



Covestro Answers the Digital Calling of the Chemical Industry

Digitalization is the new norm for industries to survive and outpace competition. As the chemical industry opens gates to embrace the new wave of digital change, tech-savvy customers alongside are already setting new benchmarks of excellence to closely examine product offerings, innovate on the backend and join forces with the stalwarts of current times. **Dr. Markus Steilemann, Member of the Board, Chief Executive Officer, Covestro AG**, critically examines the opportunities, challenges and impediments while driving the digital transformation of Covestro in an exclusive interview with **Mittravinda Ranjan**.

How is digitalization changing the dynamics of the chemical industry across the globe?

We do see digitalization getting a stronger foothold in production and running plants at higher efficiencies and even more reliable. Chemical corporations are investing significantly in high end technologies for monitoring, measuring, and processing large data volumes in order to optimize production processes in their plants. Manufacturers are also putting a lot of efforts in areas such as predictive maintenance and energy management based on digital tools.

Adding to that, there are also other dimensions of digitalization for the chemical industry. The digital platforms will bring new opportunities in addition to the traditional business models and customer engagement. At Covestro, we

are looking at implementing digital business models to offer our customers new ways to get access to chemicals and connect with chemical corporations to build value chains on the back of new digital ecosystems. However, it requires a pragmatic approach to build integrated databases to harness the full potential of digitalization which otherwise would not be possible.

Think about any traditional R&D lab where the technicians run experiments and data are recorded manually in the computers. The possibility of errors is much higher when the processes are handled only by humans as compared to when they are run also digitally. Such digitally enhanced labs would mean a smooth, accelerated handling of data and real-time analysis to yield faster results.

And it is possible to cater to the needs of our customers from different time zones as per their convenience. We can have direct access to their online data to understand what works and what does not work. The real-time feedback from the customers is then integrated with the in-house R&D data pool to get a deeper understanding of their needs and allow ourselves to offer better solutions.

Another example is the procurement of raw materials, where the customers like to have the flexibility of sourcing from different suppliers. This can be done via common platforms, such as a new digital marketplace we have been operating since early 2018 and a co-operation with Alibaba on the Chinese market with the aim to yield accumulated sales of up to one billion euro until the end

of 2019. While today digitalization can be applied almost everywhere, its full potential can only be realized by fully integrating the various parts and areas of corporations which are often a bit fragmented. This might take a couple of years. Combining these areas and analyzing the data seas and pools would bring change not only in the industry, but also on how the industry collaborates with its partners, suppliers and customers.

Also, the real benefits of digitalization could be seen when the data will be combined with artificial intelligence. However, at this point of time, it may be difficult to imagine on what this might really mean for the development of chemistry and the chemical industry as a whole. I think the real step change would then dawn in time.

In your view what positive changes may digitalization bring in engaging with the customers?

What I see in the foreseeable future is the development of strong customer interfaces. This would include offering easy technical support, application development and system support. Most of the problems customers are facing today are rather easy to solve with some technical knowledge. Using bots could possibly facilitate a quicker response and higher service levels to the end customer.

The second major change the chemical industry will see is in distribution models. Although I believe that the traditional channels of people-to-people interaction will remain, parallel digital distribution ecosystems will soon gain market share. The new generation of digital natives who organize their entire life on a mobile phone is very keen to harness the potential of digital technologies to manage the supply chains and place orders on-screen.

Data is something that not all users of specialty chemical companies are open to share. What is your observation?

Of course, data are seen as a very sensitive raw material of the current industries. It is only natural, that there are customers who are very sensitive about their company data. Of course, we respect these reservations which can be often ruled out by our long-standing business relationships based on trust. Nevertheless, we keep our growth prospects and progress in continually creating win-win situations for our customers and us.

Please share some insights on the optimized system integrated program that has been rolled out recently by the company and the roadmap for digital transformation.

First and foremost, one of the biggest engagements that we have is “digitalization in production”. Our vision is a fully-automated monitoring and steering of our production processes, which goes far beyond predictive maintenance. Therefore we have launched several programs. One of these is the so-called OSI2020 program.

Our second dimension is the “digital customer journey” to make ourselves more attractive to the clients. We are about to launch an interface to understand the needs of our existing and potential customers. Our goal is to link our materials and services with the industry value chains and to provide easy accessibility. Therefore, we are building online platforms to make our products more easily available.

The third dimension is reflected in our goal to create “digital business models”. This is our newly established digital marketplace which is evolving very effectively. We already have an impressive amount of global customers registered for it. This is only the beginning of opening up the traditional raw material business to online models in order to enable the customers to procure products in an easier way. At the same time, they could add other products through our value chains from other producers all on one platform. To put it in simple words, we are offering the B2B experience to the new generation of trading managers similar to what big digital only players already offer to end consumers.

While the industry is pretty much aware about the operational excellence that can be achieved through digitalization, how will this enable the MNCs vis-à-vis small and medium scale players to achieve commercial excellence?

We are implementing our digital strategy first and foremost across Germany, Belgium, the USA and China and encouraging the larger players to be a part of our digital ecosystem. We have invited them to sign up for our digital marketplace where they can add their products and draw significant benefits from our registered customer base. In my view, this is the right time for large players to develop digital business models. Otherwise it would be more difficult for them to do business in the future as there could be other smaller players already serving customers through online platforms.

But I also see opportunities for smaller and local players. Very often they know their local markets really well and have high levels of agility which can help them outpace big local or international players. The latter sometimes tend to underestimate the business dynamics and benefits of a local market. However, be it a local hero or an international player – the great advantage is that digitalization will offer new opportunities to restart and achieve commercial excellence.

What is the support regulatory authorities are providing to the industry to drive digital growth strategies?

It is critical to have the right infrastructure in place in countries you are operating in. While we see good progress in certain countries such as Belgium and the U.S., there are others like Germany where the efforts to create an adequate infrastructure have to speed up.

What are the plans of Covestro for the Indian market?

India is a very attractive market for us due to its fast economic and especially industrial development. A few years back, this market was very limited with regard to the industries we are serving with our products and application solutions, but with the ongoing growth for example in the automotive and construction sectors we see ample scope to expand our business in the region. There is also a significant shift in the perception of the Indian industry towards sustainability. And this fits very well to our strategy which is focused on innovative sustainable solutions to help cope with the huge challenges of our time such as climate change, urbanization and increasing mobility.

As a leader, what are the biggest challenges that you see in driving the digital strategy?

Change of culture, I think is the biggest challenge. The work environment has to be adapted and that will take time. The second challenge is to deal with a certain kind of insecurity and fear of job cuts in the workforce. Many employees, especially those who are not digital natives, seem to feel a bit ill at ease and it is up to the management to explain the real benefits of digitalization to everybody. For me, the human is at the center of any digitalization strategy. As leaders, we need to make sure that the technology is to serve the people and not vice versa. And the people need to be assured that they are not left alone in the era of digitalization. ■