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Total Value Optimization at Work in the Chemical Industry

A Conversation with

Mike Berry

Vice President, Global Procurement and Chief Procurement Officer

Eastman Chemical Corporation

Eastman is a global specialty chemical company that produces a broad range of products found in items people use every day. With a portfolio of specialty businesses, Eastman works with customers to deliver innovative products and solutions while maintaining a commitment to safety and sustainability. Its market-driven approaches take advantage of world-class technology platforms and leading positions in end-markets such as transportation, building and construction, and consumables.

Eastman serves customers in nearly 100 countries and had 2013 revenues of approximately $9.4 billion. Headquartered in Kingsport, TN, it employs some 14,000 people worldwide.

Maine Pointe
Total Value Optimization

Mike Berry was invited by Maine Pointe to share his views on the evolution of Strategic Procurement practice from his career-long perspective and as a purveyor of TVO principles in the Eastman context.

MP: *While the traditional cost management/cost containment model of procurement has worked well in the past, it has in many ways run its course in the now changed environment. How so?*

Mike Berry: I think for Eastman specifically, it worked well for us when we were more of a commodity or diversified company where processing volumes were very important. The model helped build the discipline of negotiating and working with suppliers. People knew it was more about price, payment terms of in-demand inventories, or working on projects together to just take costs out of the system.

However, in moving toward a specialty chemical company, we needed a different skill set to support the reinvention that often occurs. In growing year-over-year, you have to do something different. Just having the strategic savings becomes more difficult to sustain. Being able to innovate and do things differently with a select few suppliers becomes critical to growth.

MP: *What trends in supply chain strategy and its management have redefined the overall landscape necessitating new approaches? Can you elaborate from the perspective of the global context with all of its complexities, unpredictable externalities, and risk?*

Mike Berry: You really have to do a very good job of segmenting your business partners because there's not enough time to really touch a lot of them; you need to pick the vital few that can be more encompassing. You have to work together with more touch points than just procurement. Many of the sales professionals who call on us are business executives. They are trained to go around procurement and find other decision makers. But we act as a kind of gatekeeper – opening doors to our business organization and its people, our technology folks, and others as we determine what is appropriate in long term connection for innovation and other projects. The global complexity of what we do as an industry now necessitates working differently, with a smaller group of more important suppliers and customers.

MP: *Elaborate on your segmentation approach. What factors drive that process in terms of the characteristics you use to define those segments?*

Mike Berry: We just finished the segmentation refresh and it's based, first and foremost, on criticality to earnings. Second, the magnitude of the spend where you have a lot of different leverage points if you buy multiple products from different parts of one big company. We went through the segmentation, developed a two-by-two matrix and the strategic set, which is really where we want to play to innovate. You have the pure commodity space, where it is about price and volume, and that's probably not going to change. We treat that business and supplier relationship differently than the strategic set. Another category we call either "tough love" or "penalty box", is where companies may reside based on our business strategy at that time or based on some issue of the day. Another bucket, a "D product" bucket which is less important, can still shut you down. Often we will outsource that to distributors and audit them to be sure we're realizing value.

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MP: *What are you sensing in your conversations with the array of suppliers you deal with regarding their response to new models for sourcing relationships?*

Mike Berry: They are also learning and seeing some different behavior in the marketplace. There are not a lot of organizations doing this. I've reached out to some of my colleagues in other chemical companies, to try to find out what they're doing. There are a lot of people at the early phase of this journey just like we are. We know what we want to look like, what success looks like, and we're retraining our staff to go after that standard. In the marketplace, however, we have to train some of our suppliers on the new expectations. For example, we totally

changed our scorecard. As we rate our suppliers and sit down with them to explain what's important to us, it's much more skewed toward innovation, technology connects, working together to achieve breakthroughs – as opposed to the traditional measures of on-time delivery, conformity to specification, and things of that nature.

MP: *What do you attribute this slowness to change on the part of your competitors or the industry at large? Is it simply the impulse of resistance to change or something more?*

Mike Berry: I think it's just the newness of what's going on, where you are in this value curve, whether you are a commodity or specialty company. There are different strategies. In our life, since Eastman has moved from a commodity to diversified specialty company, you have different suppliers that you touch on that journey. In commodities, it's more of a price/volume, pure negotiation play. On the specialty side, there is more openness to sharing data. How do both of us innovate to succeed together?

MP: *You note that a primary driver for you in this evolution has been your move to a diversified specialty company. What else, besides your own business model transformation, has you sensing that this is where the future lies?*

Mike Berry: Our business partners internally – the P&L teams – have a different expectation of procurement groups, and for us specifically, because they know we have a very good connection to the marketplace. They want us to have a bigger seat at the table and bring that insight to help them develop their own business strategy. Some of our business groups have embedded a pretty robust raw material strategy around what we're trying to do. We're very open and linked to business organizations. They like that and want more of it. So as we retrain our group on improving their alignment with the businesses, the businesses are very open to having us do more to help them understand the price drivers and what the future may look like.

We train our people – whether you're in procurement, the supply chain, manufacturing, finance or any other function – that we are all in the business together, no functional silos. We tore those down and now act as a consolidated group composed of different functions. We have broken barriers over the last few years which is helping us to think with one like mind. That approach produces an expectation for doing things differently with a vital insight to market.

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MP: *A lot of the change is being driven by the enlightenment and the ambition of your own people, from the inside out?*

Mike Berry: We sent a survey last summer to the business organizations asking for feedback on our performance and received over 60 responses – from the vice presidents and general managers on down through their organizations. They came back with good comments such as, '…you guys do a really nice job in picking the right suppliers and developing them, writing contracts, negotiating, managing the total cost of ownership, and making sure that product gets from point A to B'. There were no issues with the traditional procurement focus but they indicated they would like to see more insight from the market to help them with different options based on raw material knowledge and what is going to happen in the future.

MP: *Part of what the Total Value Optimization approach advocates is a change in internal culture. Obviously, you're ahead of the curve there. How important is transforming the culture?*

Mike Berry: It is critical because you cannot force-fit this, you have to truly believe it. People have to live it every day. In our case, we had really good support from senior management to look at staffing the group differently. We conducted a robust analysis of our staffing strategy. On purpose and by design this year, we've had more people move between procurement and the businesses just to help the transparency.

MP: *What does this all mean for the procurement professional in a company like yours? What kinds of concerns and priorities are shifting for the procurement folks?*

Mike Berry: In our world, where we have a lot of engineers, we have to be less analytical. You don't want to go in front of a business organization with 25 slides in a deck and talk only about data. You need to be able to tell the story and have a professional sales or marketing approach that conveys, "Here's what is important to us; here are the insights and set of options we have from the market." While you may back it up with data, it needs to be more of a conversation than just a presentation on analytics. We are sending our entire procurement organization through a lot of training on the collaborative process, social styles, and much more to ensure that, as we learn, we tell the story better.

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MP: *In making this journey of transformation, both in terms of the role of the procurement professional within the organization and the procurement process across the enterprise, what new expectations will be imposed upon your suppliers going forward?*

Mike Berry: We will grade suppliers on the innovation and insight component that they bring to the table. As we score them differently, we have expectations about how they're going to act with us and the behavior we want to see. We reinforce that to ensure it gets done. Right now we're re-educating and re-engaging them. On the staffing side, we'll rate our people a little differently in terms of changing mindsets, learning the new skill sets. One thing we are grading them on: How many occurrences did the business organization see where the procurement professional came back with some really good insight and had multiple options for business strategy? If you think about that procurement person rather than blocking and tackling on price and volume, they've got to be able to tell the story, have options, and the market insight to turn it into strategy.

MP: *How do you interpret the notion of "value" and value creation across an enterprise – including its supply chain?*

Mike Berry: It's a bit more holistic. It takes longer to do. It definitely has impact on earnings for the company. It's not just the blocking and tackling that people do every day. While you never want to drop that ball, we need a different type of thinker who can understand how one issue impacts another – and connect all the dots.

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On the sustainability front specifically, the procurement and supply chain organizations report to our Chief Sustainability Officer. He has responsibility for the supply chain, procurement, and the regions outside of North America. We are pretty cognizant about working with suppliers and customers on the sustainability story, and weaving it into our supply chain and procurement strategy. It is becoming more and more of a conversation with our customers, especially in Europe.

With our product mix and what we manufacture, we purchase a lot of raw materials – whether wood pulp or other products – that come from sustainable forests and things of that nature. A very high percentage of our products have a sustainability footprint. We are very engaged. It's becoming more of a focus for us in terms of procurement and the conversations with our suppliers.

MP: *So much of what procurement professionals do involves striking a balance between the whole cost side and the rest of the story. Sustainability is a matter of getting the broader supply community to integrate it into their evaluation, their optimization equation…*

Mike Berry: Exactly. We typically do not pay a higher price for sustainable or 'green' products. It's more about how you really understand the lifecycle footprint. What you're doing and how you make people aware of it.

We've done some things differently. Regarding our supply chain footprint, we were manufacturing a molten product in Europe, putting it in a tank to cool it off, and then shipping it by truck to a customer as a solid form where they then heated it back up. That whole lifecycle doesn't make a lot of sense. So we collaborated with our supplier to put money together and build a different model. Now it remains in the molten form the entire time, we didn't cool it off, or have to reheat it later. We shared the cost of that transformation and as we became more efficient at it, we both saved money.

However, you cannot achieve such a dramatic change in isolation; you need an external partner. And it also requires support from your internal partners in agreeing that the change in operating model could work. It takes a selling approach in helping your colleagues understand that you can't do these kinds of things without building consensus for a new way of working.

Mike Berry has enjoyed a successful tenure of 36 years at Eastman with a primary focus on various facets of their Materials Management and Supply Chain functions. Specific business areas include the plastics, fibers, and chemicals areas of the company – with responsibility for Customer Service, Product Management, Logistics, and Procurement. An expat in Switzerland with Eastman in the 1990s, his current global procurement responsibilities encompass a $7 billion spend and management of multiple offices worldwide.

A certified member of the American Production and Inventory Control Society, Mike holds memberships in the Strategic Procurement Council of the Corporate Executive Board and The Manufacturers Alliance.

Mike earned an undergraduate degree in business from the University of Tennessee and has completed an Executive Leadership program at The Darden School of Business at the University of Virginia.

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