

## Preface

The first edition of “Value Creation – Strategies for the Chemical Industry” was very well received. The effort required to compile a book on modern management approaches especially for chemical companies had been quite daunting; however, we were extremely gratified to receive positive feedback from many in the industry. After much deliberation, this response also decided us to publish a second and completely revised edition.

The second edition has seen some major changes. While the first edition was very much a “McKinsey book”, this one incorporates a large number of contributions from authors in the industry, many of them board members of chemical or related companies, others leading representatives of institutions with strong ties with the chemical industry. The most prominently visible sign of the new direction is the change in the composition of the editors. It is the hope of the three of us that this mix of management experience combined with consulting insights will make for even more interesting reading.

Important changes in the book’s content have also been driven by developments in the chemical industry’s operating environment. The first edition went to press in early 2001, just as the Internet bubble was about to burst. The chemical industry had just seen itself dismissed as one of those “bricks and mortar” dinosaurs that would have no place in the new era. This perspective has now changed considerably. The industry’s image – in the stock markets, but also in general – has improved significantly in the last five years.

That does not mean, however, that the external environment has become any easier. In particular, the growing economic importance of Asia (and especially China) both as a location for production and as a market will have a lasting impact on the chemical industry landscape, and many chemical companies are under enormous pressure to adapt. We are currently also seeing major shifts in feedstock prices, again resulting in a movement of some chemical production, here mostly towards the Middle East.

Other trends have remained unchanged, such as the eternal pressure to increase productivity to compensate for the price-cost squeeze, or to compensate for the ongoing commoditization of many of the industry’s products and services by introducing innovations. In addition, we can see a continuing high level of

M&A activity, with private equity companies playing an increasingly important role in acquisitions in recent years.

Amid all these developments, value creation has remained a key objective, although the paths to it have, of course, been altered and augmented by the shifts in the business environment.

The editors have attempted to incorporate the changes into the agenda of this second edition, which falls into three main parts. Starting with an overview of the chemical industry, the book discusses the elements that are relevant to strategic decision-making in the chemical industry in general and in a number of key industry segments. In the next section, all the key elements of the chemical business system are addressed, reflecting the importance of functional excellence as a major driver of the industry's performance. The final set of chapters deals with special topics of interest to chemical companies, including current hot topics such as China and biotechnology.

We make no claim that our list of topics is comprehensive from the point of view of the chemical manager, who has to deal with many more issues than we could address here (e.g., environmental issues), but most of those that we have not included are well covered elsewhere.

Like the last edition, this book assumes some knowledge of business administration, without which it does not always make easy reading. Nevertheless, we hope it may be of interest not only to managers of chemical companies, but also to many others who have dealings with the chemical industry, from students considering it as a career option to investors wishing to assess the value creation potential of a particular investment. It might also have a relevance for managers in some other industries that share common traits with the chemical industry, such as pulp and paper, metals, or energy.

We hope that readers find this book both enjoyable and useful, and that they will come to share some of the enthusiasm we feel for an industry that contributes so much more than any other to the basis of modern life.

The Editors  
July 2005

*Florian Budde, Utz-Hellmuth Felcht, Heiner Frankemölle*

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The Editors

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