

Product: **Sage X3**

Partner: PRH Consulting, Inc.

WHITEPAPER

## Driving high performance results in the chemical industry

*Tackle new challenges, maintain growth and drive profits by leveraging the characteristics of high performance industry leaders.*



# Executive summary

In this report we explore the challenges currently facing the chemical industry and examine how its most successful players are tackling them, to maintain growth and drive profits.

The label of VUCA (volatile, uncertain, complex and ambiguous) is becoming increasingly appropriate to the chemical industry. In addition to the usual pressures, such as fluctuating markets and raw materials volatility, new challenges such as the growing complexity of regulations, a talent crisis and the emergence of low-cost local competition need to be faced.

Some chemical companies continue to put their energies into growth through acquisition and playing the broader market. Others are finding greater success by concentrating on the core business, and finding profit in efficiency, higher productivity, and more solution-specific innovation. They're pivoting in response to changing market factors, constantly refocusing their efforts to where success lies.

To achieve this agility, successful players have brought together all elements of their once-siloed operations: critical data, laboratory, supply chain, manufacturing and financial systems. They're embracing ERP and CRM practices, to help them refine their businesses, accelerate product development, and understand their customers' current and future unmet needs.



# Part 1: How does the industry see its future?

The immediate future looks very good. According to a recent PwC survey<sup>1</sup>, more than 90% of chemicals companies' CEOs said they were bullish about their organization's 12-month revenue growth prospects, the highest level in five years.

The chemical industry has always been subject to instability, with product commoditization, raw material volatility and fluctuating markets seen as ongoing pressures. The fresh challenges on CEOs minds concern a global operating environment, lower-cost competitors, and the increasing complexity of regulations.

There is also a variety of upcoming economic, political and socio-economic factors to consider. The risks of a sharp slowdown in China, volatility in oil prices, Brexit uncertainties and the fragility of some eurozone banks could all lead to "a harder than expected landing" according to The Organization for Economic Co-operation and Development<sup>2</sup>.

This is reflected in CEO's confidence in longer term growth. The PwC survey reports confidence in growth over the coming three-year period (as compared to just a 12 month outlook) drops to the lowest point in over five years. Some are even cutting long-term earnings outlooks, in reaction to key market uncertainty.

However, some companies are taking action to endure and even benefit from this volatility, with a change of focus and a change of approach, as we'll explore in the next chapter of this document.

## Regulations are complex and ever changing

In the US, the Environmental Protection Agency (EPA) has been consistently strengthening chemicals management laws for the past ten years. Congress and the Senate have introduced new chemical safety legislation, which has been regularly updated.

In Europe, REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) is now coming into full force. It's been described as the most complex legislation in the history of the European Union and requires manufacture and imports to be registered with a new European Chemicals Agency in Finland.

Additionally, as the public, customers and lawmakers continue to raise the issue of plastics and the environment, it's expected that more regulations will appear together with more pressure on the industry to reduce, recycle and innovate to address the problem.

More regulations means more data needs to be accurately captured and stored. For example, from operational processes, for use in the event of a quality audit or recall. This means integrating traceability data across the business.

As regulation complexity grows, the challenge is to ensure data can be made available and traceable across the business. This means implementing new technology to integrate a traditionally siloed workplace.

## Modern challenges for the chemical industry



**Global operating environment**



**Low-cost local competitors**



**Increasingly complex regulations**



**Environmental responsibility changes**



**More focused innovation**



**Product and process consistency**

# Part 2: *A change of focus. A change of approach.*

The past few years have seen a shift in the industry, as more successful companies are moving their focus from growth through acquisition to profit through organizational transformation.

A 2018 study by Roland Berger<sup>3</sup>, shows that instead of investing in growth, chemical companies returned more capital to shareholders and dividends payouts grew by nine US dollars, 19% over 2017 levels—three times their five-year historical average growth rate. The report also notes that companies that achieved the best shareholder returns were generally the ones that launched transformation programs aimed at short- and long-term performance improvements.

This trend is further validated by Deloitte research<sup>4</sup>, which analyzed shareholder reports from the top 11 performing chemical companies. Based on the most frequent words, they produced a list of strategic goals. Here are the top three:

1. Realize higher value from technologies
2. Prioritize innovation and cost savings
3. Return business focus to managing product portfolios

Additionally, in a 2019 PwC report on chemical industry trends<sup>5</sup>, analysts listed the ways chemical companies are making progress on these goals, including:

- Complementing existing business models with new customer-centric or data-driven ones
- More localization of operations and reconfigured supply chains to be nearer to customers
- Greater leveraging and adoption of technology
- A transformative shift in identity and culture to realize the new set of opportunities

## **But how?**

All of which begs the question, 'but how?' How do you address those strategic goals? How do you create a strategy in a VUCA (volatile, uncertain, complex and ambiguous) environment?

The answer is to create agility within your operations, allowing you to pivot rapidly in response to changing market forces. And the best way to do that, is to integrate your infrastructure and connect all your critical data, to streamline processes and enable faster decision making. This is the business model of success.

# Part 3: *The business model of success*

What are the key characteristics of high performing organizations? Business leaders, observers and analysts keep coming back to one word: agility.

McKinsey also drill down deeper to identify the key trademarks of agile organizations<sup>6</sup>, including:

**A network of empowered teams—with clear, accountable roles and hands-on governance.**

This kind of flat structure is key to achieving a ‘North Star’ approach; one where everyone shares a common vision and purpose, with the ability to sense opportunities as they arise and flexibly allocate resources to make the most of them.

**Rapid decision and learning cycles—enabled by information transparency and action-orientated decision making.**

This is about putting trust in your team, so that they can make empowered decisions, which is easier to do when you know they have the right data and insights.

**Next generation enabling technology—integrated and core to every aspect of the organization as a means to unlock value and enable quick reactions.**

This journey to agility can seem more demanding for the chemical industry, especially when you consider its hugely complex multinational supply chains and tight regulations. However, the step that brings it all together is to use ‘next generation enabling technology’. Indeed, it provides the functionality for all the other steps.

In fact, it’s no stretch to say that companies adopting this kind of technology aren’t simply buying into a solution—they’re adopting a business model.

# How should it work?

The right enabling technology should bring together all critical data, reducing the inefficiencies of running discrete laboratory, supply chain, manufacturing and financial systems—to assist with everything from inventory management to tracking.

It should enable fully integrated systems across ERP, CRM and manufacturing operations (to prevent operation in silos) to improve chemical operations and achieve better outcomes across your organization.

This may sound like broad brush analysis, so let's dig deeper and map that functionality against the primary industry drivers we've already researched in this document:

- **A complete view of your global operations** from worldwide distribution to third party supply chains across borders with ever-high levels of competition. A complete view of your ecosystem, extending into supply chains
- **Transparency and traceability to comply with regulations** no matter how complex they become, with complete data visibility and management across production and supply
- **Optimization to help you achieve environmental responsibility** with the insight and capabilities you need to manage renewable raw materials, source responsibly and improve production methods
- **Focus innovation where it matters** using business insight to see where investment will deliver the best return, adapting quickly to meet specific customer needs ahead of the competition
- **The ability to better tailor your offerings by market** often against stiff competition from local markets who may charge less
- **Achieve product and process consistency** using robust single and multi-level bill of materials management to ensure the highest levels of product consistency, quality, and collaboration



# *Discover how Sage X3 drives success in the chemical industry*

To help them reach the objectives outlined in this document, chemical companies are using ERP (Enterprise Resource Planning) -style solutions to better manage their businesses. Sage X3 capabilities go beyond most of these solutions to meet more of these goals:

- A single solution for your core processes: inventory, sales, customer service, and finances
- Collaborate across divisions, countries, multiple sites, languages, and legislation
- Manage financial processes with general ledger, cost accounting, budgeting, and more
- Control procurement, cash flow, and business purchases
- Get a complete view of your customers across sales, marketing, customer service, and support
- Ideal for manufacturing, wholesale, and service processes

Learn more about what Sage X3 can do for your business at: [www.prhconsultinginc.com](http://www.prhconsultinginc.com)

Thank you from:



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<sup>1</sup> Chemicals trends 2019, CEO survey carried out by PwC.

<sup>2</sup> US-China trade war risks heavy toll on growth, news report by Financial Times.

<sup>3</sup> Chemical Winners 2018: Focus on Profits, report by Roland Berger.

<sup>4</sup> The chemical multiverse, research by Deloitte.

<sup>5</sup> Industry trends for 2019, report by PwC.

<sup>6</sup> The Five Trademarks of Agile Organizations, report by McKinsey.