
Rex Features

Agility is the key

Most chemical companies see demand return to prerecession levels, but business is by no means back to normal and many are grappling with a volatile marketplace

JOHN BAKER LONDON

The recovery from the 2008–2009 recession has been quicker than many people thought possible. Firm demand from Asia, where markets continue to grow strongly, and an associated export-led pick-up in Europe and North America, have seen volumes and prices recover – the latter buoyed by the firm oil price.

But the recovery has been stronger in some sectors than others, and companies have had very different experiences depending on their exposure to, say, construction or automotive markets – and on their potential to benefit from selling into Asia. A survey by ICIS in association with global management consultancy Accenture (see page 29), highlights this patchy effect.

Although 40% of survey respondents said their company sales were back to pre-crisis levels, and that attention is again being focused on forward-looking strategy and investments, 37% reported they are still below peak levels and do not expect a full recovery until late 2011 at the earliest.

There was a significant proportion of companies in between (23%), that have seen sales recover but are still hard-pressed and focusing more on day-to-day issues than on growth.

This picture is consistent with what we are seeing in the economic data in Europe and North America, comments Paul Bjacek, global research lead for chemicals at Accenture, based in its US office in Houston, Texas. "While Asia has exceeded the 2007–08 levels, in developed markets volumes have not recovered across the board – especially in plastics and resins, inorganics and industrial gases, for instance."

On the other hand, he notes, the pharmaceutical and agro-chemical sectors are back to prerecession levels.

VOLATILITY AND UNCERTAINTY

Numerous issues are delaying a return to business as usual. By far the most serious are the high costs of raw materials and energy – more than 80% of respondents expressed concerns over this issue – and the volatility in energy and feedstock markets. This was viewed as the single most important factor contributing to the volatility and uncertainty in the chemical industry today, followed by consolidation among suppliers, overcapacity in emerging markets and regulatory changes.

"The volatility issue comes out very strongly," observes Bjacek. "Successful companies will be those that have the tools and skills to respond to the many volatile factors this survey identifies. While scale and consolidation will be familiar trends in coming years, agility will increasingly determine high performance."

Also high on the list of issues were increased financial instability in the marketplace, sustainability and regulation, and commoditization of products. Respondents were, perhaps understandably, less worried at present by the megatrends that are affecting the sector in the long term, such as increasing consumerism, ageing populations and climate change.

"Sustainability is certainly a real and rising factor," adds Bjacek. "It has emerged over the past five years and is now being mandated through regulation – it's no longer just a matter of ticking the scorecard. Also, major industry customers such as the big retailers are showing a clear preference for sustainable suppliers and practices, so companies need to respond through new products, processes, feedstocks, supply chains and – just as important – better communication with customers about the environmental sound-ness and benefits of their products."

"Sustainability is certainly a real and rising factor, so companies need to respond"

PAUL BJACEK
Global research lead, chemicals, Accenture

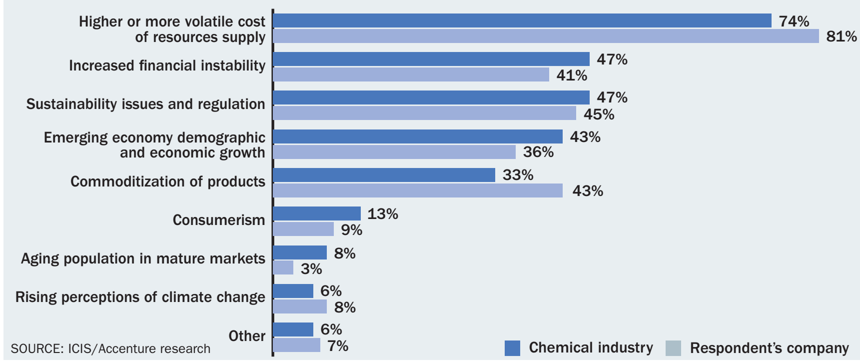
Bjacek believes sustainability is a genuine trend that will begin to have a positive impact on the revenue streams of companies that can effectively exploit it.

STRENGTHS AND WEAKNESSES

When asked which causes of volatility and uncertainty in the chemical industry their company was best positioned to respond to, respondents firmly highlighted changing consumer demand. This was perhaps because of available capacity, access to and cost of capital – likely due to chemical companies' current high cash levels – and to a lesser extent regulatory changes, maybe somewhat abated for the moment in North America by changing political tides.

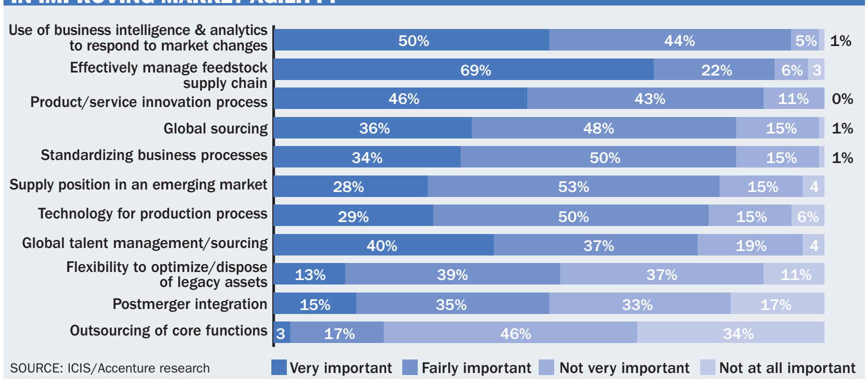
None of the major causes of volatility mentioned above featured high on this list, highlighting just how companies are struggling to come to terms with the major uncertainties in the industry today. But what capabilities does a company need to overcome the challenge of volatility and uncertainty?

WHAT ARE THE MAIN TRENDS IMPACTING THE CHEMICAL INDUSTRY AND YOUR COMPANY?



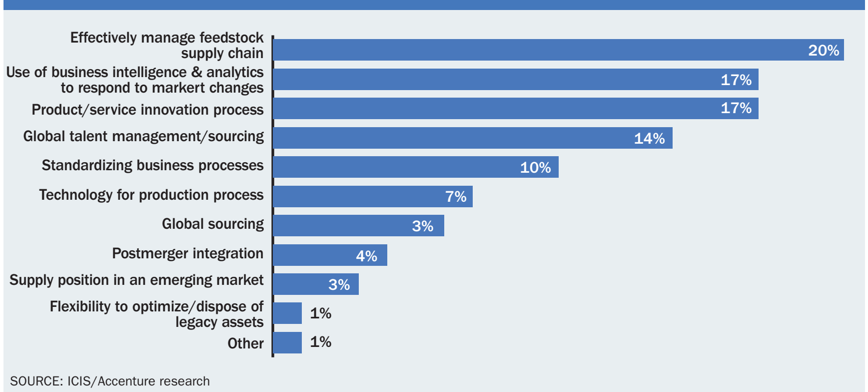
SOURCE: ICIS/Accenture research

HOW IMPORTANT ARE THE LISTED CAPABILITIES IN IMPROVING MARKET AGILITY?



SOURCE: ICIS/Accenture research

WHAT IS THE MOST IMPORTANT CAPABILITY NEEDED TO IMPROVE MARKET AGILITY?



SOURCE: ICIS/Accenture research

By far and away the most important, selected by 69% of respondents as "very important," was effective management of the feedstock supply chain, to control input costs and smooth volatility. Two other capabilities were close: the ability to use business intelligence and analytics to plan and respond to market changes, and expertise in product and service innovation.

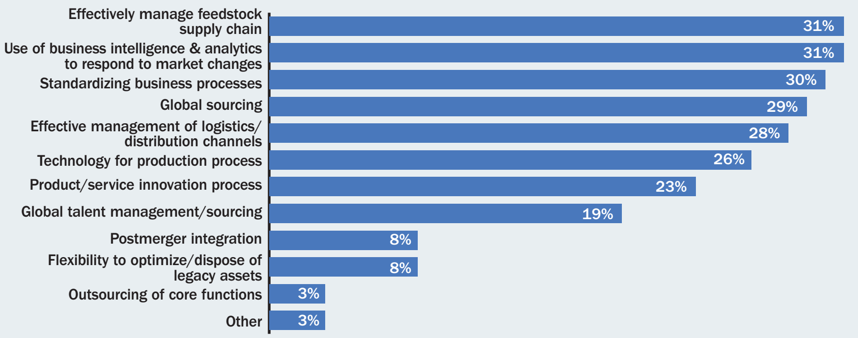
A fourth factor, identified by 14% as key, is the ability to source and retain talent on a global basis. Given the emphasis on business intelligence and innovation, this will be a major factor in the future as companies strive to improve.

When ICIS and Accenture asked which area companies felt strongest and weakest in, global talent management and sourcing came out as the weakest – indicating that the industry needs to devote considerably more effort in this area. Respondents thought their companies were strongest in terms of feedstock management.

On the use of business intelligence and standardized business processes, there was a dichotomy of views – some firms saw them as strengths, but some considered them weaknesses.

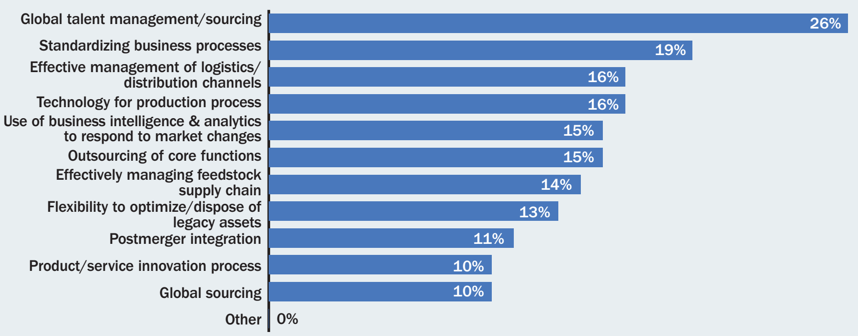
Given its position as an important capability, product and service innovation was also rather

IN WHICH OPERATING AREAS IS YOUR COMPANY PERFORMING MOST STRONGLY?



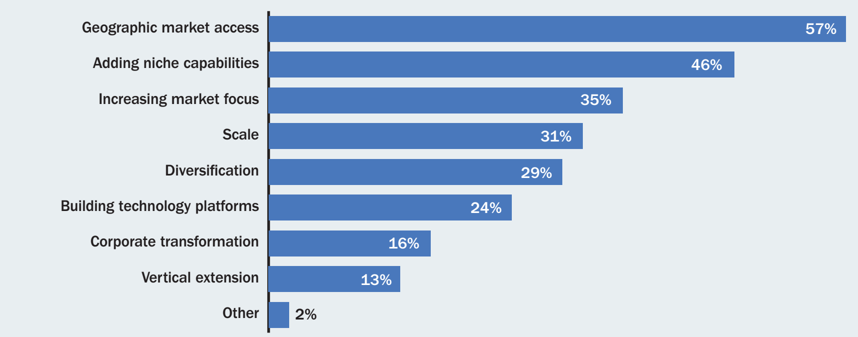
SOURCE: ICIS/Accenture research

IN WHICH OPERATING AREAS IS YOUR COMPANY PERFORMANCE THE WEAKEST?



SOURCE: ICIS/Accenture research

WHAT WILL BE THE MAIN DRIVERS OF M&A AND DIVESTMENT STRATEGIES OVER THE NEXT FIVE YEARS?



SOURCE: ICIS/Accenture research

READER RESEARCH

METHODOLOGY AND DEMOGRAPHY

THE ICIS/ACCENTURE research was carried out by Reed Business Insight during June among readers of *ICIS Chemical Business*. Respondents were primarily based in North America (55%) and Europe (33%) and were of senior management level – 41% were vice presidents and above, while 17% were general managers.

By sector, respondents worked mainly in specialty chemicals (52%), petrochemicals and polymers (57%) and commodity inorganics (19%). Other areas well represented were fine chemicals, pharmaceuticals and agro-chemicals.

One-third belonged to companies with turnover above \$1bn (€697m), but 54% came from companies with sales under \$500m. Publicly listed, privately owned and family-owned companies were represented in equal numbers. ■

lowly ranked as an area of strength among respondent companies.

However, when asked which areas companies would prioritize to improve market agility, moving or placing R&D to emerging and high-growth markets scored highly, suggesting companies are already responding to the lack of perceived strength here.

STRATEGIC PRIORITIES

Top of the list of priorities was a focus on balance sheet and capital management, indicating that many companies are still focusing on the task of improving their financial performance. This was followed by the search for joint ventures to accelerate penetration in high-growth areas, and the use of mergers and acquisitions (M&A) and divestments to improve strategic position in selected market areas.

Probing further into M&A issues, the questionnaire asked for the main drivers of M&A activity over the next five years.

Increasing geographic market access was nominated as the top driver, by 57% of respondents, with 46% saying the addition of niche capabilities is a key reason for M&A. Increasing market focus and building scale were also highly ranked, but vertical extension and corporate transformation were lower down the list.

In terms of M&A activity, over a quarter of respondents thought their company would make one or more major acquisitions within the next five years, while 30% said they might make small-scale, bolt-on acquisitions. However, just under a third said they had no planned activity.

Bjacek sees the effective use of business intelligence and analytics, and talent management, as two critical areas for companies to improve in. "Given the focus on product innovation and the desire for niche M&A targets that comes through in the survey, it will be critical to maintaining a pipeline of good people and to retain enterprise knowledge. Innovation comes from talent, not fixed assets."

Also, he added: "from Accenture's experience, chemical companies are not there yet in terms of their use of business intelligence and analytics. There is a lot more they can do with customers and information technology tools in a systematic way to link operations and market data to plan more effectively. Given that it has been identified here as a key capability to combat volatility and uncertainty, I feel much more can be done."

So, in terms of recovery, the survey findings indicate there is much to be positive about. But, in terms of ongoing market conditions, there is a need to combat volatility and uncertainty, with several areas – notably talent management and business intelligence – standing out as needing improvement. ■

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