

# MAKING STRATEGIC DIVESTITURES

## AN EKS CASE STUDY

### Situation Analysis

A specialty foods manufacturing & distribution company had embarked on an aggressive acquisition strategy. They started with a strong core business in food manufacturing with an internal distribution arm with its own truck fleet. The company had complimentary strengths that manifested in high capacity manufacturing coupled with delivery capability at 85-95% capacity.

The aggressive expansion strategy resulted in international reach with broader product lines and increased geographic distribution. However, the growth strategy involved significant capital investments, which overextended their credit. A problem was indicated by a drop in the average distribution truck load from 85-95% down to 45-60% from the two distribution hubs in the southeast and the west coast.

### Desired Outcome

Management wanted to determine how to run distribution effectively at full capacity via analysis of two scenarios:

- 1) Run their trucking fleet as a profit center
- 2) Sell their trucking business and outsource this service to the company

### Intervention

Over 2 ½ months, the consulting team used the EnCompass Enterprise (E<sup>2</sup>™) software suite consisting of the EnCompass® Organizational Process Mapping module and the OrgAnalyst® Organizational Activity Cost Management module, utilizing E<sup>2</sup>'s web-based survey-style data collection and automated process mapping features to expedite the analysis.

The EnCompass Organizational Process Mapping tool mapped organizational processes around project “drivers”. This enabled the consultant team to capture how tasks are performed within and between organizations and flag ineffective processes between departments. EnCompass also revealed “virtual hierarchies” that showed the level of impact that individuals or organizational elements have on key issues or processes. These views showed how information gets to decision makers, and how decisions influence the enterprise.

The Activity Cost Management tool identified, quantified and evaluated the costs of the activities conducted by the organization’s individuals, and how those activities related to processes. A tailored activity dictionary provided accurate and readily allocatable data at the individual respondent level. Reports included “hidden” indirect and management costs that correlated with EnCompass maps and workflow models.

With the help of the E<sup>2</sup> tools, the consulting team identified that the distribution arm of the company was a non-core business. Organizational Process Mapping uncovered the conflict between the expanded manufacturing unit and the distribution arm. Activity Cost Management uncovered that executives were not receiving any return on \$750K-\$1.5 MIL annual investment in distribution.

### Results

Based on the E<sup>2</sup> findings, they company decided to sell the distribution arm, which led to a distribution management-led buy-out. The sale relieved the manufacturing capital requirements and brought \$5 million in new capital. Coupled with the ability to redistribute \$750-\$1.5 million in existing capital, the new capitalization enabled a bank line extension. In addition, the Organizational Process Mapping maps facilitated a transition that proceeded without any problems through the management of key process and organizational linkages.

