REIGNITING GROWTH
OPPORTUNITIES AHEAD FOR THE EUROPean CHEMICAL INDUSTRY
OVER THE PAST SEVENTY OR SO YEARS, the European chemical industry has built an impressive and relatively consistent track record of growth. However, while growth has largely continued throughout that time, the factors fuelling it have changed every few years, with new drivers emerging periodically to power each wave of growth (see Figure 1).

But today, the latest in this succession of broad industry growth drivers—the rapid growth of emerging economies—is petering out, with little sign of a new growth driver emerging. The outlook is further overshadowed by global political uncertainty and rising protectionist sentiment at a time when other industry growth drivers are also losing momentum.

For example, the use of chemical products as substitutes for materials like steel, glass and textiles in industries such as automotive, has buoyed growth for many years. But, further significant gains are becoming increasingly difficult to capture. And while performance enhancements via additional functionality will continue to deliver some growth, it is unlikely to be far above overall rises in GDP.

At the same time, the industry’s much-heralded breakthrough innovations—in areas such as industrial biotech, organic light-emitting diodes (OLED), fuel cells and nanotechnology—are failing to meet growth forecasts. Despite significant R&D investment, none of these areas has seen demand take off to the extent initially projected, and growth now appears to have plateaued.

The industry’s final option for stimulating higher growth is consolidation, a hope underlined by the recent series of blockbuster mergers and acquisitions. But while these transactions may have generated growth for individual companies, there has been little impact on growth at the industry level.

NOTE: Values before 1987 interpolated, based on several sources
SOURCE: Accenture analysis of data from American Chemical Council, Deutsche Bundesbank, Cefic, Statista, J.P. Murmann/ Northwestern University
REALIZING THE GROWTH OPPORTUNITY: GOING BACK TO BASICS

It may seem that growth opportunities for the European chemical industry are at best moderate, and at worst, nonexistent. But this is far from true. Accenture’s view is that by building on core strengths and ignoring the “noise,” the European chemical industry can reignite its growth—even without the emergence of a new key growth driver. We call this strategy “back to basics” and it involves a remorseless focus on four key priorities.

PRIORITY ONE: INVEST IN YOUR CORE BUSINESS

In global terms, the market share of European chemical companies declined for decades. The collective market share of world demand for chemicals has fallen steadily from almost 13 percent in 2006 to under 10 percent in 2016 (see Figure 2), with its recent peak share almost a decade ago, in 2008. The reasons for the decline are not hard to identify and have their origins in aggressive capacity-building by companies from emerging markets like China, India and the Middle East. Even in areas communicated as core businesses, many European chemical companies lost global market share.

FIGURE 2
GLOBAL MARKET SHARE OF EUROPE’S TOP 40 CHEMICAL COMPANIES, 2006-2016

The competitive challenge from these new entrants is increased by their longer-term perspective on returns on investment (ROI). While European players tend to seek payback in about eight years, competitors from emerging markets tend to think in terms of 10 to 15 years. Assuming an asset lifecycle of 30 to 50 years, and looking at plants built in the 1960s and 1970s that are still fully operational, current European chemical company investment patterns seem to put them at risk of compressive disruption. Compressive disruption is not sudden, but it is a disruption that decreases profits slowly, piece by piece. Companies from
emerging markets not only start off with newer, typically world-scale plants, but they are also driven by a mindset of growth, pursuing targets like doubling capacity in the next 10 years or building regional or even global positions. This contrasts with the cash optimization of European chemical companies leading to strong equity and cash positions and exposes them to compressive disruption and the risk to be squeezed into niches—into the role of acquisition candidates, or even out of the market.

To reignite growth, European chemical companies need to invest in the plants and assets that support their core business.

### PRIORITY TWO: FOCUS ON CHEMICAL PROCESS INNOVATION

European chemical businesses have a major opportunity to reignite growth by applying innovation to optimize chemicals processes—thereby reducing costs and increasing profitability. In this way, process innovation creates the cost competitiveness that is the basis for growth.

A very large cost and profit improvement range is achievable through process optimization, leading directly to higher competitiveness (see Figure 3). Continuous chemical processes often operate at 94 to 96 percent yield, with even lower yields in batch processes—meaning there is still significant opportunity to narrow the gap between best daily production and average production.

**FIGURE 3**

**ILLUSTRATIVE P&L STRUCTURE**

**EBIT IMPACT OF TYPICAL CHEMICAL PROCESS OPTIMIZATIONS**

**SOURCE:** Accenture analysis
To realize the full growth opportunity, Europe's chemical businesses should look to squeeze out another 1 to 3 percent of yield as a proportion of their spending on raw materials. As these raw materials have already been purchased, this extra yield will feed straight through to higher profit.

So, it’s time for industry executives to question the level of resources committed to the search for new molecules, and turn the innovation spotlight back to making the core chemical business more productive. To create a platform for growth and reverse the decline in global market share, Europe’s chemical companies should stop being sidetracked by shiny new areas and refocus investment on the processes that generate the most value.

**PRIORITY THREE:**
**IMPLEMENT DIGITAL TECHNOLOGIES AT SCALE AND WITH SPEED**

Across the European chemical industry, there’s a widespread sense of disappointment over the lack of outcomes from digital projects and pilots. Investments in these initiatives have not resulted in new, ground-breaking digital business models—similar to Uber (for transportation) or Netflix (for entertainment).

However, the industry’s digital initiatives up to now typically have been digital strategy projects—conceptual, inside-out driven efforts—instead of broad-based and pragmatic field testing of available technologies. As a result, many digital initiatives have largely been siloed, piecemeal projects run in a sandbox-type environment—a safe, ring-fenced space where new things can be tried out, but are unlikely to produce transformational enterprise-wide results.

To reap the full potential from digital, Europe’s chemical businesses need to implement digital capabilities at speed and at scale—targeting imperatives like improving yields from production processes, and enhancing key areas like e-commerce, and customer interactions and experiences.

An additional high-value area of digital opportunity is optimizing administrative and support activities such as customer support, finance and HR. In some chemical companies, these functions have seen little change in their operating models over the past 30 or 40 years—meaning there is a huge cost savings and increased competitiveness potential by leveraging digital.
PRIORITY FOUR: SOLVE THE CIRCULARITY CHALLENGE

The advent of the circular economy brings profound implications for a host of industries, but nowhere are its impacts more seismic than in the chemical industry. As well as posing challenges, the circular economy also opens massive growth opportunities. Recent Accenture research conducted in association with European Chemical Industry Council (Cefic) pointed to two potential approaches for chemical businesses to achieve a more circular, sustainable model: first, circulating molecules; and second, enabling the circular economy in downstream industries. Enabling circular economy models in downstream industries is, from our perspective, the single most important growth opportunity for the chemical industry.

In terms of circulating molecules, the industry is facing intensifying regulatory and consumer pressure to reduce its environmental impact. Meeting these demands is key to the sector’s future license to operate. If the industry wants to continue to sell its products as substitutes for other materials, it will have to minimize its environmental impact and use more and more recycled molecules in production processes.

While the first approach—circulating molecules—secures the industry’s future, the second—enabling the circular economy in downstream industries—presents the growth opportunity. The chemical industry plays a crucial role in enabling the industries that buy its products to adopt circular economy models. For example, more fuel-efficient cars require lighter materials, shared cars (which are used more intensely) require higher performing, more durable materials and more energy-efficient houses depend on better insulation materials. None of these products are possible without the chemical industry.

Making this transition to the circular economy will require access to large amounts of climate-neutral energy and major investments in infrastructure across Europe. However, the payback in terms of growth will be substantial, with successful enablement of circularity downstream projected to generate strong rises in demand for chemical products (see Figure 4).
MAPPING OUT THE NEXT GROWTH CURVE

With existing growth drivers losing power, and breakthrough innovations failing to deliver against expectations, it’s easy to assume that the growth outlook for the European chemical industry is bleak. But any such assumption would miss the mark.

By refocusing on core value drivers—and simultaneously taking proactive steps to optimize production processes, embrace digital technologies across operations and seize the opportunities presented by the circular economy—Europe’s chemical businesses can trigger the next wave of growth. If they succeed, they’ll not only reboot their long track record of rising value creation, but also revitalize operations and reverse the declining competitiveness that has impacted their global market share.

In Accenture’s view, the European chemical industry is at a defining moment, and the decisions it takes today will shape its growth and dynamism for decades to come. The opportunity to reignite growth is clear. It’s time to seize it.
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Special thanks to Dr. Hartwig Wendt from Cefic and Drs. Eike Houben, Manuel Bause and Jeffrey Hammann from Accenture for their contributions to this report.

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