

Reshaping a Business Portfolio Is Hard—What Separates the Best from the Rest?

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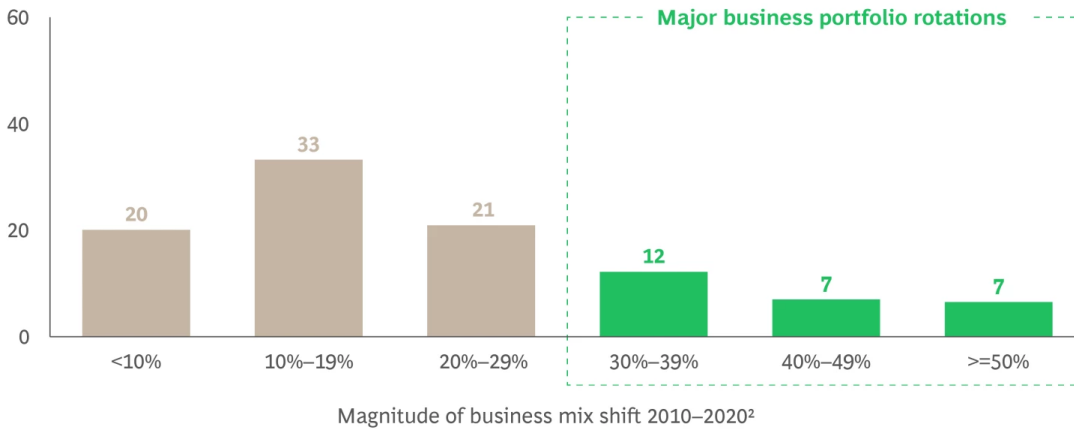
Changing the shape of a corporation’s portfolio of businesses is one of the most significant levers that a CEO has to redirect a company’s future. Smart portfolio moves can—among other things—accelerate [corporate strategy](#) by increasing exposure to attractive new profit pools, enabling new value propositions and business models, and helping a company outrun disruption.

Most companies shift their portfolios in an evolutionary style with the goal of fine-tuning performance—incrementally pruning businesses, capturing adjacencies, and reallocating capital from lower- to higher-return segments. From 2010 through 2020, about one-fifth of companies changed their business mix by less than 10%. But about one-quarter of companies shifted their mix by 30% or more (see Exhibit 1). These companies aspired to change the game through a fundamental reshaping of their business portfolios.

EXHIBIT 1

Between 2010 and 2020, About a Quarter of Companies Pursued a Major Portfolio Rotation That Shifted 30% or More of Its Business Mix

Percentage (%) of companies¹



Sources: S&P Capital IQ; BCG analysis.

¹N=583 companies in S&P 1200 in either 2010, 2020, or 2024 with >\$5 billion in revenue for 2010 and 2020 (excludes financials and real estate).

²Business mix shift based on the company-reported mix dimension (e.g., product line, geography, therapeutic area, etc.) that showed the largest cumulative change from 2010 through 2020.

Major portfolio rotations are challenging. Not every caterpillar becomes a butterfly. Some companies create enduring value. Others lose ground. We sought to find out what separates the two. And we identified six factors that, in combination, can tip the scales toward success.

The Landscape of Major Business Portfolio Rotations

Interestingly, we found no statistical correlation between the magnitude of a portfolio shift and the company's ultimate financial performance (see Exhibit 2). And while median relative total shareholder return (rTSR) levels varied with size, the differences were not statistically significant. (For more detail on the analysis, see the sidebar "About the Methodology.")

— About the Methodology

Our analysis focused on 583 companies that were part of the S&P 1200 in either 2010, 2020, or 2024 and had revenues of \$5 billion or more in both 2010 and 2020. We excluded companies in the financial and real estate sectors as some of the metrics we were studying (for example, enterprise value) are less relevant in those

sectors. To identify, size, and characterize business portfolio rotations, we relied on company revenue mix disclosures. Where company revenue mix could be calculated on multiple dimensions (for example, Apple's primary reporting segments are geographic but the company also discloses product mix), both dimensions were analyzed, and our analysis focused on the dimension with the largest change between the starting and ending year.

Relative TSR calculations are cumulative metrics representing the overall performance of the company's stock (including dividends) relative to the global S&P Global 1200 index for that sector over the identified rotation time period plus five years.

The six rotation best practice factors were calculated as follows:

- **Act before you are forced to.** A rotation was deemed proactive if the two-year prerotation rTSR was greater than -5%.
- **Keep the core stable.** A rotation was credited with this factor if there was no more than one year between 2010 and 2020 with EBIT margin surprises of less than -5% versus the one-year estimate.
- **Prune as well as add.** A rotation earned this distinction if the cumulative magnitude of divestitures as a percentage of starting enterprise value from 2011 through 2020 was between 5% and 40%. The intent of the 40% cap was to distinguish shifts that were likely to change the operations of the company from more financially-driven moves (e.g., spinoffs, deconglomeration).
- **Move in steps, not all at once.** A rotation was credited with this factor if there were at least four years between 2011 and 2020 with total M&A volume (divestitures plus spins) as a percent of starting enterprise value above a threshold of 5 percentage points.
- **Demonstrate financial discipline, especially in M&A.** A rotation checked this box if the change in return on capital (including goodwill and intangibles, holding tax rate constant) from start to end of the rotation declined by no more than 2 percentage points.
- **Tilt toward growth.** A rotation earned this distinction if there was a positive change in forward growth expectation from (a) the year prior to rotation to (b) the end of rotation. Forward growth expectations were based on revenue expectations two and three years from point of measurement where available, and revenue expectations one and two years from point of measurement if not.

M&A intensity was calculated based on estimated deal values from M&A databases from LSEG Data & Analytics, S&P Capital IQ Pro, and company cash-flow disclosures. Other company financials were sourced from S&P Capital IQ Pro.

When it comes to the kinds of portfolio rotations that companies engaged in, we saw five common archetypes:

- **Refocus.** Strategically selling or exiting some business areas to reinvest in new or more attractive profit pools.
- **Adjacent Expansion.** Entering new segments closely associated with the current core where existing brand, technology, supply networks, and customer relationships can be leveraged.
- **Horizontal Consolidation.** Building scale within an industry, typically by acquiring one or more peers.
- **Geographic Mix Shift.** Increasing exposure to faster-growing regions without changing value chain role or segment mix.
- **Vertical Integration.** Extending the economic footprint up and down the value chain to exert more influence and capture more of the economics.

Inevitably, most multiyear portfolio shifts touch upon more than one of these archetypes, but our research found that from a degree-of-difficulty perspective the archetype mattered less than the execution. There were similar rates of success and failure across the archetypes—ultimately success for a major portfolio rotation most correlated with six best practices associated with the timing and approach.

Six Factors That Tilt the Odds Toward Success

Why do some major portfolio rotations succeed while others unravel? Our research found that some combination of six common-sense best practices characterized those that created real value:

- **Act before you are forced to.** The best rotations build on healthy cores and existing strengths—and on superior strategic foresight to outmaneuver potential disruption before it strikes.
- **Keep the core stable.** A stable core generates cash for new investment—and enables management to focus on building the future.
- **Prune as well as add.** Successful rotations are driven by strategic clarity about what’s essential and what’s not. They sharpen the focus of the enterprise.
- **Move in steps, not all at once.** Even revolutionary portfolio shifts are best built through a series of moves rather than a single blockbuster transaction. The serial approach outperforms because it leaves space to learn, adjust, and reduce risk.
- **Demonstrate financial discipline, especially in M&A.** Manage acquisitions and other capital spending in a way that avoids significant erosion in returns on capital.
- **Tilt toward growth.** And not surprisingly, increasing exposure to segments with higher growth and profit potential contributes to the success rate of a major portfolio rotation.

No single factor alone was either sufficient or necessary to drive outperformance. For each factor, there were examples of outperformers that failed to “check the box” and of underperformers that did. But when companies applied the best practices in combination, a clearer pattern emerged: more was better than fewer.

Just 24% of the rotations that were characterized by two or fewer of the six factors outperformed, versus 41% of companies that embraced three or four factors—and 65% of those that employed five or more (see Exhibit 3).

The next two sections feature case studies of companies that followed the portfolio rotation playbook and achieved dramatic results.

Dover Corporation—From Conglomerate to Industrial Specialist

Between 2012 and 2018, Dover Corporation executed a remarkable transformation. Based on a clear understanding of the industrial logic of the enterprise, the strength of its underlying businesses, and the relative attractiveness of its markets, the company recognized that its valuation reflected a conglomerate discount. In response, it undertook a multiyear journey to reshape itself as a pure-play industrials specialist. While it had long been a leader in stable-growth industrial sectors such as refrigeration, engineered products, and imaging and identification, its broader portfolio included business units with different characteristics. Some, such as its upstream energy equipment business, were highly cyclical while others, notably its communications technology business, had more of a high-growth profile.

So the company chose to simplify. It spun off noncore units and shed legacy businesses. In 2012, it spun off two components of its printing and identification segment to reduce exposure to cyclical electronic assembly and test markets. It also pursued larger transactions, spinning off Knowles (its communication technologies business that accounted for roughly 15% of revenue) in 2014 and Apergy (its upstream energy business representing about 10% of revenue) in 2018. At the same time, it pursued selective adjacent acquisitions that strengthened its technology base and broadened offerings within refrigeration and fueling solutions. When CEO Robert Livingston handed the reins to his successor Richard Tobin in 2018, Dover was a much more focused company.

The results were dramatic. Margins and return on capital remained strong—and investors re-rated the company as a focused industrial leader, leading to an enterprise value/EBITDA multiple expansion from ~8x to ~11x (double the expansion of the global index). From the start of 2012 through the end of 2023, Dover delivered +44% relative TSR—a compounding difference of more than 3% annually.

Looking through the lens of success factors, Dover checked four of six boxes. The company:

- Acted early: its moves grew from strength, not crisis.
- Focused on a strong and stable core: it minimized negative earnings surprises.
- Showed financial discipline: it minimized the impact on return on invested capital during a time of momentous change.
- Moved in steps: it pursued multiple spinoffs and acquisitions along the path.

And leaving the other two boxes unchecked was a strategic decision. The company's intent was to become a focused moderate growth industrial, so they tilted away from higher growth and more volatile end markets. Moreover, the scale of the company's divestitures—while essential to achieving its strategic goals—went well beyond “pruning.”

Dover shows how refocusing can unlock value: not by chasing something new but by leaning into what was already strong.

Boston Scientific—Adjacent Expansion Done Right

In 2010, Boston Scientific was a leading stent manufacturer, deeply rooted in cardiology—both interventional cardiology (such as coronary stents) and cardiac rhythm management (such as defibrillators and pacemakers). But it faced familiar challenges: its core cardiology markets were maturing, competition was intense, and growth was slowing. The company held established footholds in categories beyond cardiology such as endoscopy, urology, and neuromodulation; but those businesses were comparatively small in revenue. The company faced a choice—remain overindexed on a narrowing field within cardiology, or expand in adjacencies where its clinical expertise and commercial infrastructure could be leveraged to accelerate growth.

It chose the latter. Over the next decade, Boston Scientific expanded in higher-growth cardiology categories—building leading businesses across structural heart and electrophysiology. It also made acquisitions to strengthen positions in categories such as urology and oncology. These adjacencies were natural extensions: they addressed overlapping patient populations, could be sold through existing physician relationships, and drew on the company’s know-how in minimally invasive interventions.

Boston Scientific pursued the transformation deliberately. It entered adjacencies initially through smaller acquisitions that the company integrated carefully before scaling. By 2020, interventional cardiology represented less than 25% of company revenues—and the majority of revenue had shifted to categories that positioned the company for sustained growth.

Performance followed. Boston Scientific delivered +157% relative TSR, with investors rewarding both the company’s strategic clarity and growth performance.

In terms of success factors, Boston Scientific hit five out of six. The company:

- Maintained a stable core: its interventional cardiology business remained healthy and cash-generating.
- Pruned as well as added: it divested its neurovascular business in 2011.
- Showed financial discipline: adjacencies were entered through manageably-sized deals.
- Tilted toward growth: new categories promised structurally higher growth.
- Moved in steps: it made multiple acquisitions sequenced over time.

Boston Scientific’s rotation wasn’t proactive. The company started the analysis period as an underperforming stock. However, its story shows how disciplined execution can allow a company to

successfully reinvigorate itself and chart a new course.

Charting Your Course

Successful portfolio rotations are rare, but achievable. And while we focused here on major rotations, these lessons are relevant to companies pursuing less fundamental transformations as well. The six factors tilt the odds, but ultimately success requires two additional things: insight and discipline.

Sharp insight provides not only an early warning of emerging fault lines in today's core, but also a clear vision of the ultimate destination. The first offers a longer runway for change—and the latter a clear focus: Among all potentially attractive new profit pools, where is the firm's right to win strongest? Finally, discipline and strong incentives to keep the rotation on track.

Major portfolio rotations are revolutionary moments in a company's life—they deserve revolutionary clarity of thought and an intentional and systematic approach.

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