

Chemical Strategies Partnership

Restructuring supply chain relationships

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Servicizing: beyond product-in-a-box

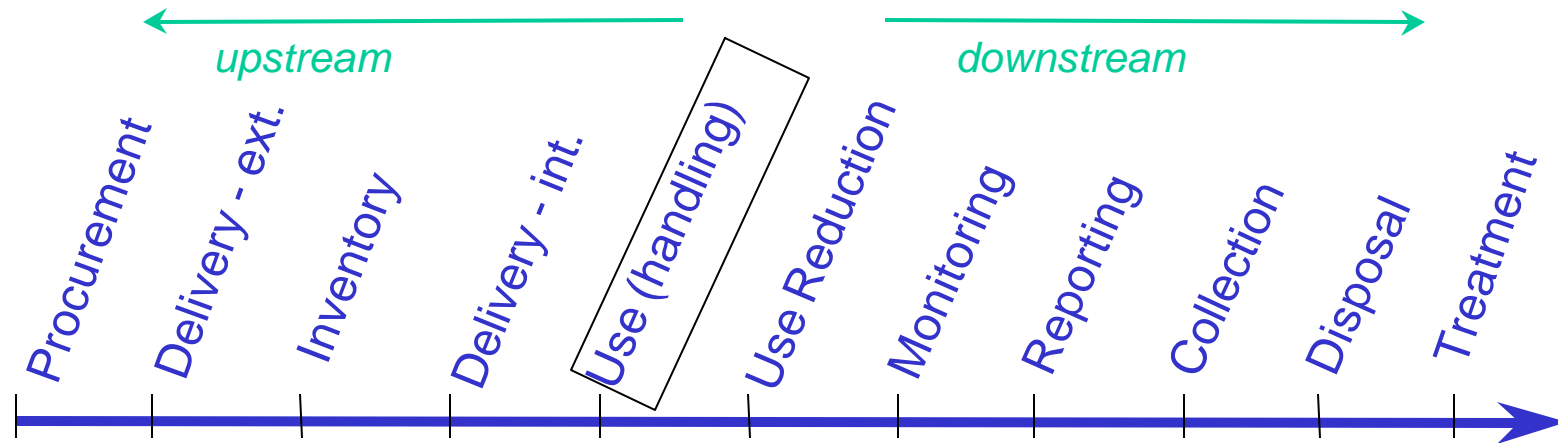
- “Servicizing”
 - The emergence of a class of product-based services; manufacturers who traditionally delivered “products in a box” are increasingly viewing products as a vehicle or platform to deliver service or function.

company	product	service
Castrol Industrial North America	Metalworking fluids (lubricants)	Chemical management services – may manage procurement, delivery, inventory, storage, labeling disposal. Performance-based compensation
Xerox	Document Services	Integrated document storage and reproduction with business systems to achieve just in time, customized document production
Coro (Herman Miller)	Post-occupancy services	Move, churn and inventory management for staff and office relocation (large commercial firms)

- Cornerstone: change in compensation for the supplier from volume of product supplied to quality/quantity of services provided

The Case of Chemical Management Services (CMS)

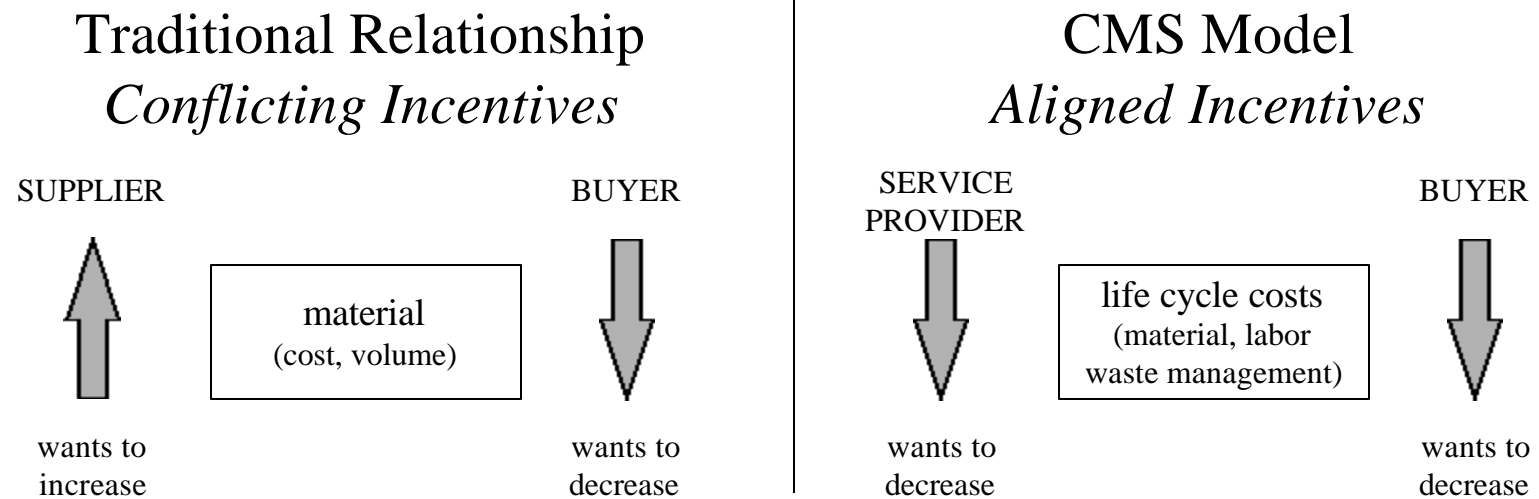
- The chemical lifecycle (the user's perspective)



- At every stage, opportunities for use, risk and cost reduction *if* the right incentives are in place.

CMS: Fundamental business changes

- Change in the supplier compensation model: the source of potential environmental gains



CMS: Beyond traditional approaches

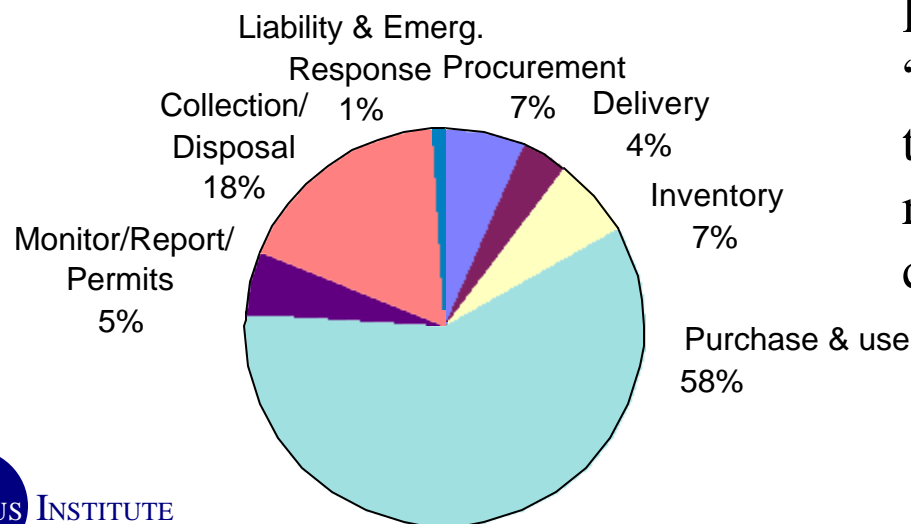
- CMS goes beyond traditional supply chain greening. . .
 - Redefines the nature of transaction, not just nature of product, to drive chemical use and risk reduction
- Also goes beyond most “strategic sourcing” initiatives
 - NOT focused on one-time reductions in unit purchase prices. Focused on continuous improvement based on knowledge and information systems, not just materials management

CMS in the field

- Does the model work? Evidence from the field
 - Chemical Strategies Partnership (CSP), a non-profit established to promote environmentally beneficial CMS
 - funding from Pew Charitable Trusts & the Heinz Endowments; a project of the Tides Center
 - Three collaborations in the field
 - Raytheon, Nortel, AMP
 - benchmarked chemical costs, worked in RFP development and contract negotiation, and now in implementation tracking

Awareness of chemical costs is key

- Experience with firms indicates:
 - “Buy In” to CMS rests on understanding of true chemical lifecycle costs via materials and cost accounting
 - Purchase costs comprise only 10-50% of total costs associated with chemical use in manufacturing



- Without this appreciation of lifecycle costs, firms focus on “integrated supply” strategies to attain one time unit-cost reductions in purchased chemicals -- this is not CMS!

Raytheon's national CMS contract

- 5-yr, \$200 million CMS contract to Radian International (February 1999)
 - wide scope: purchase, management and disposal of chemicals and gases for more than 50 of Raytheon's facilities
 - contract contains strong incentives for reducing chemical use, reducing the unit price of chemicals, and improving process efficiency
 - compensation heavily weighted towards process efficiency and largely decoupled from waste volume

Reflections and futures

- While CMS is timely in many ways. . .
 - focus on core competencies, continuous improvement, suppliers as strategic resources; environment as business issue
- . . . It is a challenging business model
 - For users:
 - Chemical Management not a Priority; High Perceived Transaction Costs; Organizational Inertia; Supplier Limitations; Lack of Credible Information; poor data management and cost awareness.
 - For service providers:
 - If a chemical manufacturer, service unit profits are not aligned with increased production! Requires coordination across multiple business units of client firms

Reflections and futures

- But CMS *is* growing, like information-based enterprises in general
- Exemplary of where supply chain restructuring is headed in many business sectors