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Breaking the 6 golden rules in the Chemical Industry, and winning competitive edge

**A speech given by John Ekstrom
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Good afternoon, and thank you for being here. I appreciate the opportunity to speak with you today, and I'd like to thank the conference sponsors and organizers for making it possible.

First a short story that provides a good introduction to my discussion. On a high school Chemistry Test, one question concerned how to clean the floor after a chemical-powder spill. Most students described, in detail, which liquid they would combine with which powder in order to dissolve it with chemical bonding and electron transfer---most feeling pleased with their grasp of molecular structure. Until the exams were handed back. The teacher asked another student to read her answer. She had suggested a broom and a dustpan to sweep up the spill -- and got full credit.

My talk today will address gaining competitive advantage through the breaking of traditional rules and separating from the crowd, and looking at things from a different angle. We have all watched with wonder and perhaps some dismay the frenzy surrounding the Web over the last 2-3 years. For so long we've seen companies rushing into eBusiness without quite knowing what they hoped to accomplish by doing so, without knowing how they'd measure success or failure, without knowing what being "web-capable" or "web-enabled" meant to their specific business.

Then, of course, came the infamous "dot com" implosion where each day the newspaper included stories about spectacular failures of companies that, only months before, had achieved huge IPOs and seen their stock prices shoot into the stratosphere. The reaction to the dot.com crash was equally extreme and irrational. The backlash against the Web as a panacea and "quick fix" has been decisive, compounded of course by a cooling global economy. Companies are finding it hard to justify investment in new technology now, when their revenues are dipping and costs are rising.

At my company, Perstorp Specialty Chemicals, we have seen fit to break several of these traditional rules. We have good reasons for doing so, and we're confident that not only is it the right thing to do, it's also the right time to be doing it.

First off, for those of you not familiar with Perstorp, let me give you some background. Perstorp is a global leader in its segments for the market of coating intermediates and performance chemicals, based in Sweden. The polyols used for the coatings intermediates add chemical and physical properties to resins for paint and lacquer systems, liquid adhesives, plastic additives, lubricants and several other applications. We have production sites in Sweden, Italy, Germany, the US and India and have customers in nearly every country in the world. During 2001, Perstorp was acquired by Sydsvenska Kemi AB, and we are now in the process of integrating our specialty chemicals operations with the operations of Neste Oxo. Together we will form an international specialty chemicals group with annual sales of approximately SEK 7 billion (US \$660 MM) and 3,000 employees.

Our products are bought by our customers as raw materials. Some of our products such as Penta, are produced widely and are considered commodities---for these competition is fierce and margins

are thin. The majority of our product line is more specialized, and worldwide production is limited--- in some cases, we're the only company that produces the chemical, or does so of the quality our customers require.

So, why did a mid-sized Swedish chemical company embark on eBusiness? And why is it interesting that we did? Why should you care? Why is this interesting enough to warrant a case study presentation?

I think it's because Perstorp represents an interesting departure from several time-honored rules. Such as:

Rule #1, Industrial companies move slowly when adopting new technologies

Like it or not, industrial companies are not typically known for their willingness or ability to quickly adopt new technologies. It's well documented that as a group, we lag behind most other sectors when it comes to doing things differently. How many years did it take for your companies to get PCs on employees' desks? To get Web connections? To install an ERP system?

At Perstorp, we too tend to be practical when it comes to investing in new technologies. They must be proven. They must make strategic sense. They must be affordable. In the case of eBusiness, we feel that it meets these important criteria so we are moving ahead of many of our counterparts to implement Web technologies into our business processes.

Rule #2 Of Industrial companies, the chemical segment is among the slowest to adopt new technologies

It's pretty undeniable that chemical companies do not tend to be on the cutting edge when it comes to embracing new technologies---including the Web.

According to a recent study of The Economist, the Chemical sector is the slowest among the seven industries studied (including communication, auto/manufacturing, consumer markets and financial services). The Chemical sector was the only industry where full online transactions and backend integration to the Web didn't even register on the scale. Financial services, appearing as the leader among the pack, reported that nearly half of its respondents have the backend databases integrated with their Website, and some are conducting full transactions online. Electronics reported that nearly half of their transactions are now fully conducted online.

Of course, the fact that Chemical companies are behind such sectors as consumer markets, financials and electronics shouldn't be surprising. Many of these industries are much younger than the Chemical sector, enabling them to be more nimble and able to change processes quickly. Some companies within these sectors are relatively new, making new technologies not a **change** per se but simply THE way business is done these days.

Throughout the company's 119-year history, Perstorp has known that continuous renewal is one of the most important challenges to stay successful in a fast-changing world. For us, openness and communication are means to achieve that renewal, and the Web plays an important role.

Rule #3 Europe is behind the United States by 12-18 months when it comes to adopting new technologies

Admittedly, this is typically true. But instead of seeing ourselves as slow, we *like to think* of ourselves as reasonable and prudent. We'll gladly watch the Americans jump off the cliff. If they survive, we'll try it too.

In this regard, too, Perstorp is bucking the trend. Not only are we ahead of many of our European counterparts, we are also quite a bit ahead of many of our US competitors. We began with our

Web initiative earlier this year, and have launched a few initiatives already. In that timeframe, the economy has slowed and we have noticed a heightened reluctance on the part of other process manufacturing companies to invest in eBusiness. For us, the economic conditions haven't really affected our eBusiness agenda---we consider this an important initiative that will allow us to further enhance service to our customers and position us for the future----things that were important to do regardless. The fact that our competitors have decided in large part to retrench, all the better for us to move ahead of them. And, if eBusiness results in streamlined operations and smarter business processes that cut operating costs, even better.

Rule #4 eBusiness only makes sense for big companies

Sure, the big companies tend to have deeper pockets and can more easily justify investing opportunistically. We smaller companies have to be more careful.

But at Perstorp, we view our investments in Web technology and eBusiness as being a key reason we can compete with our larger adversaries. Many of them have yet to incorporate eBusiness into their mix, so by our doing it first we are able to excel beyond them in certain areas, such as customer service and perhaps even in achieving global selling reach. Because of our eStoreFront that is open 24x7, is a powerful selling tool and can take orders all the time, we stand a good chance to get an order from a new customer when our competition is closed for business.

We've been able to acquire eBusiness capabilities at a fraction of the cost of what we would have spent building it in-house. Working with **Stratyc**, who designs, builds and hosts eBusiness applications specifically for process manufacturers like us, we were able to get up and running quickly without a large capital investment. And the solutions all feature full integration to our ERP, so our customers get full, accurate and real-time information directly from our ERP system, resulting in convenience for them and fewer manual processes for us.

Rule #5 Technology investment mustn't be made during an economic downturn

Seems logical enough. When revenues are down, don't spend money on new technology, right? However, to believe this, you must believe that technology is frivolous to your corporate mission---that it doesn't help you to achieve your goals.

At Perstorp, we are convinced that innovation is critical to survival. Our products reflect this philosophy, as does our commitment to leverage technology in powerful ways to achieve corporate objectives. We literally see it as an investment in our future---regardless of economic conditions.

Rule #6 The reason to embark on eBusiness is to cut costs

I'm sure everyone in this room has heard the virtues of eBusiness to cut operating costs, reduce staff requirements, etc. I have no doubt that eBusiness can and will streamline how we do business, and will cut our costs of doing business in real and tangible ways. I believe that's undeniable. But at Perstorp we do not believe that it is THE reason to embark on eBusiness. For us, eBusiness represents a powerful way for us to take customer service to the next higher level.

Customer service is a term that is bandied around today by most everyone, but what does it really **mean**? To us, excellent customer service means producing world-class, high-quality product, supported with complete and thorough documentation and an extremely knowledgeable staff, and delivering it on-time and at a fair price. We have gone to great lengths to fulfill this promise. In 1998, we implemented PRISM, an ERP system used primarily by process manufacturers. Installing PRISM was a big step, both in terms of time and money, and enabled us to leapfrog many of our competitors in our ability to plan, track and deliver shipments efficiently. It also proved to be a veritable data warehouse, holding real-time information on products, inventory levels and forecasting.

Because our customers are in all corners of the world, we needed to find a better way to provide them with information and service, whenever they needed it. Though we have customer service reps in Sweden, the US and in Singapore, we were finding that there were many cases where a customer's inquiry could not be addressed quickly enough because the answer had to be gotten from someone in a different time zone.

We know how important good customer service is to our customers---many of whom have been with us for decades. We believe that our service has created tremendous loyalty, and has enabled us to compete on factors other than price. We have a team of highly trained customer service reps, who specialize on specific regions of the world. Training is a continual process to ensure they have the latest and most accurate information when working with our customers to place an order, specify product, or provide follow-up service. But, up until now, all the information pertaining to products and orders is housed---you could say "trapped"--- within our PRISM system. As a result, any time a customer, or one of our sales reps, agents or transporters needed up-to-the-minute information, they had no choice but to call Perstorp's customer service department.

Half of our customer services reps' time was spent providing Perstorp personnel with information that was inside of PRISM---clearly not a good use of company resources. The balance of the calls handled by our Customer Service reps came from customers requiring information on orders or products. Clearly, there were substantial benefits for our customers if we could "free" the information from PRISM, and provide 24x7 service as well. eBusiness provided the solution. Our eStoreFront features real-time integration to our ERP system, providing our customers 24x7 access to up-to-the-minute order status information and detailed product information. It provides the convenience of an additional ordering channel----one that is always open and which provides accurate delivery, inventory, and product information whenever they need it. And, if they should require additional information, the website provides complete contact information as well as a user-friendly email form.

It has also enabled our sales force to be more proactive, both in their handling of large accounts, and in prospecting for new accounts. Previously, much of their time had been spent answering customer queries and providing them with information from PRISM.

Closing

In addition to enhancing convenience and service for our customers, we expect our eBusiness initiatives to dramatically improve our internal business processes. In addition, turnaround time will be decreased and accuracy improved. eBusiness is also addressing issues related to language barriers. In the future, we plan to provide information pertaining to the most frequently asked questions on the eStoreFront and translated into several languages.

The downturn in the world economy hasn't slowed our Web plans in the least. In fact, we view this as a prime opportunity to move ahead, build competitive advantage, and get positioned for the inevitable upswing. We also expect that efficiencies gained from automated processes will reduce our cost of operations. At Perstorp, we've always made sure that we stay focused on our core competencies---regardless of the economy. For us, excellent customer service has defined who we are, and the Web provides a powerful way to take our strength to the next level.