Onsite Service Providers in the Chemical Industry

These behind-the-scenes players are positioning for growth and competitive advantage

Providers of onsite technical and infrastructural services in the chemical industry are sailing into a strong headwind, as rocky economic conditions compound the impact of globalization. As European chemical companies struggle, the future for providers of onsite services is also in question. Whether they are independent chemical park operators or integrated service providers, these firms must be flexible enough to help their clients stand up to global competition while also protecting their own interests.

Firms that offer onsite services are well known within the chemical industry—they include the suppliers of power, utilities, logistics, warehousing and maintenance, and other services that make chemical facilities work. These companies are considered the "theater directors who lead the play but aren't seen on stage," as one executive explains. For years, chemical companies owned and performed these services in-house, but that has changed as mergers and acquisitions within the European chemical industry have increased in the past two decades. Now, many of these providers have spun-off into independently owned businesses with new and even more complex ownership structures.

To examine this changing landscape and obtain a better understanding of the industry's strategic shifts, A.T. Kearney queried executives from 30 leading European onsite service providers. This paper highlights our survey results, complemented with findings from our latest benchmarking study of the industry, and offers our perspective of the long-term outlook.

The Pressure Is On

Chemical producers in Europe are under tremendous pressure as they cope with high costs, supply-and-demand cycles, and new environmental regulations. In addition, newly industrializing countries, particularly in Asia and the Middle East, are becoming more competitive as they have better access to cheaper raw materials, up-to-date technology, logistics advantages (including proximity to export hubs) and mostly lower labor costs.

Onsite service providers in Europe are feeling the trickle-down effects, on top of their own rising costs and increased market competition. Most of these providers, even those in perceived positions of strength (monopolies) and regional niches, are sandwiched into a difficult place. If costs are too high,

Providers of onsite services—whether independent park operators or integrated service providers—must be flexible, customer-oriented, cost efficient and, most important, able to help their chemical company clients stand up to global competition.

their customers will either suffer or redirect their investments elsewhere; at the same time, regional tariffs and local labor laws limit their flexibility to reduce prices. And alternative players, with an intense focus on customer-oriented services, are quickly gaining market share *(see figure 1).*

Amid these challenges, we believe two business models will emerge for onsite service providers.

Two Business Models Will Dominate

The findings of our survey suggest that industry leaders in the future will focus more on developing chemical production locations and investing in infrastructure that serve the interests of their customers. Two business models will likely dominate: independent chemical park operators and integrated service providers.

Independent chemical park operators. Companies such as Sembcorp, BIS, Nuon and Getec are the wave of the future. Sembcorp, as one example, provides centralized utilities, energy and water to industrial and other companies in Singapore, the United Kingdom, Asia and the Middle East.

These companies serve either as the owners of the entire chemical park, or they operate select parts of the park's infrastructure, as is often the case for utilities. Most of these companies have emerged from other industries, for example, Nuon and Getec provide energy management services that originally started within utilities. As the business model has changed, they have taken over core energy operations in the chemical industry.

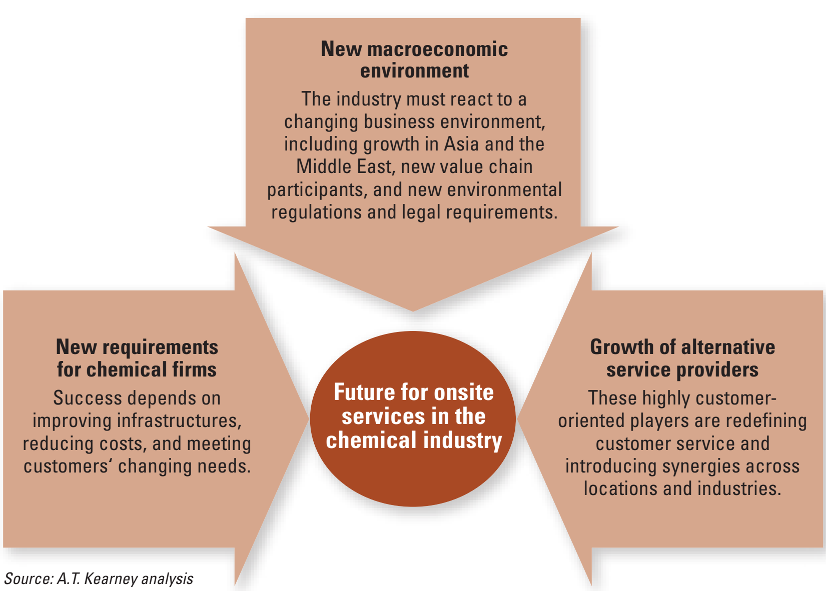
Independent operators focus primarily on growth and profits. Through systematic expansion across different sites and site clusters, they consolidate various segments, such as power supply, to achieve economies of scale and offer customers tailor-made solutions. Their main advantage is that the service they provide is their core business, so where to make investments is clear. As one survey respondent explains, "The future providers of site services will be suppliers, waste management companies and specialists that consider the service they provide to be their core business."

Other advantages include management structures aligned around the specific requirements of their service, less complexity, and competencies that are more closely aligned with customers' requirements.

Integrated service providers. Integrated service providers are supporting arms of the core business—examples include BASF and Evonik. They conduct much of the same work as independent park operators, except they are owned by the chemical companies they work for. Their focus is on meeting cost and service requirements for that single core customer, and they

Industry leaders will focus on developing chemical production locations and investing in infrastructure that serves the interests of their customers.

FIGURE 1: Market pressures for onsite service providers



Source: A.T. Kearney analysis

aim to optimize their port-folios and external services based on their existing synergies with that customer. These providers engage in location marketing in the interests of their parent company, and they manage the existing infrastructure in accordance with overall corporate criteria. Customers benefit primarily from lower risk as the provider has keen internal knowledge of the chemical company.

In Europe, many of the integrated service providers operate as standalone businesses with a strategy of spreading their businesses across regions. The leaders will align their current ownership structures with the strategic interests of their owners.

Whichever business model a firm decides to pursue—independent or integrated—the choice should depend on the structure of the site, the strategic intent of the owners, and the local need for onsite services.

Five Success Factors

Regardless of the model, providers can achieve sustainable growth by applying the following success factors *(see figure 2):*

Meet changing customer requirements. The trend in chemical portfolios is toward standardizing products while simultaneously addressing customers' need for diversification. For example, some providers are reducing complexity in non-customer-facing functions, such as HR and finance, to cut back on costs; at the same time, they are shifting resources between sites and activities in order to remain flexible to demand volatility. The leaders will stand out by offering differentiated solutions: advising small- and medium-sized companies on new findings, understanding and reacting to customers' changing needs, and defining industry standards. However, as these solutions increase cost pressures, it will likely increase the need to outsource some services.

Increase agility. The chemical industry is subject to cyclical demand fluctuations and in Europe, cost disadvantages and inflexible structures have a profound effect on performance.

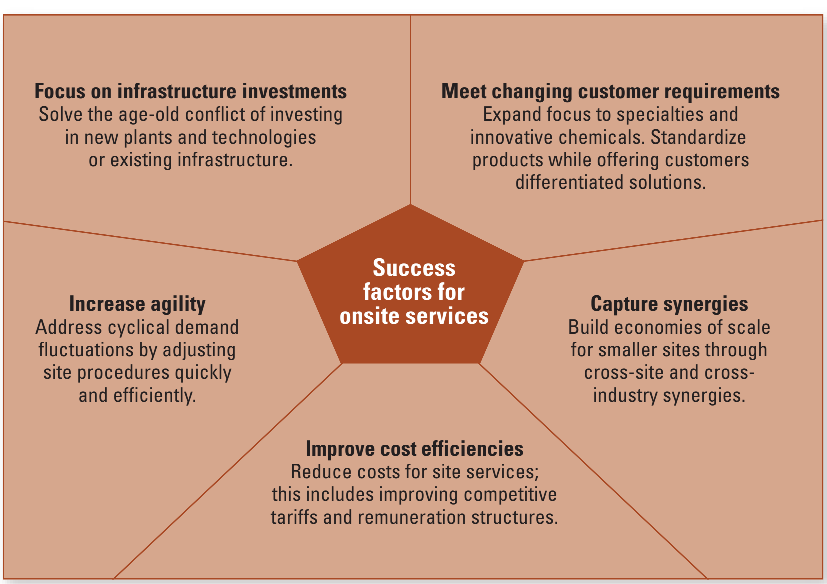
> *Onsite service providers are the "theater directors who lead the play but aren't seen on stage."*

Onsite service providers must be agile enough to adjust their site procedures as quickly and efficiently as necessary.

Focus on infrastructure investments. Chemical companies are under more pressure to improve productivity, but, as one survey recipient notes, "Ownership structures today are hindering necessary infrastructure investments." For both independent park operators and integrated providers, budget restrictions often lead to investments in new chemical production facilities and technology upgrades rather than improvements to existing infrastructures. Finding an intelligent solution to this conflict is essential for success.

Improve cost efficiencies. Site services constitute a notable cost for chemical companies, usually between 10 and 15 percent, which means there

FIGURE 2: Five success factors for onsite service providers in the chemical industry



Source: A.T. Kearney analysis

is significant potential to improve cost efficiences. Examples include improving competitive tariff and remuneration structures.

Capture synergies. Relatively large sites and interconnected locations usually create sufficient intracompany economies of scale. Smaller sites, however, need synergies with other sites to reach these same economies of scale. These synergies can be captured by bundling management structures and regionally concentrating certain services such as laboratory work and site-related procurement. Building cross-industry synergies can also help service providers achieve competitive advantage—for example, bundling energy management services to manage energy demand changes, or bundling services for joint management of a site.

Sharing the Market

Independent chemical park operators and integrated service providers will continue to share the market while trying to consolidate their respective positions. Integrated service providers must follow through on their claim of being efficient service providers to lower their personnel costs, while independent chemical park operators have to prove to smaller sites that they can adequately create economies of scale.

We do not expect one business model to dominate the other—the winners will be those that simply do the best job of meeting their customers' desire for sustainable results, flexibility and future growth.

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