

Procurement in the Chemical Industry

Key Challenges for CPOs

Key Challenges for CPOs in the Chemical Industry	04
Value Contribution	06
Business Partnering	08
Digitalization	10
Views on Procurement within the Chemical Industry	12

Key Challenges for CPOs in the Chemical Industry

The Chemical Market ...

Market & Competition

- Ongoing high cost pressure caused by intensifying global competition
- Very complex supplier portfolios: companies can be competitors and clients at the same time
- Shortening value chains in Europe require global purchases of precursors with higher supplier risks and uncertainties
- Direct material suppliers' asset structures are moving, changing the attractiveness of important suppliers

Global Organization

- Chemical companies are further globalizing their businesses and evolving toward centrally managed organizations
- They actively pursue acquisitions to complement their portfolios toward global leadership positions
- Simultaneously, organizations run efficient initiatives for headcount reduction, combined with remodeling all support functions in shared service center structures

Emerging Technologies

- The chemical industry is already pursuing digitalization projects to achieve operational excellence
- Consumer oriented companies are exploring new digitalized business models
- Asset-intensive companies achieve performance improvements in production, supply chain and asset management
- Increasing automation in operational procurement and higher importance of strategic procurement functions (e.g. RPA)

... and Challenges for CPOs



Value Contribution

“For 80%¹ of CPOs cost reduction and risk management are top priorities”

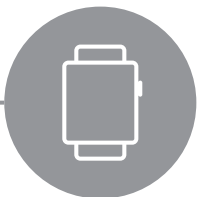
- Additional savings in a mature procurement environment
- Best-fit supplier portfolio to reduce risk and obtain best terms



Business Partnering

“62%¹ of CPOs increasingly feel their teams lack the skills needed to deliver their procurement strategy”

- Governance for a global mandate and procurement compliance
- Appropriate headcount, capabilities and localization to act as a high performing business partner



Digitalization

“60%¹ of CPOs do not have a clear digital strategy”

- Digital strategy based on procurement objectives and use cases supporting procurement business targets
- Implementation of tangible opportunities, e.g. in IT systems, analytics and data mining

¹ Source: Deloitte CPO Survey 2016

Value Contribution

Challenges for CPOs ...

Advanced Indirect Sourcing

Special categories in the chemical industry require special levers such as:

- **Packaging –**
find counter strategies to deal with oligopolistic markets
- **Logistics –**
drive costs down through network optimization and inbound logistics
- **Energy & Resources –**
use demand optimization levers and build trading capabilities
- **General Goods –**
cover non-traditional categories such as legal services and marketing
- **Technical Goods –**
generate synergies across sites by standardizing demands (e.g. MRO)

Advanced Direct Sourcing

Due to current developments, sourcing chemical products requires broad market knowledge and strong procurement:

- **Changing asset structures –**
new suppliers and supply arrangements are needed and make-or-buy decisions have to be reconsidered
- **Changing raw material base (e.g. ethylene) –**
requires strong procurement to choose the right suppliers with the right feedstocks
- **Transparency –**
establish early warning systems for supplier health and increase supply chain transparency
- **Changing supplier structures –**
digitalization is reshaping suppliers' commercial front ends, so distributors will lose or gain market shares

Supplier Management

Ensure close collaboration and assessment of risks and performance

- **Supplier collaboration –**
close, efficient and flexible supplier collaboration model, manage high dependency on volume suppliers
- **Supplier risk management –**
assess and track risk dimensions constantly and implement a comprehensive supplier risk management system with predictive analytics and proactive alerts
- **Network –**
deal with multi-dimensional relations as supplier, customer and competitor



... and what Deloitte can provide



Category and sourcing expertise

- Best practices for category-specific strategies and sourcing of chemical substances and raw materials
- Market knowledge and price benchmarks



Practical sourcing support

- Support for tendering and RFP processes
- Preparing and conducting negotiations, incl. training
- Insight into suppliers' production, structures and network (best-fit global supplier)



Demand management capabilities

- Cross-functional optimization through engineers, lawyers, marketing, etc.
- Analytics to identify quick saving approaches



Comprehensive supplier risk management

- Comprehensive risk management approaches and framework
- Availability of risk management experts for specific supplier assessments

Business Partnering

Challenges for CPOs ...



Global Operating Model

Right-size the organization and define efficient localization concepts:

- **Right-sizing** – optimal headcount (operational, strategic, admin & management) to balance value contribution and efficiency on global, regional and local levels
- **Localization** – define best concept with
 - highly efficient shared service centers at regional level for operations
 - hubs for strategic procurement (global, regional and local levels)

Governance, Compliance & Stakeholder Management

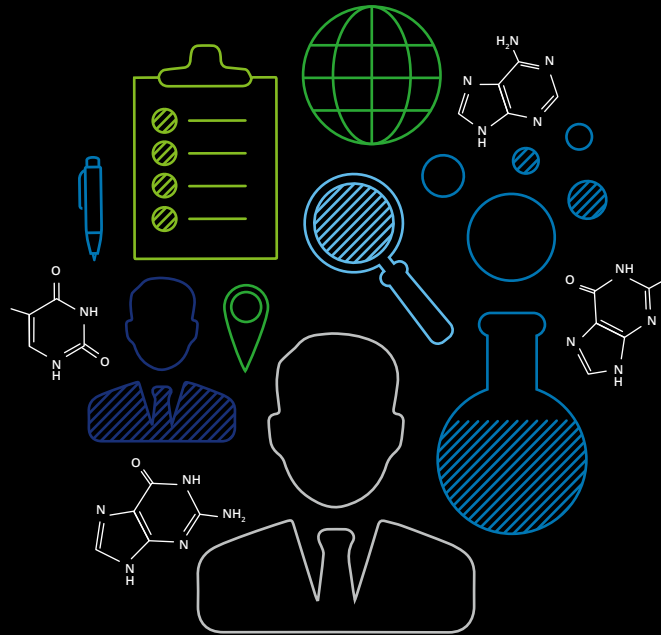
Procurement as 'first line of defense' and to ensure global policy for interacting with stakeholders and departments:

- Involve procurement in external spend throughout all categories and anchor it as one of the decision-makers during awarding stage
- Ensure predictive and automated coverage of risks within supplier assessment and manage process compliance through permanent screening
- Establish governance to exploit global cross-organizational synergies
- Establish global policy to enable cooperation with stakeholders in category management, process accountability, controlling processes and KPIs

People Capabilities

Build procurement team to implement company strategy

- Consistent professional development and upskilling of procurement staff
- Specific and comprehensive learning compendium
- Develop highly educated buyers to facilitate the cooperation with other departments and clients internally



... and what Deloitte can provide



Best practices and benchmarks

- Headcount and global procurement operating model
- Shared service center, hub and localization concepts
- Compliant strategic and operational processes



Capabilities and diversity

- Change and Stakeholder Management capabilities and experts
- Procurement training concepts and curriculums, incl. qualification profiles
- Development of procurement academies and upskilling programs



Compliant assessment

- Compliant procurement assessments to identify gaps within compliant management
- Identification and assessment of potential risks including counter actions

Digitalization

Challenges for CPOs ...



Digital Strategy

Definition of the right comprehensive digitalization strategy

- Identify the business targets which can potentially be systematically supported through digital solutions
- Define specific use cases, including implementation requirements for tools, data, processes and capabilities
- Build digital implementation roadmap and calculate business case

Applications and Use Cases

Implementation of tangible applications and use cases

- Apply existing robotics solutions to automate operational procurement processes (focus on non-value-adding processes)
- Purchase-to-pay optimization with data mining through end-to-end process integration to improve efficiency and generate net working capital
- Analytics (sourcing and transparency) to identify direct approaches for generating savings (e.g. Linear Pricing Performance (LPP) to identify direct approaches for re-negotiations)

Procurement Systems

Remodel the procurement system landscape, covering all strategic and operational procurement processes

- Decide on system strategy (one size fits all vs. best of breed)
- One system to provide guided procurement for all areas (direct, indirect and services)
- Connectivity to chemical platforms (e.g. Elemica) and supplier networks
- Integration of master data and delivery schedules for direct materials



... and what Deloitte can provide



Proven model for digital strategy development

- Framework for strategic process
- Use cases to support all relevant procurement targets
- Deloitte Greenhouse and Digitalization Labs for strategy development and alignment



Project experience for implementation

- Hypotheses for purchase-to-pay implementation and identification of improvements
- Measures with high performing data mining tools
- Proven tools, methods and use cases (e.g. LPP, spend and quantity analysis, etc.) if required as a managed service



System selection and implementation

- Best practices for definition of business requirements
- Market overview and assessment of all leading software solutions
- Project management and technical implementation for leading software packages (Ariba, Coupa, etc.)

Views on Procurement within the Chemical Industry



Wolfgang Falter

Partner | Global Chemicals & Specialty
Materials Leader

“In Germany/Western Europe, we observe a structural shortening of chemical value chains. Petrochemicals, Fine chemicals, Intermediaries are increasingly imported from countries with feedstock, energy or other advantages. This leads to higher supply risks, volatility and lead times, as well as new supplier structures. This trend is likely to continue in the next few years. Based on this development, strong procurement within direct material sourcing is needed to check supplier sustainability, and early warning systems should be established to assess supplier health and increase supply chain transparency.”



Michael Wiedling

Director | Sourcing & Procurement
Chemical Industry

“Indirect material spends tend to be around 30–40% in the chemical industry, but procurement functions are not as highly developed as in other sectors, such as the automotive industry. The chemical industry offers specific levers to optimize indirect spend – technical goods can be consolidated globally, instead of being sourced on a local level. Comprehensive coverage of all general goods (e.g. legal and marketing) enables a fully integrated procurement function, so that high levers on the demand side can be used within categories such as energy, logistics and packaging.”



Stefan Weiss

Director
Human Capital Advisory Services

“In its procurement functions, the chemical industry is faced with high requirements regarding buyers – key challenge is to provide the right training concepts to enhance special procurement functions. The best way to do that is to set up procurement academies and learning curriculums with company-specific procurement courses, which will ensure well-trained employees in terms of strategic procurement, category management, negotiation, etc.”



Thomas Hiller

Senior Manager
Sourcing & Procurement-IT

“The chemical industry is currently re-designing and re-organizing its IT landscapes – the key question chemical companies are facing here is what type of IT concept or system should be used – best of breed or one size fits all? Integrated and centralized IT systems should exploit all opportunities and support users in their everyday tasks. Apart from that, the focus should also be on supporting all relevant processes in order to decrease risks and strategic procurement functions as well as operational end-to-end processes”

Contact

Wolfgang Falter

Partner | Global Chemicals &
Specialty Materials Leader
Tel: +49 (0)211 8772 4912
wfalter@deloitte.de

Michael Wiedling

Director | Sourcing &
Procurement Chemical Industry
Tel: +49 (0)89 29036 7998
mwiedling@deloitte.de

Deloitte.

This communication contains general information only not suitable for addressing the particular circumstances of any individual case and is not intended to be used as a basis for commercial decisions or decisions of any other kind. None of Deloitte Consulting GmbH or Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/de/UeberUns for a more detailed description of DTTL and its member firms.

Deloitte provides audit, risk advisory, tax, financial advisory and consulting services to public and private clients spanning multiple industries; legal advisory services in Germany are provided by Deloitte Legal. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte's approximately 286,000 professionals are committed to making an impact that matters.