

## **Commercial Transformation 4.0**

Unlocking organic growth in the Industry 4.0 era for the chemicals and specialty materials sector



# Let us begin with a story, in two parts.

Part one features Sophie, the lead design engineer for one of the largest commercial architecture firms in Germany, as she begins her vacation with a cup of espresso at a small café in a picturesque town along the French Riviera. On her tablet, she reads an article from *Architectural Digest* about a new commercial building in downtown Shanghai. This article describes how the builders used leading-edge designs, transformational digital technologies, and new advanced construction materials that they sourced from all over the world. It further describes how this construction project redefines '*state-of-the-art*' for the architectural community. Sipping from her espresso, she thinks about her industry, where it is headed in the future, and how she can use these ideas in her own work.

Later that day, in Chicago, David is wrapping up a long day as the vice president of marketing for one of the specialty materials producers referenced in the article. When it appeared, David was excited about the article and the opportunities it might spark for his company, once people like Sophie had read it. The publicity would help him reach his goal of growing his company's global footprint in the building and construction sector. However, while flattering to be mentioned in *Architectural Digest*, David would like a more systemic, strategic way to find new customers. More specifically, he needs to know:

1. How to effectively identify, target, and directly connect with potential customers like Sophie, rather than relying on chance or other ecosystem partners to market for him.
2. How to deliver an experience that aligns with the preferences of potential customers and drives the targeted behaviors in a way his company can afford.
3. How to configure his business to do this systematically, efficiently, and effectively, while still driving growth.

Most executives responsible for growing businesses, particularly in large, global markets, can relate to David's situation. They know that finding the right answers to these questions can have long-term benefits for their business. However, they also recognize that under traditional structures, businesses, functions, and customer touchpoints are not necessarily set up to reach these customers easily. As a result, the experience that suppliers intend and the experience that customers want (whether digital or physical), is rarely delivered to the total satisfaction of all parties.

David's company (and firms like his) is not alone. Only a handful of industry peers have figured out how to find customers like Sophie and meet their demands in a sustainable way. Those fortunate few can claim a competitive advantage we call "Commercial Transformation 4.0."

## The challenge today

Chemicals and specialty materials companies face several challenges when it comes to growth. End-market-demand uncertainty, oil price fluctuations, overcapacity, sustainability, the rise of protectionism, and other factors are having significant impacts on success. Margins, despite reaching all-time highs, have stabilized, and companies are looking for the next lever to pull. We are also entering a new era of low capacity utilization, as new build-ups come online, likely resulting in excess capacity in the future. While near-term demand outlook is optimistic, long-term projections are less so, due to a slowing Chinese economy and continued end-market uncertainty in automotive and construction.<sup>1</sup> Merger and acquisition activity continues to be robust, but high multiples and a limited number of buyout targets are constraining options.

In the face of these challenges, and given new operating environments, it has become apparent that the chemicals industry cannot rely solely on historical approaches to doing business: it must find new ways to drive growth.<sup>2</sup>

## The growth opportunity

Everyone wants strong growth, but few can achieve it. In challenging environments, many chemicals and specialty materials companies will focus on what they can most easily control, such as managing manufacturing operations to eliminate complexity and reduce costs. In the short term, this may bring better returns and a healthier bottom line, but it does little to promote the medium to long-term, top-line organic growth that they want and have promised to their investors.

In the era of Industry 4.0, Commercial Transformation 4.0 allows companies to embrace complexity in the marketplace and unlock profitable growth through the creation of an integrated commercial system. From initial strategy to final execution, this system grounds itself in a business's strategic growth choices. It is enabled by building an operating model where those choices naturally flow across specific capabilities and are further reinforced through recurring management routines. This enables business strategy to be linked with market outcomes and thereby improve the company's ability to drive organic growth.

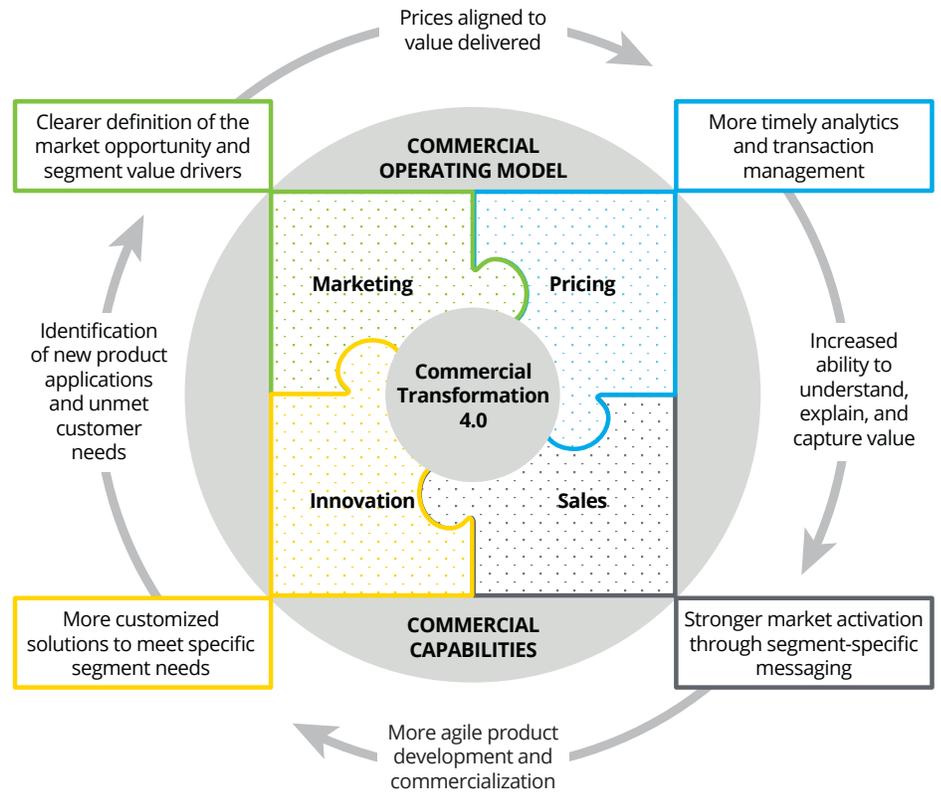
<sup>1</sup> Deloitte Development LLC, *The chemical multiverse 4.0*, June 2017, <https://www2.deloitte.com/us/en/pages/manufacturing/articles/chemical-industry-trends.html>.

<sup>2</sup> Ibid.

Commercial Transformation 4.0 is a system that efficiently integrates marketing, product management, pricing, sales, and innovation with a customer-focused, digitally enabled operating model (see Figure 1). The solution is based on several key pillars:

- An integrated, consistent, and purposeful digital and physical customer experience across various channels that anticipates customer needs and delivers frictionless engagement for stakeholders.
- Adaptable, integrated, cross-disciplinary capabilities and operating models that can effectively build and deliver complex solutions of products and services.
- A deeper understanding of customer buying processes, including their needs, wants, and behaviors that help shape customer engagement and drive the evolution of offers to increase value-creation.
- Real-time analytics to create insights that can help improve the choices made by business leaders and others and enable companies to be agile in this operating environment.
- Focused investments in market activation activities to create the appropriate demand for new digital and physical innovations that are better aligned with customer wants and needs.
- A culture and operating model that is customer-centric, agile, and can thrive in an environment where digital is woven into “everything we do” to optimize the way choices get made and work gets done.

**Figure 1: Delivering an enhanced, digitally-enabled customer experience through Commercial Transformation 4.0**



Source: Deloitte Development LLC, December 2018.

# Making strategic choices

Companies should consider beginning this journey by better understanding their customers, with questions such as:

- How can we segment customers based on behaviors, as well as needs?
- Which segments do we want to target? For what purpose?
- What decisions do key roles in these customer segments make and influence to evaluate potential products and services?
- What motivates them and what barriers stand in the way of driving behavioral change?
- How can we create value for these segments through our offerings for the whole, end-to-end customer journey?

Answers to these foundational questions can help companies understand where and why in the process they gain and lose potential sales opportunities and then identify specific places where they might influence the behaviors of decision-makers based on what they value.

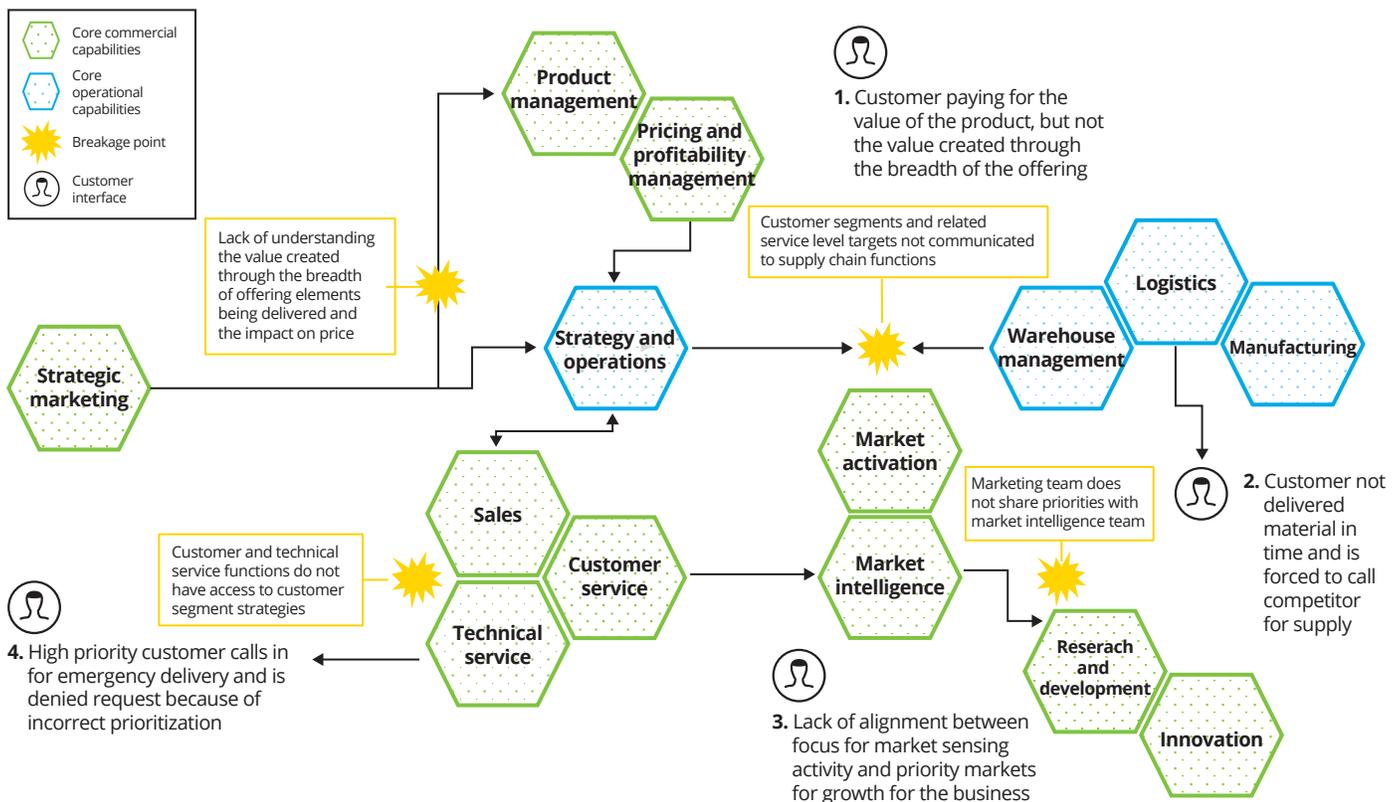
Each of these steps can be difficult, and companies must understand that strategic choices are not about serving the whole market. Instead, they should focus on positioning commercial teams to deliver compelling and appropriate offers to their priority customer segments and driving differentiated value. To get these offers right for customers, a company should be able to clearly articulate their value proposition, have a deep understanding of customer value drivers, and be able to demonstrate how their offers are superior to those of competition.

# Implementing these choices

A common point of failure is in the execution. Operating models, particularly in manufacturing industries, have historically been designed to optimize for cost structure, the efficiency of manufacturing assets, and the execution of discrete, functional processes. These configurations result in a highly siloed operation where information and insights are not readily available when needed.

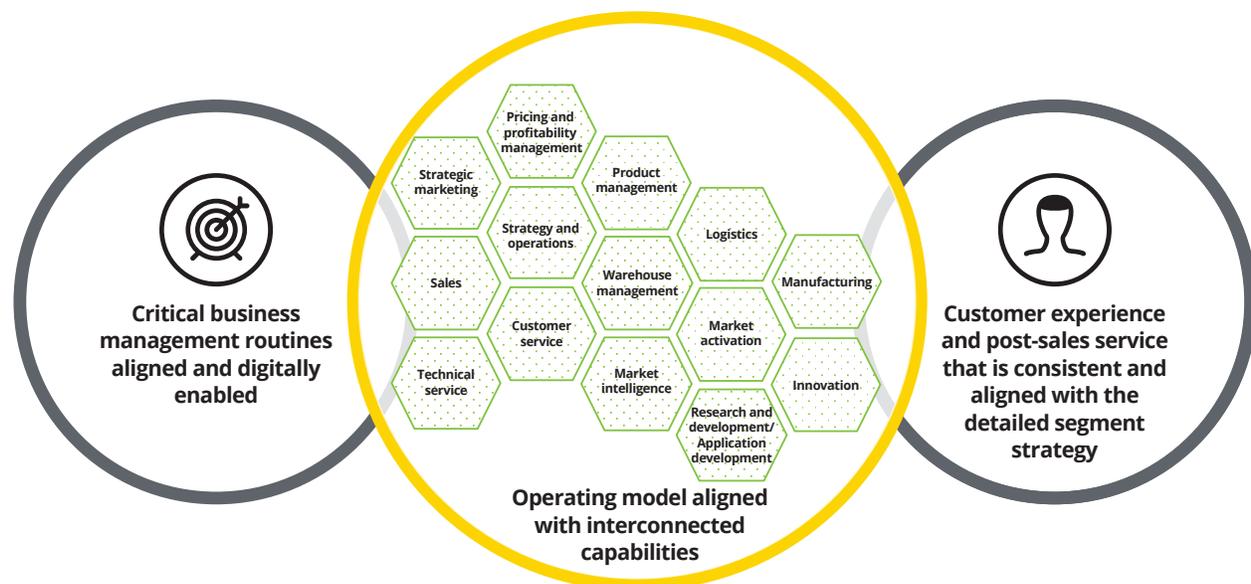
Furthermore, chemicals manufacturers lag other industries on digital maturity. This lag has limited the flow of information and hindered the development of a smart, connected, end-to-end infrastructure. For example, pricing information is often not readily available for sales and operations planning processes; market intelligence may not be easily shared with the sales teams; and customer strategy choices do not always make it to the supply chain functions (see Figure 2). These shortcomings limit a company's ability to focus on the marketplace and tailor offerings to specific customer needs. They can also prevent strategic choices from positively influencing choices made across the organization.

**Figure 2: Typical points of failure across the commercial system**



Source: Deloitte Development LLC, December 2018.

**Figure 3:** Target state: An illustration of an integrated commercial system



Source: Deloitte Development LLC, December 2018.

To overcome these issues, it is critical for a company to align business and function leadership, and core management routines, while building a strong supporting operating model. It can then effectively translate strategy into enterprise-wide decisions that create value for customers.

For example, a marketing team creates a customer segmentation with a corresponding target customer experience and offering. Segment “A” focuses on certain customers that require short lead times and specific delivery windows for a product. Customers in this segment value this offer because their warehouse sizes, locations, and working-capital constraints prevent them from responding quickly to their own downstream customers’ volatile demands. All of this is good, except the guidelines are not properly communicated to either the customer service representatives or the supply chain teams who take orders and plan/execute fulfillment. As a result, the company is consistently late on deliveries, which disrupts its customers’ operations and ultimately leaves them dissatisfied. These customers then rush order material from a competing supplier to keep their plant running.

Challenges of this nature are not unique in the chemicals industry; in fact, they are pervasive.

To help remedy these issues, companies should consider focusing on building an integrated, digitally enabled, customer-centric operating model that is (see Figure 3):

- Driven by strategy
- Aligns capabilities such as sales, contracting, pricing, sales and operations planning, and offer fulfillment; and
- Enables a continuous flow of information, goods, and services between the physical and digital worlds.

This operating model should be led by teams that can make the right choices. Management routines should make use of analytics and include the insights necessary to run the business against segment-specific objectives, strategies, and offers. Failing to build this structure could mean failing to realize the targeted value from strategies. It also hinders a company’s ability to compete and win in the evolving marketplace.

This integration allows the organization to execute holistically against its strategy, operate across functions through integrated processes and common objectives, and understand how each capability creates value for customers. Integration and coordination are the critical elements that enable an organization to have common, strategy-driven goals, clear roles, and decision rights. This works in parallel with policies that support synchronization across functions, capabilities, and partnerships. All of it combines to help provide a consistent customer experience aligned with what customers value most.

# Building the supporting infrastructure

Technology provides the digital backbone for Commercial Transformation 4.0 by integrating commercial capabilities with other enterprise systems and data. This allows leadership to run the business dynamically and adapt to market changes and shifting customer needs. Many companies suffer from poor data, disconnected systems, and the need for manual analysis. These shortcomings often prevent them from effectively developing insights due to static—and often dated—analysis. Others use digital to build an advantage only within a narrow silo and miss adjacent opportunities to generate value. Many leading-edge companies use technology to provide the real-time data and insights that give business leaders constant access to information to make quick, informed choices, such as whether to optimize strategies and offers for customers and segments or to respond to market, competitor, and customer intelligence. In some cases, companies are using advanced technologies to enable predictive analytics to guide customer segmentation and offer development.

Chemicals companies need to embrace the fact that a typical business-to-business customer today increasingly buys through digital engagement. Their online searches can be heavily influenced by how easily they can compare, evaluate, and decide what to purchase. After placing an order, they want to be able to track the shipment and have access to hassle-free support. They want an experience that learns from prior interactions and provides content catered to their particular demands. By building a technology infrastructure that delivers a seamless digital and physical experience to customers, a chemicals manufacturer can shape the user experience, intimately learn about and understand customer needs and behaviors, and tailor offers that resonate.

## So, what does this look like when it comes together?

Consider a fictional company called Alpha Manufacturing, which has successfully aligned its commercial system to the overall company strategy (see Figure 4). Alpha has a secure data infrastructure that integrates information from disparate customer touchpoints such as websites, customer portals, customer service, customer relationship management databases, and additional internal and external data sources.

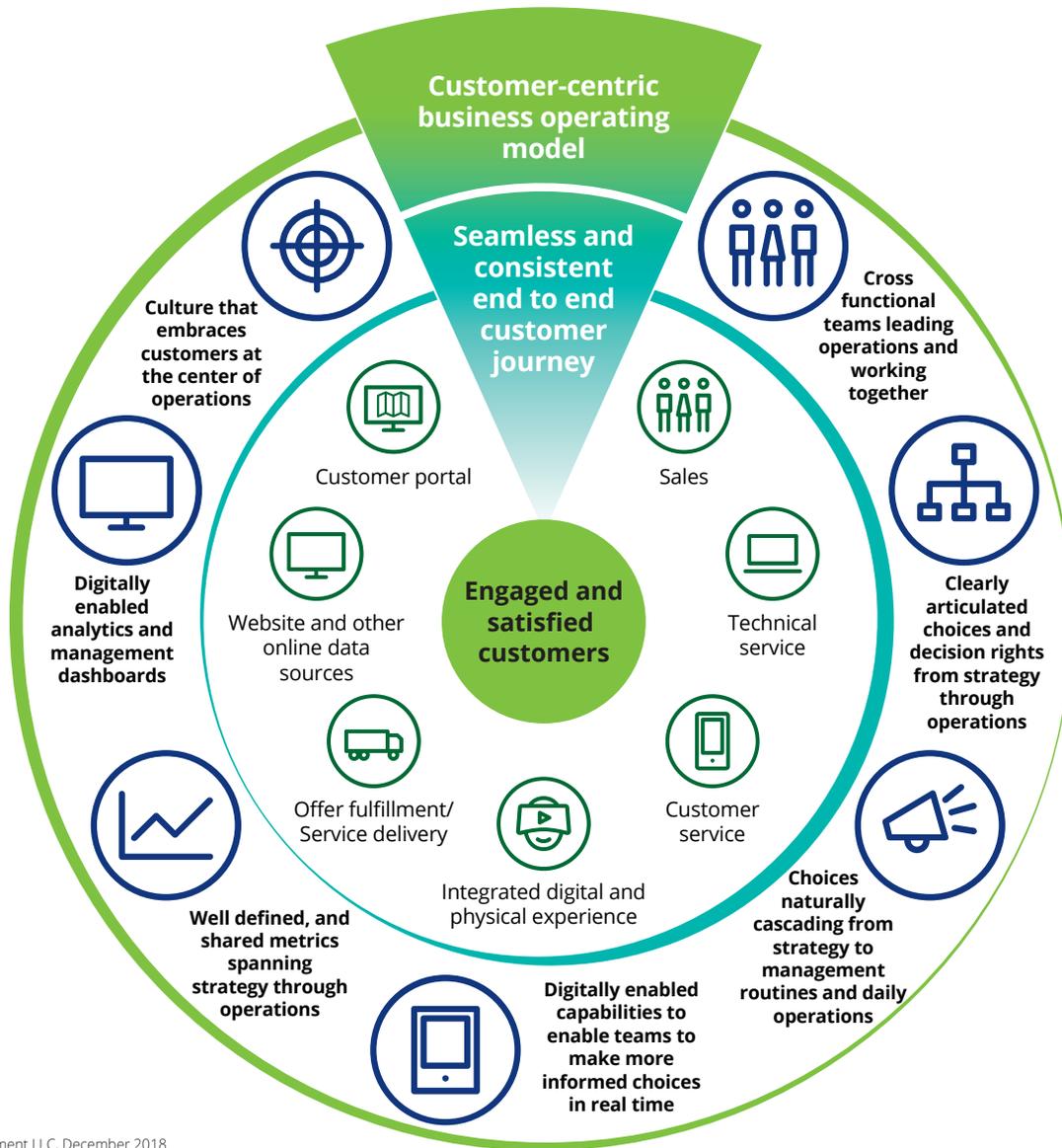
This infrastructure provides Alpha with a single, holistic view of customers across the organization. Business leaders can refine offers based on what is resonating with customers. Sales representatives are better prepared for customer conversations and also have targeted offers for customers that can be updated in real time. Company leadership has a clear view of how these offers are performing in the market and translating to value. In addition, strategy, marketing, and innovation teams learn about new factors that are influencing behavior, enabling



them to refine their customer segmentation, offers, and value proposition to customers.

Alpha's sales team can also quickly execute pricing and offer decisions using a fully automated system that leverages historical pricing, win-loss data, external data inputs, and advanced analytics. This allows each sales person to see price bands and other offer elements for every offer by customer segment and product. Instead of having to wait for multiple rounds of leadership approvals, commercial teams use the information to quote and close deals on the spot when pricing is within approved policy bands. The system can also provide prescriptive guidance to business leaders on how best to optimize offers (including price changes) based on this data and intelligence. In some cases, offers can be introduced, negotiated, and even executed all by artificial intelligence. Insights gained from various customer touchpoints shape performance improvement efforts, and are employed to deliver a targeted and consistent customer experience across channels and touchpoints.

**Figure 4:** Highly integrated and reinforcing data infrastructure



Source: Deloitte Development LLC, December 2018.

While focusing on a limited number of digital applications and capabilities, this example (see sidebar entitled “Case example: Alpha Manufacturing”) paints a picture of what is possible. It shows how critical it is to have the appropriate digital solutions to help optimize performance with the customer

experience and digital core. Critical technology and digital capabilities will continue to enable businesses to become more connected, agile, instrumental, and insightful—all essential criteria for building an integrated system that generates sustainable, long-term growth.

Leveraging leading technologies to enable the business can also translate to a better user experience for employees, where they have the right tools in hand to help improve the quality of their work, the time they spend on value-added activities, and exposure to leading approaches to their field of focus.

# Enabling your organization

While companies can implement new operating models and technologies for enhanced, consistent customer experiences, it is equally important to look at an organization's ability to leverage these strategies and tools. Just because an organization utilizes technology does not mean that it is "digital". Being digital is a mindset shift that is embedded into the organization, helping it focus on its customers and apply advanced technologies, thereby optimizing the strategic execution of the choices it has made and evolve how work gets done.

There are clear characteristics of an organization's digital DNA. These traits range from innovativeness, to organizational agility, to capacity for collaboration, and how freely information is shared. It is critical to understand where the business sits on the digital maturity spectrum, so leadership knows where to begin, and what digital traits need to be implemented or improved. Furthermore, digital success is intricately tied to strength of leadership – behaviors displayed and culture cultivated.

As these digital traits evolve, specific roles and responsibilities change, and new skillsets are needed. For example, if a business has decided it is necessary to improve the end-to-end customer experience, then developing a plan to streamline functions and capabilities and improving internal collaboration might be a great place to start. To drive this change in the organization, processes will need to be redefined, enabling technologies implemented, and reinforcing behavioral goals established, all with the intention of improving end-to-end visibility and ownership of customer interactions. Finally, the business also may decide to build a portal to deliver this new experience to customers. This may require new capabilities such as digital marketing and expertise in new technology platforms, as well as different types of talent to sustain. Once these capabilities are in place, companies have a broader set of tools to enable new ways to create and deliver value for customers that continue to grow and evolve. This will require all teams to think more "digitally" and identify ways to operate more effectively and efficiently. Taken together, the infusion of traits like these into the organization can help facilitate and expedite the transition to being "digital".

## Where to get started

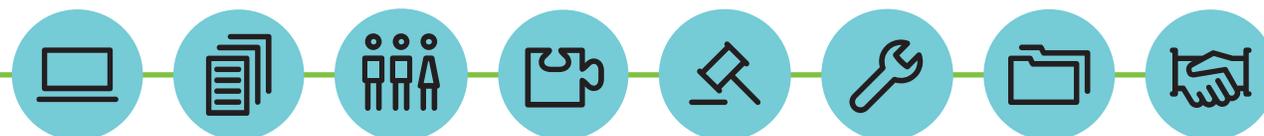
There is no one-size-fits-all approach to Commercial Transformation 4.0, as each business may look at its segment strategy differently, depending on the value proposition of its product and the business models of the customers it's looking to grow. However, the execution of that strategy is crucial across the board.

Companies should consider starting with their customer, with special attention to the end-to-end buying process. They should look for opportunities in that journey to deliver a targeted customer experience and create sustainable returns. Companies should be grounded and driven by a common vision but should build and deliver targeted offerings through an agile, test-and-learn methodology that reaches across capabilities and stages of maturity to realize the desired outcome. Challenges such as data structure, data access, and cybersecurity must be tackled early to lay a foundation to build upon.

Returning to the story that opened this discussion: Sophie, the design engineer, is one of many who value similar things and want to be engaged in similar ways. Companies like David's need to be able to quickly learn and determine which segment a customer best fits and deliver the end-to-end experience that customers demand. By embracing Commercial Transformation 4.0 and leading edge digital solutions, David's company can better link strategic choices to business configuration and daily operations to create more value for customers like Sophie, helping them achieve their growth objectives.

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