

Edited by
F. Budde, U.-H. Felcht, H. Frankemölle

 WILEY-VCH

Value Creation

Strategies for the Chemical Industry

Second, Completely Revised and Extended Edition

102.90550 45 Rh Rhodium	106.42 46 Pd Palladium	107.8682 47 Ag Silver
192.22 77 Ir Iridium	195.08 78 Pt Platinum	196.96654 79 Au Gold
 Yen	 Euro	 Dollar

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Strategies for the Chemical Industry

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*Florian Budde, Utz-Hellmuth Felcht,
and Heiner Frankemölle*

2nd completely revised and enlarged edition



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WILEY-VCH Verlag GmbH & Co. KGaA

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Library of Congress Card No.: applied for

British Library Cataloguing-in-Publication Data

A catalogue record for this book is available from the British Library.

Bibliographic information published by

Die Deutsche Bibliothek

Die Deutsche Bibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data is available in the Internet at <<http://dnb.ddb.de>>.

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Printed in the Federal Republic of Germany.
Printed on acid-free paper.

Typesetting Kühn & Weyh, Satz und Medien, Freiburg

Printing Strauss GmbH, Mörlenbach

Bookbinding Litges & Dopf Buchbinderei GmbH, Heppenheim

ISBN-13: 978-3-527-31266-5

ISBN-10: 3-527-31266-8

Preface

The first edition of “Value Creation – Strategies for the Chemical Industry” was very well received. The effort required to compile a book on modern management approaches especially for chemical companies had been quite daunting; however, we were extremely gratified to receive positive feedback from many in the industry. After much deliberation, this response also decided us to publish a second and completely revised edition.

The second edition has seen some major changes. While the first edition was very much a “McKinsey book”, this one incorporates a large number of contributions from authors in the industry, many of them board members of chemical or related companies, others leading representatives of institutions with strong ties with the chemical industry. The most prominently visible sign of the new direction is the change in the composition of the editors. It is the hope of the three of us that this mix of management experience combined with consulting insights will make for even more interesting reading.

Important changes in the book’s content have also been driven by developments in the chemical industry’s operating environment. The first edition went to press in early 2001, just as the Internet bubble was about to burst. The chemical industry had just seen itself dismissed as one of those “bricks and mortar” dinosaurs that would have no place in the new era. This perspective has now changed considerably. The industry’s image – in the stock markets, but also in general – has improved significantly in the last five years.

That does not mean, however, that the external environment has become any easier. In particular, the growing economic importance of Asia (and especially China) both as a location for production and as a market will have a lasting impact on the chemical industry landscape, and many chemical companies are under enormous pressure to adapt. We are currently also seeing major shifts in feed-stock prices, again resulting in a movement of some chemical production, here mostly towards the Middle East.

Other trends have remained unchanged, such as the eternal pressure to increase productivity to compensate for the price-cost squeeze, or to compensate for the ongoing commoditization of many of the industry’s products and services by introducing innovations. In addition, we can see a continuing high level of

M&A activity, with private equity companies playing an increasingly important role in acquisitions in recent years.

Amid all these developments, value creation has remained a key objective, although the paths to it have, of course, been altered and augmented by the shifts in the business environment.

The editors have attempted to incorporate the changes into the agenda of this second edition, which falls into three main parts. Starting with an overview of the chemical industry, the book discusses the elements that are relevant to strategic decision-making in the chemical industry in general and in a number of key industry segments. In the next section, all the key elements of the chemical business system are addressed, reflecting the importance of functional excellence as a major driver of the industry's performance. The final set of chapters deals with special topics of interest to chemical companies, including current hot topics such as China and biotechnology.

We make no claim that our list of topics is comprehensive from the point of view of the chemical manager, who has to deal with many more issues than we could address here (e.g., environmental issues), but most of those that we have not included are well covered elsewhere.

Like the last edition, this book assumes some knowledge of business administration, without which it does not always make easy reading. Nevertheless, we hope it may be of interest not only to managers of chemical companies, but also to many others who have dealings with the chemical industry, from students considering it as a career option to investors wishing to assess the value creation potential of a particular investment. It might also have a relevance for managers in some other industries that share common traits with the chemical industry, such as pulp and paper, metals, or energy.

We hope that readers find this book both enjoyable and useful, and that they will come to share some of the enthusiasm we feel for an industry that contributes so much more than any other to the basis of modern life.

The Editors
July 2005

Florian Budde, Utz-Hellmuth Felcht, Heiner Frankemölle

Acknowledgements

First and foremost, our warmest gratitude goes to all authors for the creativity, commitment, and enthusiasm that went into the writing of this book.

Our deepest thanks go to the top managers and senior executives from the chemical industry and chemicals-related institutions who were kind enough to contribute chapters. Their readiness to take part has enabled us to present a much richer, deeper, and broader picture of management concerns in the chemical industry than in the previous edition.

Closely behind this group, we also owe heartfelt thanks to the authors from McKinsey, and to all others who contributed to the material but were not directly involved in producing the written version.

We would also like to express a debt of gratitude to a number of people who provided enormous support behind the scenes on individual chapters: Eric Bartels, Ralf Dingeldein, Tobias Engel (Merck KGaA), Philip Eykerman, Khosro Ezaz-Nikpay, Helena Fransen, Clemens Grambow (Degussa), Elizabeth Gryger, Stefan Hilger (VCI), Parry Norling, Jens Riese, Ulf Schrader, Lionel Stanbrook (Syngenta), and Ulrich von Deessen (BASF).

Next, a big vote of thanks goes to the members of our extended team:

- Project leader Karsten Hofmann and project managers Sabine Deppe, Neville Gorman, Maren Hansen, and Marco Neuthard for their guidance along the project path and their expert and efficient liaison with all parties in the chain, from authors to publishers.
- Manuscript editors David Hunter, Annette Lehnigk, Jürgen Raspel, and Jonathan Turton for their creative and critical input and their contributions to the clarity and crispness of many chapters.
- Andreas Appellhagen, Birgit Fehmel, Annett Jensen, Shirley Li, Loula Merkel, Sam Samdani, Torsten Teichmann, and Sari Varpa of McKinsey's Chemicals Research and Information team for their professional and accurate provision of facts, figures, and background information and their proactive advice in finding the appropriate supporting evidence for many of the ideas the authors put forward.
- The graphic artists of McKinsey's Visual Graphics India team for helping to ensure that the illustrations delivered their messages clearly and accurately.
- Skilled translators Matthew Hitchens and Francine Barley.

Of all the great contributors behind the scenes, one individual stands out: Helen Robertson, our lead manuscript editor. Without her great commitment and relentless drive for excellence, this book would not have been possible.

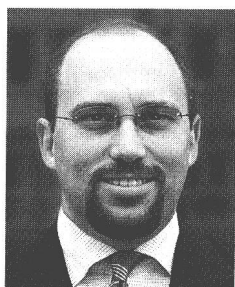
Finally, we would like to say how greatly we appreciate the support and assistance of Karin Sora and Romy Kirsten of Wiley-VCH. Thank you, above all, for your patience and understanding during the manuscript production process.

We are confident that the end product will make all of you feel that your efforts have been worthwhile.

The Editors

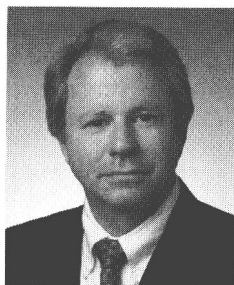
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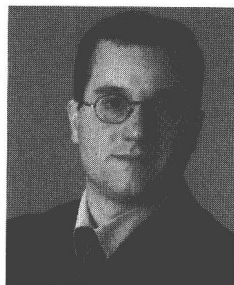
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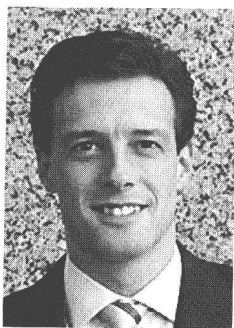
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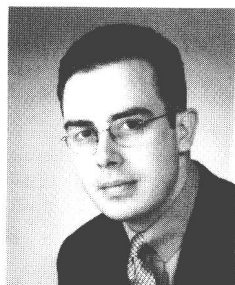
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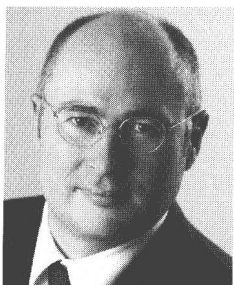
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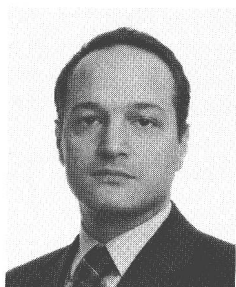
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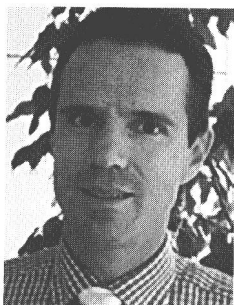
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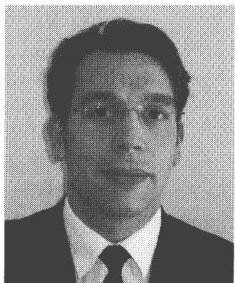
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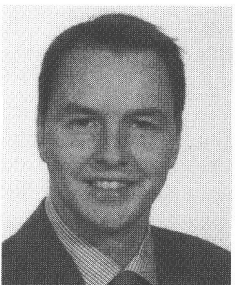
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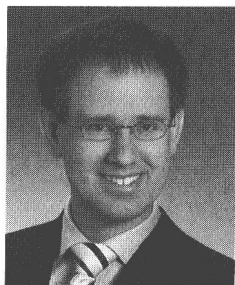
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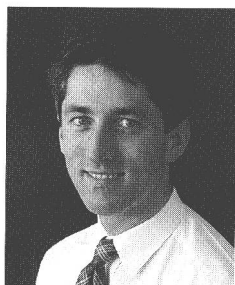
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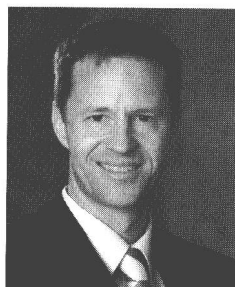
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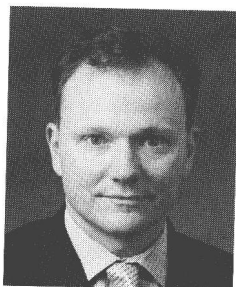
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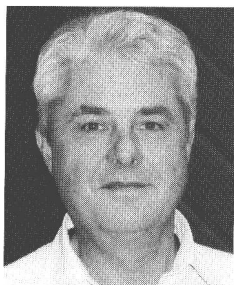
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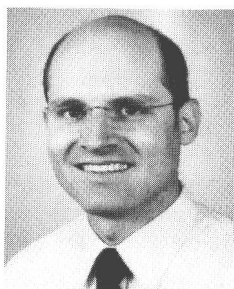
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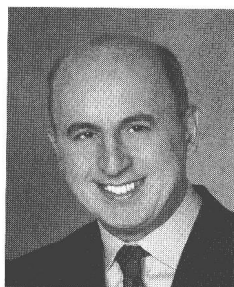
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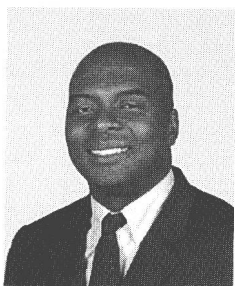
Christophe de Mahieu is the managing partner of McKinsey's Asia Pacific and Middle East energy and materials practice, based in Dubai. He has served chemical clients across Asia, the Middle East, and Europe on corporate strategy, growth, M&A, and operational excellence for the last twelve years. He has advised both multinationals and local chemical corporations in the petrochemical, fine chemicals, and agrochemical sectors. Before McKinsey, Christophe de Mahieu worked for Exxon. He holds master's degrees in economics and engineering and in corporate tax management, both from the Solvay Business School, Belgium.

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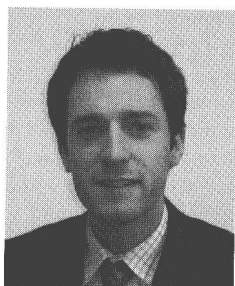
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