



# EXCEL POLYMERS

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**The Power of the Synergetics Business Assessment Process**

**Featured Case Study**

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## The Power of the Synergetics Business Assessment Process

**The Situation** In 2008, with the global downturn in the economy and raw material prices for rubber-based polymers skyrocketing, sales volumes were down, costs were up, and manufacturing utilization was diminishing. With its earnings down well below budget, Excel Polymers found itself on the verge of breaking its lending covenants and headed towards insolvency.

Management had considered passing the cost increases on to their customers but had not done so, for fear of losing more business. Instead, they chose to focus on a top line growth strategy, filling existing manufacturing capacity. They approached this solution through increased sales efforts and discounting. However, strategies to improve sales processes did not prove to be effective, and, due to the cost of raw material, this discounting only further eroded their bottom line.

Based on work done with a previous client, a member of the Board was familiar with Synergetics and their expertise. Feeling that Synergetics provided exactly what was needed, he introduced them to Excel's top management, and an initial business assessment was scheduled.

**The Assessment** Starting with an in-depth exploration of the massive data available through their SAP ERP system, Synergetics reviewed each stock keeping unit (SKU) to understand both the direct material cost and gross margin associated with each. Additionally, raw material pricing, customer contract terms & pricing, current manufacturing utilization, and customer demographics were reviewed. Synergetics organized the data in a manner which allowed

**Excel Polymers, LLC** was a leading global supplier of performance elastomer solutions, offering a comprehensive portfolio of compounded rubber polymer materials, performance additives, and technically advanced / value-added services, mainly sold to rubber parts manufacturers. Their global production footprint consisted of 8 manufacturing facilities strategically located in the US, China, Mexico and the United Kingdom.

Founded in 2004 and headquartered in Solon, OH, the company employed 800 people, with 2010 sales revenues approaching \$360M. Known for its technology processing and quality control systems, it offered formulations and products to a number of end markets to include industrial, heavy machinery, construction, automotive, printing, and oil & gas.

In December 2010, the sale of Excel Polymers to HEXPOL Compounding was finalized. This acquisition almost doubled the size of HEXPOL and made it the top polymer materials compounding company world-wide, greatly enhancing its technological capabilities and competencies.



"Synergetics' customer segmentation and margin analysis helped us prepare for a very difficult economic period. They helped us to understand our costs and business model better, allowing us then to reposition our value proposition and restructure operations."

John Quinn  
CEO, Excel Polymers



Senior Leadership to better understand its power in a way previous consultants had not been able to achieve. This understanding and openness helped in laying the foundation for a collaborative working relationship.

As a result, Synergetics discussed two courses of action which they identified that could most likely turn around the company's path toward bankruptcy. First was to shed unprofitable products and customers. The second action would focus on right-sizing capacity by shutting down specific production lines. Although reluctant of an approach that was heavily bottom line-focused and likely to impact customers, the Senior Team agreed to proceed.

**The Implementation** The review of raw material contracts determined that the company's robust strategic sourcing program was effective only when advantageous materials costs were in place. Conversely, customer contracts often did not include terms which would allow for pass-through of these same materials increased costs. And since these costs were not often applied, a source of significant revenue leakage was occurring. Over the concerns of Sales Managers, who predicted a 60% customer loss, contracts were renegotiated to include a price escalation clause, and the ones that already had it were acted upon.

Analysis of the SKU data showed that in many cases the company was setting prices based on raw material cost, with a break-even material margin philosophy to cover overhead. Raw material cost adjustments were only made on an annual basis, while any material cost decreases were generally passed on almost as soon as they occurred.

To reduce the negative financial impact that material pricing was having on Excel's bottom line, two actions were taken. First, pricing was adjusted to ensure minimum gross margin levels were met. Second, a monthly material cost review practice was established. This review allowed any price increases to be identified and passed through as they occurred. Cost decreases were tracked but not applied for several months to ensure they would hold in a volatile market. These two steps allowed the company to begin determining those aspects of the business which were unprofitable or anticipated to become unprofitable.

**Based on this information, Excel, under the guidance of Synergetics, reviewed their manufacturing capacity, shut down unprofitable product lines, and began the realignment process necessary to right size the business and regain profitability.**

Finally, with Synergetics working with Product Managers, monthly SKU and customer profitability analyses were developed, all of which allowed for accurate and timely financial reporting management. It also provided the necessary information to the Sales Managers which they could use to better communicate with their customer base.

**The Results** While Excel did experience a 30% decrease of revenue and customers through this exercise (far less than expected), all of this lost business had been at a negative margin. **By eliminating unprofitable business and right-sizing the manufacturing operations, \$8M in additional EBITDA were gained.** By taking advantage of the information which resulted from a strong business assessment, Excel Polymers realized record profitability for the following two years.

**The Impact** Excel Polymers posted 2009 sales of \$284M, and it was projected to have revenues of \$360M in 2010 when it was sold to HEXPOL Compounding North America. Excel's EBITDA in 2009 was \$21M and was forecasted to have been \$35M for 2010. Completion of this sale was expected to have doubled HEXPOL's business worldwide and create significant synergies, mainly on its cost side of operations and technological resources capabilities and competencies.

Synergetics is a privately held New England-based Management Consulting firm established in 1975. With two office locations in the US and UK, Synergetics operates internationally and employs over 150 professionals as analysts, consultants, project managers, and subject matter experts. As one of the largest "Implementation Consulting" organizations, Synergetics has completed over 1,600 business process engagements across 9 distinct industry verticals. It has built more than \$8B in bottom line profitability and improvements in overall operating efficiencies.

Synergetics has a diverse client portfolio comprised of leading industrial and service corporations across Private Equity, Small and Medium Enterprises, and Fortune 500 Companies. With customized service offerings and solutions, Synergetics performs detailed management, financial, and operational assessments to develop and deliver specific cost savings and revenue enhancement initiatives.

"Your analysis, coaching and quick study of our business were impressive. You were the lightning rod that saved our business. Synergetics is on the top of our list for business partners."

John Quinn  
CEO, Excel Polymers

#### For more information

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