

JOHN BAKER DUSSELDORF

Europe's specialty chemical players are still in a positive frame of mind, despite the financial turmoil in the eurozone countries and forecasts of slowing economic growth in the region. Their financial performance since the downturn of late 2008 to early 2009 has been strong, buoyed by rapidly recovering demand, especially in automotives and electronics, continuing growth in Asia and higher pricing.

The recovery has allowed producers to look once again at longer-term strategies and move away from the fire-fighting necessary during the sharp volume-led downturn. One indication of this is that since mid-

2010 there has been a resurgence in merger and acquisition (M&A) activity that has helped continue the reshaping of the sector.

But besides the headline deals, much of the



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MAURITS VAN TOL

Vice president, bio-based chemicals and polymers, DSM

strategic work being undertaken is aimed at internal improvements: enhancing innovation; focusing more on emerging markets and mega-trends; and ongoing transformation through portfolio and segment alignment.

However, markets and M&A activity have seen a slowdown since the middle of this year, given the continuing uncertainty posed by the debt crisis and lower growth, plus the fact that resistance to passing price rises through to end users has increased.

All this makes it imperative for specialty producers to keep their eye on the ball and seek out ways of remaining competitive in the current volatile conditions. Company strategies and initiatives around this topic were the subject of discussion at the fourth ICIS/Booz & Company CEO Roundtable on European Specialty Chemicals, held in Dusseldorf, Germany, in the middle of October.

ONGOING RESHAPING

Industry participants (see page 31) agreed that the sector has to continue with its efforts to refocus and transform itself, so it is in a position to harvest the opportunities that are available in emerging markets and through innovation, especially in the areas of global mega-trends such as food production, energy and water supply and conservation, bio-based materials and population growth. »



Focusing on the future

Europe's specialty chemicals producers continue to reshape themselves, responding to the difficult economic climate and opportunities arising from innovation, growth in emerging markets and global mega-trends

» At US chemical major DuPont, pointed out Thierry Vanlancker, vice president of the company's Performance Coatings business in the Europe, Middle East and Africa (EMEA) region, the work of portfolio and segment alignment with these mega-trends and emerging markets is ongoing.

"If we don't streamline, we will be diluting our efforts," he commented, adding that DuPont had got out of the oil business more than a decade ago; out of the fibers business seven years ago; and expanded its agriculture and nutrition businesses instead. Today, he added, after the Danisco acquisition, more than 30% of DuPont's revenue comes from agriculture and nutrition.

DuPont is also addressing the fact that it has historically been very focused around North America, Western Europe and Japan for its business operations. "Now we are increasing

our focus on the emerging markets. These sometimes bring added challenges for us in Western Europe but we are growing strong and steadily in markets like the Middle East, China and Latin America."

Maurits van Tol pointed out that DSM has undergone a similar restructuring, moving away from base chemicals towards life sciences – health and nutrition – and materials. It is now focused on four key strategic areas: high-growth



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Vice president, DuPont Performance Coatings EMEA

economies, innovation, sustainability and M&A activity. "We prefer to emphasize refocusing and continuous transformation. Restructuring implies there is an end to the process and we see it a necessary step for transformation and adaptation; 'survival of the fittest' as Darwin described it. Those 'species' that are best able to adapt to changing circumstances will survive and prosper."

Over the last two decades, DSM has made several key acquisitions in its transformation, including Gist-brocades, Roche's nutrition and vitamins businesses and more recently food ingredients producer Martek.

The latter move, commented van Tol, is designed to increase DSM's technological base and footprint in the US, which was lagging somewhat in a business area that is a cornerstone of DSM.

On innovation, said van Tol, over the past five years, DSM has introduced new products with €1bn (\$1.4bn) of sales and has very deliberately increased the pace of its innovation drive, frequently by open innovation and via partnerships.

Van Tol explained that DSM believes that Europe is a promising region to do business, and feels there is a bright future for the bio-based economy here, which will also create new opportunities for agriculture. The bio-based economy needs, however, substantial support from the political sphere to succeed and scale up, he warned.

John Smyth from US-based Huntsman's Performance Products business agreed on the dislike of the restructuring epithet, and explained that at Huntsman, the strategy is based around growth and evolution. The Performance Products business has been built up by Huntsman from nine separate acquisitions and thus contains a mix of cultures and technologies, focused, however, on three main product lines: maleic anhydride; surfactants; and a wide range of amines.

"The key today," he said, "is about finding new spaces and new needs in the market and filling these with our products. And it's about building key alliances – for innovation, product development and geographical expansion."

OPEN COMMUNICATION

A second key focus is to ensure that Huntsman uses the technology it has around the world across its different business units and in all regions. "It's a challenge of communication," says Smyth, "... how to communicate the little gems that exist in different parts of the world and transfer them to other regions. We have set up an organization to facilitate the flow of information through personal contacts and in an informal way. You need to promote accessibility in the industry and encourage contact." Continuous change is also a characteristic of US-based silicones specialist

SPECIALTY CHEMICALS

MAJOR CHALLENGES AHEAD FOR SPECIALTIES

TO CONTINUE on a successful growth path, the specialty chemical sector needs to deal with some major challenges, commented Booz & Company vice president Matthias Baeumler. The days of relying on diversification, life sciences and China to drive growth alone have passed.

While managing the ongoing commoditization of specialty chemicals, the emphasis post-2010 will be on identifying new pockets of growth, he explained, comprising opportunities which cover areas beyond the chemical value chain or sustainability.

A move downstream will result in the entry of materials & solutions businesses. To capture this trend, specialty producers' strategies need critically to show coherence with their differentiating capabilities.

Baeumler expects companies to clearly differentiate between multiple business models: from providing customized specialties emphasizing a product contribution to customer markets, to business models that create value beyond a chemical product through offerings in materials and solutions. As a consequence, very different approaches for sales and

marketing, manufacturing, supply chain and research and development need to be developed, he explained, while all business models should have a significantly increased customer-focus.

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He envisages four levers for companies to promote the growth agenda. "Make site networks follow natural supply chains, revamp innovation, leverage sustainability as a source for differentiation and strengthen execution culture", he advised.

On the first point, he elaborated the need to redefine the trade-off between upstream integration at existing sites and complexity management, commenting that large complexes often face limited agility to support an integration with market facing capabilities. Adapting portfolio changes and changing site roles during life cycle as well as resilience to market volatility increasingly becomes a source

for competitive advantage. Especially in light of Asian growth, future site networks should be designed according to future supply scenarios, customer proximity and synergies across businesses.

On innovation, specialty chemicals will require new capabilities, such as truly global innovation networks to get access to local markets and talent, customer-centric innovation approaches, multi-disciplinary capabilities beyond chemicals and diverse regional skills and talent, he argued.

On sustainability, he commented that the chemical industry has a unique role to successfully addressing sustainability topics not only in chemicals, but also in its customer industries. As specialty chemicals often have a key impact on customer products or processes, future winners have already started to consider the sustainability impact in their portfolio management and innovation pipeline or in opening up service opportunities. Thus, the restructuring process of specialty chemicals continues with strong impact on Western players and, in this regard, capabilities to drive and accelerate such transformations will be decisive. ■

Dow Corning, commented Klaus Hoffmann, the company's regional president, EMEA. The company has invested heavily in China recently with a basic silicones facility in partnership with Wacker, and also in semiconductors and photovoltaics in the US with Japanese partners. "A lot of the above applies to us", he commented. "Restructuring often has an event-based character – you start, you do it and then it's over. At Dow Corning we see this more as a journey, a long-term process in which you sometimes have to adjust what you are doing, even sometimes step back and adjust, in the light of the environment you are in."

At the moment, said Hoffmann, the key challenge for Dow Corning is the volatility and uncertainty in the market. Linked to this is the challenge of running a "momentum" business [ie a large, mature business], "where we are well established but don't want to lose sales and position", and at the same time focusing on innovation for the future.

"How do you separate the effort, and manage the mature and new businesses?" he asked. One approach is to take advantage of the mature market segment, as Dow Corning is doing, for example, with its Xiameter business, which helps companies who want price and supply stability and are looking to manage costs through efficiencies in purchasing.



"The business environment keeps changing and we need to continuously change with it"

KLAUS HOFFMANN

Regional president EMEA, Dow Corning

whole. As the Roundtable participants pointed out, the market is changing and becoming more competitive. New competitors are emerging in Asia and well established producers in Europe need to ensure they have the innovative capability, the manufacturing footprint and the market focus to compete effectively.

The discussion also emphasized the need to use partnerships and alliances to a greater degree to speed both innovation, for the introduction of new products and services, and geographic expansion. As van Tol of DSM pointed out, "We don't believe that you can do everything on your own. You need to innovate in value chains and via partnership with customers, co-suppliers in a certain value chain, start-ups, etc."

But at the same time, attention must not be allowed to falter on the mature markets of Europe and North America.

These, commented all those around the table, represent considerable volumes of business for most producers and can still provide growth despite the economic slowdown.

As Hoffmann commented, "clearly the focus has shifted from Europe to Asia, but Europe remains an important market. We have always observed, and assessed challenges at an early stage. Due to that we are despite certain volatility well positioned in Europe and see, for example, many opportunities within the powerful and innovative French and German markets."

Vanlancker commented that Europe is a good market with stable and typically fair prices. "If the bottom falls out of a market in Western Europe, it's still not so easy to catch up in emerging markets," even with their higher growth rates. He also noted on productivity that Europe comes out well, with good skills, low costs and good processes. And in addition, the supply chain is well ordered and logistics are in place.

CHEAPER, MORE FLEXIBLE PLANTS

In many instances, added Hoffmann, it is still cheaper to invest in new plants in Europe and the US, even though the need for extra capacity is in the growth market. It is also easier to sell into US and European markets with new and innovative products.

In future, the participants agreed, there would be a call for more flexible plants, wherever they are built. Markets change more rapidly these days and you cannot build a plant and hope product demand will be there 30 years down the line. Equally, it does not make sense to engineer production units for such a long life, as commonly done in developed countries.

In China, for instance, noted Vanlancker, local producers tend to build plants more quickly and more cost-effectively, on the basis that they will not be required to run for great lengths of time. And, as van Tol asked, "why invest for 30 years when markets and technologies will change in 10?"

TAKING PART IN THE ROUNDTABLE

- **Klaus Hoffmann**, regional president, EMEA, Dow Corning
- **John Smyth**, vice president EMEA, Huntsman Performance Products
- **Maurits van Tol**, vice president, bio-based chemicals and polymers, DSM
- **Thierry Vanlancker**, vice president, DuPont Performance Coatings EMEA
- **Matthias Baeumler**, vice president, chemicals, Booz & Company
- **Richard Verity**, vice president, chemicals and energy, Booz & Company
- **John Baker**, global editor, ICIS

The current slowdown in the market was noted by some, but the general feeling around the table was not overly pessimistic. Compared with the downturn of 2008–2009, said Vanlancker, when there was a lot of belt-tightening and cost-cutting in the chemical industry, leading to shortage of supply, the jury is still out.



"You need flexible plants throughout Europe and tight management of inventories"

JOHN SMYTH

Vice president, Huntsman Performance Products

"There is a lot of general nervousness around the debt crisis and whether it will lead again to a tightening up of capital for investment, but we don't see any signs for a downturn as steep as 2008," he said. Then, "the bottom really did fall out of some products."

But, he added: "We are not pessimistic." But vigilance and good house-keeping, with close attention to inventories, is essential.

Van Tol of DSM added that his company kept its earnings guidance for 2011 unchanged in September and is confident that it will reach its 2013 targets. Again, he stressed DSM's speed of innovation and global spread in reaching its goals.

Smyth added that vigilance is indeed the word, plus agility in the organization in terms of manufacturing and the supply chain. "You need flexible plants throughout Europe and tight management of inventories. This means making key managers accountable with short chains of command.

"We have pushed down accountability quite low in the organization but keep target setting quite high. For things like stock levels, for instance, the people who actually pull the levers should have the responsibility for managing output."

In the end though, the discussion returned to the theme of ongoing transformation and the agreement that much had to be done still. Vanlancker expressed the opinion that "the chemical industry tends not to drive transformation enough. We are very asset-based and sometimes there is huge inertia caused by the assets on the ground."

And Hoffmann concluded "The business environment keeps changing and we need to continuously change with it, adapt our thinking, solutions and options for customers. Along the way this will require actions that challenge the culture and personality of a company." ■



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