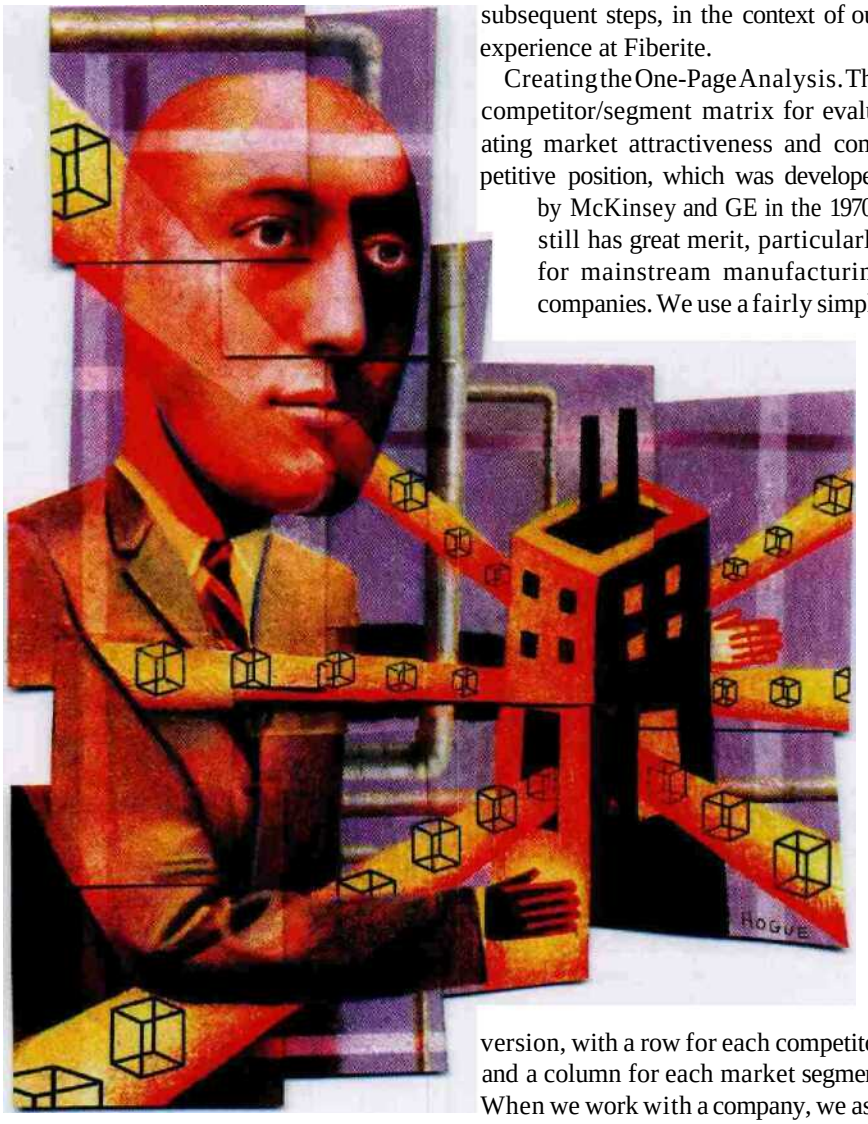
mantling of scaffolds at industrial plants - petroleum refineries and petrochemical facilities, for the most part. The company was the clear market leader, with a share five times that of its closest rival. With that share slipping, though, the company began to plot an ambitious growth strategy that would take it into new markets, such as special-



events scaffolding, and new businesses, such as providing union carpenters on a temporary basis to industrial customers. The risk of this approach: The decline in the company's core refinery and petrochemical-plant business would accelerate as rivals exploited the operational shortcomings already dragging down its market share.

Protecting What You Have

If operational excellence is key to protecting your business, so is understanding what you have, why you have it, who's after it, and how to keep it-assuming it's worth keeping at all. Our approach to developing that understanding has several elements. We'll look at them, as well as the strategic pathway's subsequent steps, in the context of our experience at Fiberite.

Creating the One-Page Analysis. The competitor/segment matrix for evaluating market attractiveness and competitive position, which was developed by McKinsey and GE in the 1970s, still has great merit, particularly for mainstream manufacturing companies. We use a fairly simple version, with a row for each competitor and a column for each market segment When we work with a company, we ask each business-unit manager to complete one of these matrices for his or her unit. With the right operating people in the room, you can usually do a first cut of the matrix in a few hours.

The matrix includes the estimated annual sales, for the previous year, of each competitor in each segment. Boxes are color coded to show who is gaining and who *is* losing share. The matrix also includes historical and projected growth rates and the company's current margin in each segment (See the exhibit "Mapping Competitors and Customers" for a matrix prepared for Fiberite's Greenville, Texas, division, which made graphite-reinforced composite materials used in aerospace and sporting goods applications.)

When you have filled out the matrix, you'll have on a single page a snapshot of markets and competitors. That single page will typically contain some surprises. For example, the market is bigger than you thought. The company has more competitors than you thought. They are striving to dominate different segments than you thought. Your share is actually smaller than you thought. You aren't making your money where you thought. Somebody you weren't watching is gaining on you.

At a minimum, the matrix can highlight for you where your base is threatened (if indeed it is). More positively, it can reveal unanticipated opportunities for growth within your existing businesses. That's because managers typically underestimate market size and overestimate their company's share of it. At Fiberite's Greenville division, managers began to see in their current product lines a potential for growth through improved operational performance that they had believed was only possible with the introduction of new products.

Apart from the strategic insights that the matrix provides, it is a useful teaching toot. Surprisingly often, managers at midsize companies lack a foundation in basic strategic concepts. We have found that, even at successful companies, senior executives can't take for granted that their managers are thinking clearly about such basic concepts as market segmentation and competitive advantage.

Defining Segments, Round Two. You often need to go back and do a second cut at the matrix because, after further fact-finding and discussion, you see that your original definitions of market segments are inadequate. Industrial manufacturers typically define their market segments by the end-use industries for

their products. Sometimes that's good enough; other times, it's too crude a segmentation to uncover value-creation opportunities and value-destruction threats. For example, in a particular industry, big customers may not need much in the way of technical support. They will often be a distinct segment from smaller customers that don't have the capabilities to solve their own technical problems.

Segment-based thinking like this is hardly a new idea. And it can require some pretty nitty-gritty analysis. For those reasons, CEOs typically find it unworthy of their time. They feel they have more important things to think about: setting a strategic vision, identifying major acquisition targets, and the like. If they care at all about segmentation, they usually assume the business-unit managers are looking after it. This is a dangerous assumption. One of the best means of getting unit managers to think creatively about market segmentation is to articulate the question that underlies so much of our approach: "What can we make of this business?"

Market segmentation can serve as a healthy antidote to acquisition fever.

When CEOs also push themselves to think about market segmentation, they often find it a surprisingly creative exercise with potentially high payback - and something that can serve as a healthy antidote to acquisition fever. For example, Fiberite's Orange, California, division, which made another type of composite material from that made at Greenville, felt it "owned" the aircraft interiors business of Boeing, the division's primary customer.

As the general manager liked to say, "All the composite material you see on the inside of a Boeing airplane is Fiberite material." That included cabin dividers, overhead luggage compartments, and sidewall panels. Indeed, the division sales manager and his Boeing account manager estimated that the division had 90% of the Boeing interiors segment. With little room to grow there, the company naturally believed it would have to acquire a company in another segment to generate significant growth.

But as part of the process of preparing a competitor/segment matrix for the division, which had aircraft interiors as its main market segment, it emerged that Boeing jets contain composite material that you *don't* see: mainly floors and cargo-hold liners. So managers refined the segmentation, subdividing the interiors segment into two subsegments. Lo and behold, the market was much bigger than they had thought, they had competitors they had never heard of, and pursuing greater market share made more sense than acquiring a company in a new segment.

Knowing Why You Win. The matrix will also highlight your areas of success. Key to our approach is determining the *reasons* for that success. Companies often try to do this by preparing a laundry list of strengths and weaknesses. But those lists typically provide few real insights because managers don't go beyond the obvious in putting the lists together. This drives us nuts. For example, the category of customer relationships is on everybody's list of strengths and weaknesses. But it typically refers to the personal relationships that the company's salespeople have with the customers' purchasing staffs. That's an illusory strength: When buyers change, companies lose the accounts.

Lasting customer relationships are based on customers' satisfaction with what you deliver: consistently high-quality products and dependable, flexible, and responsive service. (Remember our harping about operational excellence?) If they are happy with you in these areas, customers will give you the last look in bidding situations because they want you to win.

Just as often, though, companies don't simply mischaracterize their strengths - they get them completely wrong. This happened at Fiberite. The incumbent management team was pursuing a strategy of product leadership, believing that technological improvements were why the company won business at the expense of its competitors. As it turned out, customers, most notably Boeing, neither needed nor wanted more product advancements. They wanted help using the products they already had.

If that misunderstanding had not come to light, Fiberite's value to its owner, DLJ Merchant Banking Partners, still would have increased, because Boeing's production rate was increasing. But the value wouldn't have risen anywhere near eightfold. The reason for Fiberite's tremendous success: Once the company focused on providing superior customer service, its market share and margins took off.

So how do you go about determining why you win? The heart of the process is to get the people closest to the customer thinking clearly about the question. In the case of Fiberite, which made engineered products, we needed to in-

Mapping Competitors and Customers

A simple one-page matrix can highlight for managers where their core business is threatened and reveal unanticipated opportunities for growth within that business. This table was prepared for the Greenville, Texas, division of Fiberite, a maker of advanced composite materials.

Good margins and strong outlook for growth; big opportunity in this segment?

elude not just salespeople but also application engineers and folks from technical support and quality assurance. If your company sells through representatives or distributors, you need to bring them into the process as well.

Then, in a series of meetings, you discuss and test current beliefs and alternative hypotheses about the reasons for the company's success. Salespeople are encouraged to report back on what customers value-though you have to factor in a salesperson's tendency to highlight pricing or product features. In trying to pin down what customers really value, you also need to again consider refining your market segmentation; otherwise, you will tacitly and incorrectly assume that all customers value the same things.

At Fiberite, a discussion with the sales staff typically went something like this:

"How do we win?"

"We win on price."

"Is it a blind auction, or does the customer coach us on where our price needs to be?"

"We get coached."

"That means the customer wants us to win. Why is that?"

"Because we take good care of our customers. We have good lead times on deliveries and good technical support."

Further probing highlighted the particular importance to customers of short lead times, the duration between order and delivery. These typically got longer in a strong economy, when suppliers were particularly busy, even as customers like Boeing needed parts faster than ever. In fact, this was happening at Fiberite's archrival, Hexcel. That company's normal delivery problems were exacerbated by its difficulty assimilating Hercules, a large composites company it had acquired.

Having determined what its customers truly wanted, Fiberite's management set out to restore the company's historically superior technical support, which had faltered because of budget cuts, and to reduce lead times while maintaining on-time delivery. In fact, the company got lead times down from the typical six to eight weeks to two weeks. The resulting growth in Fiberite's business ultimately led to its two main competitors, Hexcel and Cytec, vying to acquire the company.

We cannot overstate the importance of knowing why you win, nor can we overstate how frequently managers don't know the answer and have not even carefully considered the question.

Knowing What's Worth Protecting. The competitor/segment matrix, along with your segment growth and profitability analyses, will give you a clear picture of what you need to protect, from whom, and why. We have found, though, that even unpromising-looking businesses may have promise. That's

U.S. Structural Graphite Composites Markets Served by Fiberite, 1995
(estimated annual sales in millions of dollars)
= gaining share, = losing share

	Customer Segment				
Company	Military	Commercial Aircraft	Sporting Goods	Industrial	Company Total
Hexcel	$25	$80	$5		$110
Fiberite	$28	$19	$16		$63
Hercules	$12	$10			$22
Newport			$14	$6	$20
Toray		$14	$3		$17
Cytec	$5	$6	$2	$2	$15
SP		$1			$1
Total Segment Size	$70	$130	$40	$8	$248
Historical Segment Growth (1990–1995)	–3%	–10%	15%	3%	–4%
Projected Segment Growth (1995–1998)	0%	12%	8%	3%	8%
Fiberite Margin*	49%	44%	31%	NA	43%

* contribution margin (revenue less direct materials cost, but not direct labor cost or overhead, as a percentage of revenue)

Is rival's dominant share of segment a juicy target -or, as is sometimes the case, a heavily defended fortress?

Bread-and-butter business under attack and losing share; must protect even though other markets are growing faster.

Might surprise you; total market is probably bigger than you thought.

because most businesses are still a long way from being all they can be, and they can usually benefit from operational improvements. In fact, dubbing a business not worth saving usually turns out to be a self-fulfilling prophecy.

That does not mean all businesses should get the same degree of protection. We identify businesses that need to be ferociously protected and others that demand less assiduous attention. For instance, at Fiberite's Greenville division, as part of the segment redefinition process, the management team divided sporting goods into two subsegments, golf clubs and fishing rods. The team then further divided golf-club producers into two groups: high-end manufacturers like Callaway and low-end makers of clubs sold in discount stores. This highlighted something that in retrospect seemed obvious: The division's sporting goods customers had quite different needs and priorities. For instance, manufacturers of high-end clubs valued Fiberite's technical service more than low-end manufacturers did.

More important, the Greenville division's greatest opportunity for further market penetration with existing products turned out to be in the commercial aircraft business, which at the time was about the same size as the sporting goods business. So the Greenville team focused on protecting and growing this business, which made materials for structural components-for example, wing flaps-for commercial aircraft. The team not only worked to improve its operational performance but also added capacity to match the growth rate of Boeing, its biggest customer. As with the Orange division, which made materials for Boeing aircraft interiors, Greenville was able to realize unexpected growth from this existing customer.

Taking Protective Action. Different situations require different actions to protect the existing business. Of course, the fundamental aim is to provide a defect-free product exactly when the customer needs it. But, depending on the circumstances, you also might decide to change prices, modify your products, shore up your critical skills, or try to negotiate long-term contracts. Where the threat is a substitute technology, you might choose to develop or license new products or even acquire a company to fill a gap in your existing business. Key to each of these is frequent and direct contact by top business-unit managers with important customers; relying solely on salespeople for information about what customers are thinking is a sure way to get blindsided.

The Greenville management team's efforts to dramatically improve the quality, on-time delivery, and lead time of its product offerings to Boeing led to Fiberite's becoming Boeing's favored supplier. Ultimately, Fiberite effectively locked up the Boeing business by negotiating mutually beneficial long-term contracts.

Often, companies don't simply mischaracterize their strengths - they get them completely wrong.

Projecting One Step at a Time. Typically, when business-unit managers present their plans to top management, those plans involve a bundled mix of cost-reduction programs, new product initiatives, new market initiatives, and acquisitions. In other words, they span all four steps of the strategic pathway.

To get more useful projections, we ask business-unit managers to instead present projections of annual sales and earnings separately for each step on the pathway-with emphasis on the first step, the protect-only scenario. In other words, if those managers did nothing more than protect their current businesses, what sort of financial results would they expect?

The main reason for doing this: to see if you have a reasonable chance of achieving corporate financial objectives without entering new product or market segments. If you do, you shouldn't necessarily cancel programs intended to introduce new products or enter new segments. But be cautious about trying to reach ambitious financial goals by launching initiatives you don't need, particularly if those initiatives are high risk. At a minimum, such programs will detract from efforts to improve current operations and to make the existing business all it can be.

At Fiberite, we concluded that each of the company's six divisions should be able to double sales and earnings within five years through internal growth. (We also determined that it wasn't reasonable to expect more.) Realizing that we could meet such ambitious growth targets essentially by protecting our existing businesses, we canceled or postponed some acquisition and market development plans that the company's previous management team had proposed.

These initiatives had been based on the implicit assumption that Fiberite's existing businesses offered little opportunity for growth. We concluded, however, that we didn't need big acquisitions to create value; acquisitions, in fact, might have destroyed it. We did ultimately launch product and market development initiatives, but only after ensuring that our existing businesses were generating the value they were capable of.

Moving Along the Strategic Pathway

As we've shown with the Fiberite example, you should first work to improve operational excellence, increase your management contact with customers, and set into motion specific additional actions to protect your existing business. Only then should you consider the remaining priorities on the strategic pathway.

Penetrate. The second priority is to gain market share in segments you already serve with products you already have. That means going to current, former, and prospective customers-in that order if you can't approach them all at the same time. (Again, with limited resources, you have to set priorities.) The market and competitive understanding you have developed in the previous stage will prove invaluable in helping you formulate a strategy to gain market share.

For example, striving to get more business from existing customers is nothing new. But your business strategy now informs the basic activities of marketing and sales. You understand better than before which market segments are most attractive and which competitors are most vulnerable, why you win and why your rivals win. This allows you to concentrate your strengths against competitors' weaknesses. And, because you have improved your operations, customers are more likely to consolidate their purchases with you because they have greater confidence in your ability to deliver.

Take the case of Fiberite's division that made composite materials for satellites. In trying to shore up its current business, the division had made tremendous strides in such areas as engineering products for customers' specific needs and responding to customers' changing schedules. Now the division could fill virtually any order with a defect-free product in two weeks' time - three times as fast as competitors were able to do.

The two-week lead time became the industry standard, and Fiberite's market share grew rapidly. Even more important, customers began to turn to Fiberite for products they had been buying from competitors. In a modestly growing market, the division doubled its sales in a year and a half.

Extend. The third strategic priority is to look for natural extensions of your existing business: new products for existing customers or new customers for existing products. At this stage, improving operational performance, so important to protecting your existing business, is of less direct importance. But-and this is critical-if you haven't achieved that first, you'll have a shaky financial and organizational foundation for pursuing more adventurous strategies. Indeed,

OperationalStocktaking

We have found that as a business moves along the strategic pathway, monthly operations reviews are key to keeping things on track. What do we mean by this?

Let's talk about format before we talk about value. The operations review typically will be a half- or full-day meeting, depending on the company's size and how experienced you are at conducting such reviews. The meeting, run by the company or division president or general manager, is in a show-and-tell, peer-review format. All the leader's staff members, and sometimes their reports as well, attend each review. All company employees and customers are welcome.

Each manager of a business unit, function, or large project presents what that group did to meet the commitments it made at the previous month's meeting. The managers present operating, not financial, data; this isn't a budget review. Where corrective action is required, they describe the intended action, name the person responsible, and commit to a completion or milestone date.

These needn't be formal affairs: Although presentations should be projected so that everyone can see them, fancy charts are not required; in fact, hand-drawn charts are acceptable. That's because the emphasis is on thinking, not on fixed conclusions. The president or CM poses questions, but in a nonthreatening and generally nondirective manner. Participants are expected to be candid about their failures as well as their successes. The only penalty is for dissembling, in which case the president or CM expresses disapproval in a strong but nondemeaning way.

Now for value: At its most basic, the reviews are forums in which people commit to doing something and later report whether or not they have been able to do it. While business-unit managers are free to discuss issues with the president or CM between review meetings, these monthly updates usually suffice.

The review also ensures direct communication to and from the president or CM on a regular basis. In any organization, people consciously or unconsciously filter communication in both upward and downward directions. In the operations reviews, the president or CM can have regular access to people at all levels in the organization and vice versa. Since all functions, business units, and major projects are represented at the reviews, a greater degree of teamwork is possible than might otherwise be. You'd be surprised how often we hear the following comment from people after they have attended their first review: "I never knew what they did in that group. Now that I know, I have some ideas about how I can help them."

given the distractions that such strategic moves create, the business as a whole might start to topple if you don't have that base of operational excellence.

With its existing businesses stable and growing, Fiberite pursued a number of natural extensions. For example, its molding-compounds business sold products to manufacturers of automotive and electronic components. A particular kind of molding compound, called bulk molding compound, or BMC, was rapidly gaining acceptance in the automotive segment for use in such products as headlight reflectors. But Fiberite didn't make that compound.

Fiberite's molding-compounds marketing manager had been unsuccessfully urging the company to get into the BMC business. We saw this as a natural, low-risk move and acquired a French manufacturer with a unique BMC product technology. While efforts were made to improve the new unit's European market share, its technology was transferred to the molding-compounds business in the United States, allowing it to enter that market for BMC. It was a natural extension-a new product for an existing market.

Diversify. As your existing businesses become easier to manage because of the work you have done in protecting and extending them, the management team has more time, and more need, to turn its attention to diversification. That is when you ask yourselves, for example, whether you should be in the trucking or the transportation business. In our experience, that point normally occurs about three to five years down the strategic pathway. Until then, you typically will have been able to realize significant earnings growth from your existing businesses. If you turn your attention to diversification too early, as many managers are prone to do, earnings most likely won't grow at these rates.

Fiberite was acquired just two years into our journey along the strategic pathway. But we had begun to consider diversification opportunities at the corporate level once the divisions were on track to double sales and earnings in five years.

For example, the company bought the rights to a laminated fiberglass material, developed by an Italian shipbuilding company, that had the potential to compete with steel as a material in ship construction, A prototype machine was installed at corporate headquarters to develop this product - which was entirely new and aimed at an entirely new market, though it fit Fiberite's capabilities. The project was based at headquarters because the divisions had enough on their plates trying to meet the ambitious financial goals set for their existing businesses.

Most midsize manufacturing companies can realize significant sales and earnings increases for three to five years without diversification.

Signposts of Success

Clearly, many factors will affect the success of the approach we've described: the market in which you operate and your company's position in it, the caliber of your management team, and plain, old-fashioned luck, to name just a few. But we've seen this approach work for a variety of companies in a variety of industries-even those that had been heading down the wrong path.

Recall, for example, the aluminum-tubing manufacturer whose business had begun a precipitous slide. Under a new director, the business got back to basics. The director's approach produced such quick, dramatic results that he was crowned the "EBITDA king" of his multidivisional parent company. Then, having shored up its existing businesses, the company pursued extensions that capitalized on its operational excellence and innovative prowess.

Similarly, the dominant, but declining, construction services company pulled

back from its grand vision of new markets and businesses and focused first on protecting its core scaffold market. The construction services company then successfully moved into two complementary, but overlooked, markets-pulp mills and electric power plants -which required the same skills, systems, and services used in refineries and petrochemical plants. A few years later, having recaptured lost share in its core business and having moved into the adjacent pulp mill and power plant markets, the company made a half-dozen acquisitions and started the temporary-staffing business. The company was acquired, with a manifold return on its owner's investment.

One key to the success of these companies-and of Fiberite-is management philosophy. Our own philosophy rests on two pillars. The first is the practice of monthly operations reviews. (For a description of these operations reviews, see the sidebar "Operational Stocktaking") The second is a managerial style based on responsibility and trust. Instead of constantly checking up on managers, we'll say, "We will assume that you have done whatever you said you would do unless you come back and tell us that you didn't." Although the strategic pathway puts constraints on managers, they are free within those constraints to meet their ambitious goals however they think best.

And those goals, though challenging, are definitely achievable. We think most midsize manufacturing companies can realize significant sales and earnings increases for three to five years without diversification, while positioning themselves for the diversification needed to sustain growth beyond that time horizon. In fact, they could conceivably achieve increases better than the 15% to 20% annual growth that we have often seen. But we've typically found that this is a reasonable goal. Moving toward operational excellence while improving results that rapidly is a sufficient management challenge.

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