

Chemical buyers express concern about supply continuity, whether it's from the U.S. or overseas.

By Richard Weissman

Capacity concerns could be the next chemicals supply challenge

Buyers are concerned about chemical inventories at their suppliers as well as their own stockpiles.



In a true 19th century global sourcing initiative, whaling vessels from southeastern Massachusetts would travel the world's oceans in search of their prized catch. During the harvesting process small boats of fisherman would engage the whales and be quickly dragged far and wide by the great mammals in what was known as a "Nantucket Sleigh Ride." Once the whale was tired out and the chase complete the more mundane shipboard tasks took over.

The chemical industry went through its own global version of a Nantucket Sleigh Ride in the past few years with natural disasters and a cavernous economic recession causing record high, then low, chemicals demand and pricing, with the addition of uncertain supply and a host of major suppliers in turmoil. While the waters have calmed somewhat recently, chemical buyers are expressing concern about post-recession uncertainty in the chemical supply market, especially around extended leadtimes, capacity ramp-ups and future pricing trends for commodity and specialty chemicals.

One thing is for certain, however: the global chemical supply base has matured and there seems to be little, if any, separation between domestic and international suppliers relative to quality and customer support. Chemical buyers want the right material at the right cost, whether it comes from Texas or Tunisia. "Buyers are frequently using the competitive bid process globally for commodity chemicals and focusing on pricing rather than supplier relationships," says Erik Halbert, a manager who follows the petrochemical industry for the Wellesley, Mass.-based supply chain economics firm Boston Strategies International. "We see that the spot market prices for chemicals are down and inventory is adequate."

Specifically, Halbert sees the specialty chemical mar-

ket becoming one of rigorous bidding but the contract terms are longer than those of commodity chemicals and feedstocks. "When dealing with specialty chemicals buyers are looking at contracts that may run two to three years long and in that case sourcing becomes more of an important issue," says Halbert. "With application-specific chemicals it is important to keep close relationships with suppliers in case the underlying chemistry changes. The suppliers need to be responsive and they also may act in a co-development relationship with their customers."

Supplier capacity issues worry Halbert, who calls the need to increase manufacturing and processing capacity the "X factor" that chemical buyers are eyeing. "Many chemical suppliers took capacity offline when demand and prices began to fall, and while some suppliers are beginning to address a potential ramp-up, lower chemical prices and economic uncertainty are making them think twice."

Yet he sees some bright spots in terms of increasing supply globally. "There are new chemical plants under development in Louisiana and Saudi Arabia," says Halbert. "But it can take up to two and a half years to bring a new plant online" which may not help if demand increases soon.

Idle capacity and product discontinuation are concerns for Morris Owen, the vice president of global purchasing at Ashland Chemical, the Covington, Ky.-based manufacturer of specialty chemicals. "We see our chemical suppliers shutting down some plants, reducing capacity at others, and even discontinuing some products altogether," says Owen. "We are always trying to balance supply and demand but increasing lead times and some cases of tight supply are making it hard for us to optimize our purchases."

Pricing uncertainty is another concern for Owen. "With instances of tight supply you'd expect to see prices rising but in many cases they haven't. There is a bit of price meandering but nothing of substantial impact. Prices are pretty stable for us."

Owen looks at auto manufacturing and housing starts as the two leading economic indicators that drive Ashland's business. "Once these numbers start coming in solid we know our business is going to pick up and our suppliers will be under a lot of pressure to produce."

Ashland takes a global sourcing approach and maintains a global purchasing network and "we work with local and global suppliers alike," says Owen. "Quality drives our sourcing decisions and we actively use Six Sigma methodology in our supplier management process." He notes that there is a large focus on the quality of raw materials for their chemical manufacturing process. "We don't like to take chances."



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Owen is proud of Ashland's long term supplier relationships and project-based supplier collaboration. "We don't jump around from supplier to supplier," says Owen. "It is important for our business that our suppliers meet our standards and that we identify and solve performance issues. We are constantly communicating with them."

Global sourcing of specialty chemicals is at the heart of Texas-based Huntsman Corp.'s supply chain strategy. "While we treat our feedstock chemical purchases on a commodity basis, sourcing of our specialty chemical purchases can be quite complicated," says Brian Ridd, Huntsman's senior vice president of purchasing.

"We buy thousands of items and have to manage through the 'long tail' process of buying small quantities of sometimes hard-to-find items."

Ridd's organization of more than 300 transportation, logistics and purchasing pros takes a global approach to sourcing. "We use category managers as buying experts and transactional buyers to manage the purchases," says Ridd. "We source on a local, regional, and global basis." Huntsman also includes analysts on staff to assist the buyers.

Ridd categorizes the chemical markets today as somewhat volatile. "We have seen some increases in the short term but there has been some slippage recently," says Ridd, who uses the price of crude oil as

their market forecasting benchmark. "But in some cases the price increases have stuck, especially in products in short supply like benzene."

Ridd says supplier inventories are at rock bottom levels, and like Owen and Halbert, forecasts capacity constrained shortages and extended lead times when the market does begin to pick up. "We keep a very close eye on our own inventories."

Supply chain collaboration is a challenge, though, as Ridd's team manages five distinct supply chains for various business units. "And a couple of these chains offer some challenges when it comes to communication, especially from the supplier side," he says. "We need to stay close to the plant operations of our suppliers and that is an ongoing effort. In some cases our suppliers are slow to advise on changes in their business or in their own supply chain." Huntsman's team has regular meetings with key suppliers and pays especially careful attention to those suppliers who, as Ridd says, go off the plan.

Even though Ridd sees pricing volatility in the chemicals market, he takes an aggressive approach to suppliers trying to increase prices. "I keep pressure on my suppliers not to increase prices, and when they do I require that they submit a complete justification for the increases," says Ridd. "When we ask for that justification half of them just drop the increase." □