

**Total Cost Reduction Impact through Chemical Management:
A Sourcing Strategy for the 21st Century**

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Introduction To Saturn Corporation: "Saturn was created with one simple idea: to put people first. In the beginning, our focus was on creating a different kind of company, one dedicated to finding better ways for people to work together to design, build and sell cars. A car company that talks straight does what it promises and delivers solid value at a fair price"¹.

"After eleven years, we feel pretty good about our roots"¹.

Saturn's strategy involved creating a different and improved supply network to support manufacturing's service and material requirements. Saturn grouped similar materials, services, and on-site technical support requirements into programs for which a single supplier was selected to manage the program. This novel approach resulted in a small select group of "Primary Supplier Programs" through which all of Saturn's material and service needs are met. Henkel Chemical Management was selected as the Primary Supplier for Chemical Management Services plant-wide.



Introduction To Henkel Corporation: Henkel Corporation based in Dusseldorf, Germany operates globally with 2001 sales in excess of \$13 Billion (US). The corporation manufactures a large variety of specialty chemicals, commercial, and consumer products.

The Henkel Chemical Management division based in Nashville, Tennessee is dedicated solely to the execution of chemical management programs as a service company. We provide broad-based, single-source responsibility for all chemicals required in client facilities. We utilize any manufacturer's products to provide the best overall value to the client. Our client customized programs may include purchasing, warehousing, in-plant technical support, labeling, JIT delivery, environmental tracking, reporting or other of our broad service products.

Our company history is one of evolution...beginning with Saturn Corporation's initiative to establish relationships with a limited number of "Primary Suppliers" who would be responsible for major expertise areas in their facility. In 1989, the Henkel team was chosen from 63 companies because we embraced the Saturn concept and philosophy, possessed the right capabilities, and had experience in expanded service programs. Systems were constructed from "grass roots" and a business unit was born to provide a full scope service program. Therefore, we regard Saturn as our birthplace.

As our program at Saturn was implemented and proven successful, it emerged as the "state of the art approach" to managing chemicals and their application in manufacturing environments. Market recognition resulted in multiple new clients. In the years since beginning with Saturn, Henkel Chemical Management has emerged as the global market leader having expanded our client base nationally, internationally, and across various industries. *Today, Henkel Chemical Management manages indirect and direct chemical programs for clients at over 100 North American sites, alone.*

Philosophy: "Henkel Chemical Management's philosophy is to continually earn our leadership position in the chemical management arena by providing our clients with programs that exceed their objectives and achieve ever-increasing control of costs, process optimization, waste minimization, supply management, information management, decision making, and environmental, health and safety improvements".

We believe this matches client objectives to establish a long-term business relationship built on lower cost and ongoing improvement for the client where the service provider makes a fair and reasonable profit. Every HCM program currently utilizes the concept: mutual establishment of improvement goals, quantifiable measurement of results against those goals, and a shared reward for accomplishments exceeding goals are cornerstones of our programs.

Our service-only nature sets Henkel Chemical Management apart from our competitors. HCM does not produce or sell for profit any product; all materials are sold to our clients at our cost. Because we do not promote the sale of any product, we are unbiased in our analysis of material alternatives and usage reduction recommendations. Our objective is to continually find the best overall value for our customers.

How well we serve the clients' interest and produce tangible results are our measure of program success.

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Abstract: Manufacturers in today's competitive global marketplace are constantly striving to improve operational efficiencies, optimize processes, employ latest technologies and practices, and reduce costs. "For at least the past decade, managers have been preoccupied with improving operational effectiveness. Through programs such as TQM, time-based competition, and benchmarking, they have changed how they perform activities in order to eliminate inefficiencies, improve customer satisfaction, and achieve best practice. Hoping to keep up with shifts in the productivity frontier, managers have embraced continuous improvement, empowerment, change management, and the so-called learning organization"². This has resulted in no real net sum efficiency gains by companies over their competition. Why? "The most obvious reason is the rapid diffusion of best practices"². "The popularity of outsourcing and the virtual corporation reflect the growing recognition that it is difficult to perform all activities as productively as specialists"².

Chemicals are special. Chemicals require special packaging, handling, transport, and storage along with Material Safety Data Sheets. Chemicals are highly regulated and have burdensome reporting requirements. Chemical use invariably results in the production of costly wastes and additional compulsory reporting. Chemicals pose risks to life, health, property, environment, and profitability. Chemical costs extend well beyond immediate acquisition and use-related costs, to possibly include regulatory fines and remediation costs. With attributes such as hazardous, toxic, flammable, explosive, corrosive, reactive, radioactive, oxidizer, poison, marine pollutant, harmful, and dangerous they require a specialist. Chemical Managers are specialists at managing a client's complete chemical matrix.

Outsourcing chemical procurement, supply chain management, process/technical support, and the rest of your company's chemical matrix constitutes more than addressing operational efficiencies. Outsourcing chemical matrix responsibilities to a competent objective chemical manager supports any organizations core strategy. By outsourcing the company can focus its resources on preserving and evolving those unique core activities, processes, and products that comprise its distinct competitive advantage.

Many Fortune 500 Corporations such as General Electric, General Motors, Daimler-Chrysler, Ford, Harley-Davidson, United Technologies, and others have partnered with chemical managers in an effort to maintain, or grow, their competitive advantage. Ever-more true today, "unless a business has a unique advantage over its rivals, it has no reason to exist"³. Employing a chemical manager should be part of the strategy any manufacturer with significant chemical consumption.

Through case study involving (General Motors) Saturn Corporation's plant located in Spring Hill, Tennessee the panel will present the key elements of a successful chemical management partnership program with the leading global chemical management service provider. To facilitate understanding, the panel will consist of the customer, chemical manager, and a tier supplier to present perspectives from all levels in the supply chain.

Consider the following traditional versus chemical management scenarios:

- Traditional suppliers sell products at a certain price and volume to maximize their profit. Their internal objectives demand that more and more material be sold year to year.

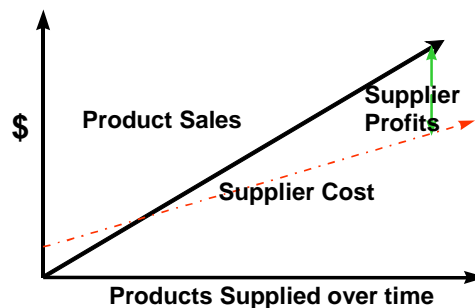


Figure 1: Traditional Chemical Supplier Relationship

- A chemical manager will seek to reduce your chemical usage and the item price. Overall cost reduction or elimination is the goal. A true chemical Manager should realize no profit through the sale of product.

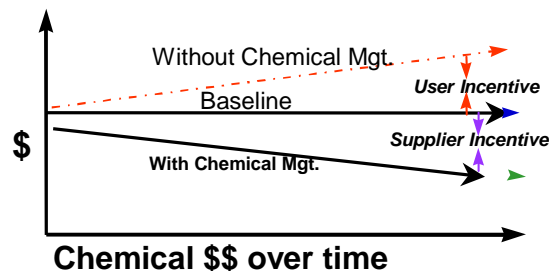


Figure 2: Chemical Management Incentives

- Traditional suppliers seek to sell products in larger lots to improve delivery costs, without regard to inventory.

Chemical managers utilize JIT or other custom delivery programs to limit lot purchase quantities and inventory levels. Coordinated deliveries eliminate hefty supplier transit charges.

- Traditional suppliers' responsibility and accountability typically ends with delivery of material to dock and MSDS.

Chemical managers are involved in product application, storage, handling, waste streams, disposal and various other aspects well beyond delivery.

- Traditional multiple supplier systems create substantial purchasing and administrative burdens.

Alternatively, chemical management provides one source and contact for all chemical products, willing to source new requirements to specification when needed.

- Under traditional supply, chemical usage data for regulatory reporting is painfully "collected" from the many suppliers when required at year-end.

A chemical manager can provide consolidated usage reporting down to constituency level, greatly expediting reporting and increasing confidence in reported data.

Opportunity: The case study focuses on Saturn's Primary Supplier Program for Plant-wide Chemical Management Services. An overview of the programs scope of services, goals, support structure, and financials will be presented providing attendees the unique opportunity for learning, insight, real examples, and question and answers. This will set the stage for demonstrating the significant value and impact a specialist/chemical manager can deliver a customer through presentation of four to five actual cost saving project cases implemented at Saturn. These projects will serve to identify the opportunity for attending managers to deliver savings and value to their organizations that goes beyond reduce item pricing.

- Project 1: Direct Price Reduction by Leveraged Chemical Management Purchasing
- Project 2: Process Improvement Reducing Chemical Consumption (Usage Reduction)
- Project 3: Process Improvement through Chemical Product Substitution
- Project 4: Process Improvement Reducing/Eliminating Waste & Waste Expense
- Project 5: Process Redesign Reducing, Price, Consumption, Waste and Expense

Objectives: The objective of the panel is to present practical information and examples through a case study on chemical management for supply managers to gain insight into new approaches to benefit their organizations.

References:

1. http://www.saturn.com/company/our_story/
2. Porter, Michael E., "What is Strategy?", *Harvard Business Review*, November-December 1996.
3. Henderson, Bruce D., "The Origin of Strategy," *Harvard Business Review*, November-December 1989.

