Chemical Strategies Partnership

Program Statement

What is Chemical Management Services?

Chemical Management Services (CMS) is a business model in which a customer engages with a service provider in a strategic, long-term contract to supply and manage the customer's chemicals and related services.

The CMS Model. Traditionally, suppliers' profits are tied to chemical volume – the more chemicals sold, the more profit generated. Under CMS, the providers' compensation is no longer based on volume, but on the quality and quantity of *services* delivered. This shift to chemical services often aligns the incentives of the supplier and their customer to reduce chemical use and costs. Results to date indicate that the CMS model lowers total chemical costs, and both parties achieve bottom line benefits via reduced chemical use, costs, and waste.

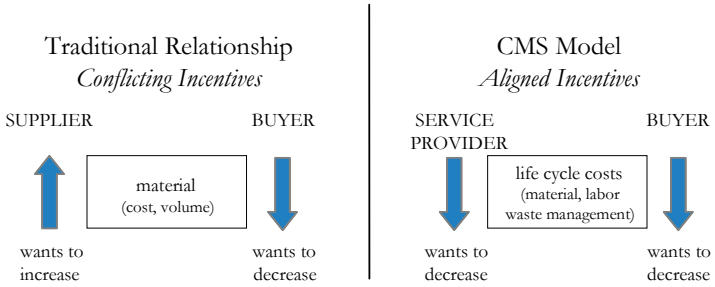


Fig. 1: Aligning incentives

With CMS, chemical service providers offer a range of services across the chemical lifecycle (fig. 2). For example, a chemical service provider may purchase and deliver chemicals, manage inventory and MSDSs, provide data for environmental reports, research chemical substitutes, and implement process efficiency improvements. By sharing cost savings, the chemical service provider has an incentive to continuously reduce costs and chemical use.

In a more mature relationship the service provider is often paid a fixed fee for each product successfully produced (e.g., a fixed fee per 100 car doors painted or 1000 circuit boards cleaned). Thus, the chemicals themselves become a cost center which the supplier has an incentive to minimize.

CMS is far more than leveraged purchasing. It is focused on optimizing processes, continuously reducing chemical lifecycle costs and risk, and reducing environmental impact.

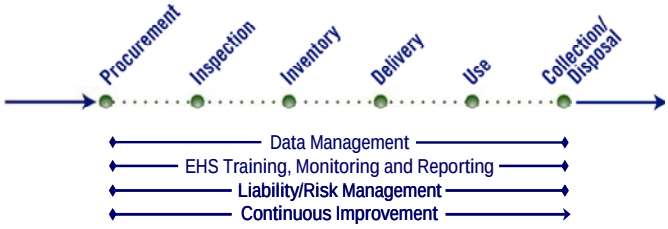


Fig. 2: The Chemical Lifecycle

Markets. CMS began in the auto sector in the 1980s as a supply chain management strategy. Today, approximately 50 to 80 percent of the auto sector uses CMS due to the strategic and cost benefits of the model.

CMS is utilized in numerous other sectors, including aerospace, air transport, utilities, electronics, biotech, and heavy equipment. The growth trends reflect the close linkage between CMS and key management trends, including: outsourcing based on core competency, supply chain management, and strategic partnering.

The Chemical Strategies Partnership

The environmental and cost benefits realized by initial CMS programs in the auto sector raised two questions: is the CMS model applicable outside the auto sector – and, if so, how can its environmental benefits be maximized?

In 1996, the non-profit Chemical Strategies Partnership (CSP) was founded to explore these issues – to investigate, through demonstration and application, the utility of CMS as a business model for continuously reducing chemical use and waste in a variety of industry sectors.

Toward these ends, CSP has pursued a varied set of programs rooted in hands-on collaboration with manufacturing firms. Having demonstrated the

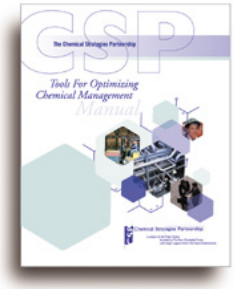
business and environmental value of the model, CSP is increasingly focused on disseminating the model and introducing CMS into new sectors. Major efforts of CSP include:

CMS Pilot Programs. CSP has collaborated in depth with more than 15 companies to help develop their CMS programs. Pilot companies include Raytheon Company, Seagate Technology, Stanford Linear Accelerator Center, and Lansing School District.

CSP assistance ranges from baselining chemical costs, developing business cases and developing RFPs. (The collaboration with Raytheon resulted in a $200 MM, 5 year national contract, one of the largest in the industry).

Currently, CSP is working to introduce CMS into the biotech, pharmaceutical, forest products, defense and education sectors.

Tools manual and costing methodology. A key barrier to CMS is poor understanding of the actual costs of chemical management. CSP's baselining studies indicate that manufacturers typically spend an additional $1 to $3 to manage every dollar of chemical they purchase. Most management accounting systems do not attribute these costs.



In an effort to address these barriers and disseminate the CMS model more widely, CSP developed its how-to manual, *Tools for Optimizing Chemical Management*. The manual includes CSP's costing methodology, spreadsheet costing tool, and presentation material for educating colleagues and upper management about CMS.

Consulting Services. CSP offers corporate advisory services to cost-effectively minimize the time, risk and expense of developing a CMS program. CSP's services include baselining chemical use and costs, evaluating the business case for CMS, securing management approval, developing program scope and RFP, and assisting in contract development.

The CMS Forum. Other barriers to CMS include confusion in the marketplace and lack of standards. To address these issues, CSP and a number of CMS providers came together to create the CMS Forum. The Forum is a membership coalition of CMS providers, their customers, Tier II chemical suppliers, and other stakeholders focused on growing the awareness and practice of economically and environmentally beneficial CMS. For more information visit www.cmsforum.org.

CMSFORUM
a program of the Chemical Strategies Partnership

Industry Report 2004.

Chemical Management Services: Industry Report 2004 is the second CMS industry report that tracks progress in this emerging industry. Based on an extensive survey of CMS providers and customers, the Report provides a profile of current CMS practices, estimates potential market size and current CMS utilization, and details industry structure.

CSP: Institutional Profile

CSP is a non-profit 501(c)(3) organization based in San Francisco, CA. CSP was founded by the Pew Charitable Trusts in June 1996 with additional support from the Heinz Endowments. CSP is a project of The Trust for Conservation Innovation.

For More Information

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