EASTMAN

EASTMAN CHEMICAL COMPANY

SAP BUSINESS TRANSFORMATION STUDY

AT A GLANCE

Industry	Chemicals
Revenue	US$7.5 billion
Employees	11,000
Location	Kingsport, Tennessee
Web Site	www.eastman.com
SAP® Solutions and Services	SAP® Price and Margin Management application by Vendavo and SAP Customer Relationship Management application

Founded in 1920, Eastman Chemical Company is a worldwide manufacturer and marketer of chemicals, fibers, and plastics. The company is the largest producer of polyethylene terephthalate (PET) polymers for packaging and a leading supplier of products used in consumer goods such as fabric for clothing and paint for cars. Eastman is focused on continued profitable growth – in part by developing its ability to negotiate prices based on visibility into volatile costs of raw materials and energy.

Key Challenges

- Manage prices and improve margins across multiple business units
- Rapidly respond to multiple variables affecting pricing
- Simplify and establish discipline in pricing decisions
- Leverage market segmentation when establishing prices
- Eliminate maverick sales
- Gain insight into pricing decisions to facilitate communication with stakeholders

Why SAP Was Selected

- Robust application that provides visibility into data and meets end-to-end pricing process needs
- Integration with existing SAP® ERP application
- Pricing thought-leadership collaboration with Vendavo
- Software road map consistent with Eastman's long-term vision
- Long-term viability of solution relative to alternatives

Implementation Best Practices

- Well-defined project phases, implemented sequentially
- Gradual expansion of geographic and business scope
- Implementation managed by corporate pricing council
- Improved quality of underlying cost data
- Effective change management
- Standard software across units

Low Total Cost of Ownership

- Minimal future customizations
- Use of standard software and processes across all units
- Continual improvement of business processes

Financial and Strategic Benefits

- Faster response to market conditions and to pricing requests by the field
- Better decisions – confirming that deals are both fair to all parties and favorable to Eastman
- Reduced profit loss due to previous lack of proper accounting for costs
- Ability to raise prices by using data to explain why an increase is reasonable and necessary
- Favorable return on investment after 3 months

Operational Benefits

- Better decisions based on complete and accurate cost data per customer (eliminating pricing errors)
- Compliance ensured with negotiated prices and terms
- Previously unobserved areas of margin leakage discovered
- Manual processing eliminated (improving productivity)
- Established system of record for prices (improving efficiency of complying with Sarbanes-Oxley regulations)

SAP®

www.sap.com/contactsap

"In our business, pennies matter. To sell millions of pounds of product, we need a clear view of costs, value, and market conditions, and SAP Price and Margin Management gives us a robust solution."

Robert Smith, Director of Pricing, Performance Chemicals and Intermediates Business, Eastman Chemical Company

"We now have a data- and process-based approach to pricing. We're using standard techniques globally, with very few errors. When we state a price, there's science behind the decision."

Russ Hickman, Senior Systems Associate, Information Technology, Eastman Chemical Company

Seeking Target Margins Through Improved Price Management

Originally established in 1920 to manufacture chemicals for Eastman Kodak's photographic business, Eastman Chemical Company became an independent public corporation in 1994. Now a global leader in many commodity and specialty markets, it produces a broad portfolio of chemicals, plastics, and fibers.

Eastman Chemical's operations are managed in five operating segments. "When we decentralized a few years ago – allowing lines of business the authority to make decisions independently – we lost some of our price management capabilities," says Robert Smith, director of pricing for the performance chemicals and intermediates (PCI) business. "Given our competitive environment and high levels of volatility in petroleum feedstock and other costs, we knew we needed to attain excellence in pricing. We wanted to ensure that we were efficiently making data-based decisions, recovering costs, and achieving target margins."

Selecting SAP® Price and Margin Management for Functionality and Long-Term Vision

To address its price management requirements, Eastman Chemical needed to partner with a pricing solution vendor. "The critical element was achieving discipline in our pricing policies and strategies," says John Thompson, corporate lead for the customer value creation initiative in IT at Eastman Chemical. "We knew that a robust pricing tool would be an effective means to achieve that discipline."

Eastman Chemical, which had been using SAP® software since 1991, ultimately selected the SAP Price and Margin Management application by Vendavo.

"Integrating the pricing software with our current SAP software allowed us to build on our base of solid price, cost, and volume data in SAP ERP," says Russ Hickman, senior systems associate in IT at Eastman Chemical. "But the overriding factors were the vision in SAP Price and Margin Management for the future – which aligned with ours – and its functionality."

For example, in the profit analyzer, the application uses a price waterfall graphic to identify cost components for each customer, including competitive discounts and freight charges. "We start with a list price in an analysis, but almost everything we sell is at a negotiated price and on a delivered basis," says Hickman. "So we arrive at the 'pocket price,' the amount of money we retain after discounts and other costs. Our primary focus is to manage around the pocket price."

Achieving Favorable ROI – and a Stream of Future Benefits

After an initial three-month implementation in the PCI business, Eastman Chemical began to achieve a favorable return on investment by basing decisions on accurate cost data for individual customers and products; by comparing deals with price and volume data; and by reducing margin leakage. The implementation gradually expanded to provide uniform functionality across all five business units. The company also began using the application's negotiation management functionality, which incorporates workflow features and strong analytics. Among many benefits, it allows managers to determine whether a deal is likely to be favorable in the future, considering possible variations in costs.

Eastman Chemical is now working to implement additional functionality within the application, including price optimization based on customer segmentation, which will provide value to support decision making and profitable growth for years to come.

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