

Interview Industry must adapt to worst downturn since 1980s

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By **Will Beacham**

LONDON (ICIS news)--The global chemical industry is going through the worst downturn since the 1980s, forcing producers to make fundamental changes to corporate strategy if they are to survive, a leading consultant said on Tuesday.

Paul Hodges, chairman of the UK-based International eChem, said the industry was likely to endure a prolonged downturn until 2011 or 2012, leaving companies floundering unless they can focus on cutting costs and conserving cash.

Hodges said that after a disastrous fourth quarter in 2008, there are still no signs of recovery.

"We'd all hoped we would get to the year-end and there would be some recovery in demand. We hoped that people had destocked all the way down the chain and that they would need to reorder.

"There have been one or two little spots of excitement now and again – for example, in polyethylene – but the real underlying issue is that downstream of us, in the real market, products being sold into end-uses, like automotive and housing, are completely flat," he said.

Hodges said the industry might hope to see some signs of recovery by the year-end, but "frankly it's prudent to plan that this downturn is going to go on, as our studies suggest, for three to four years, and that hopefully we might be coming out of it by 2011 or 2012.

To survive during this tough period, Hodges said it would be important for companies to consider a complete change in strategy. The first priority should be on reducing one's cost base by focusing operations on key geographical locations.

"Many companies have made acquisitions and diversified away from core sites in order to service customers quickly through, for example, just-in-time delivery. Now, though, customers are just looking for supply as and when they need it. That you can do from anywhere, so you need a centralised site with the lowest possible costs and overheads."

Hodges said companies should also adjust management structures to remove internal boundaries, allowing managers to focus externally rather than competing with each other within the business.

"The problem is that many companies have lots of internal boundaries and reporting schemes. These are great for incentivising people to turn around underperforming businesses. But in a downturn, the issue is: how are you doing against the market and your peers [rather than against other parts of the business]."

Click here to listen to the [full interview](#)

Read Paul Hodges' [article](#) on surviving the downturn in the 23 March issue of ICIS Chemical Business
Read Paul Hodges' [Chemicals and the Economy](#) blog

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