

AlixPartners

BEYOND THE 2%:

Unlocking structural margin in chemical procurement

A practical framework for
margin impact in raw materials



Why procurement matters

For most chemical producers, raw materials consume 50–70% of total production cost. To minimize volatile, and often unpredictable impacts, chemical companies have spent decades perfecting the art of incremental improvement. But small wins squeezed from annual supplier talks or slight market shifts leave the larger opportunity untouched.

In AlixPartners' work with chemical producers and their investors, we see how no other cost line item moves margins as forcefully as direct materials procurement—yet so often underperforms its potential. The big opportunity lies in dismantling the structural cost barriers built into how materials are specified, sourced, and supplied. A typical procurement function struggles to deliver 2% in annual savings (and takes close to a year to get there). But what we hear from Executive Leadership is a desire for procurement strategies that deliver higher margin impacts; faster time to value; and confidence that gains will stick year over year. What we can offer is the strategy to achieve that.

The gap between what the c-suite wants and what procurement teams can deliver is partly a matter of language. Procurement teams describe their work as “savings,” while CFOs know that what's really on the table is margin impact, EBITDA, or the P&L. That gap matters. Savings are an annual exercise, while margin impact is structural. AlixPartners works to move organizations from thinking about how much they saved this year, to how they ensure those gains hold.

Why procurement falls short: Five barriers

The structural limitations of a typical procurement function are consistent across the chemical industry. In our work with producers, we see the same five barriers recur with striking regularity.

→ Fragmented sourcing

Sourcing strategies are typically dispersed across regions and sites, with procurement decisions executed locally. Any global producer that buys the same raw material in four geographies—but through different contracts, at different prices, with different terms—leaves leverage on the table.

→ Incomplete resourcing

Transformation work suffers when procurement teams must balance the day-to-day imperative of keeping plants supplied, with the longer-horizon work of redesigning how the function operates. Transformation initiatives too often launch, stall, and restart. And multi-round negotiations—which is where meaningful savings live—lose momentum against the headwind of everyday crises (and perceived risk-driven preferences).

→ A bias toward incremental moves

Meaningful savings often require decisions that reach beyond commercial levers—like switching a long-standing supplier, changing a specification, or redesigning a logistics network. In most organizations, those decisions sit with individual category managers, who carry the downside risk of a disruption without owning the upside of the margin gain. Their decisions predictably tilt toward the safer move.

→ No forcing mechanism

Even promising opportunities stall when the decision crosses corporate silos. Procurement cannot direct engineering to revisit a specification; engineering cannot direct operations to qualify a new supplier. Without a governance forum that convenes the right decision-makers, the default answer to any cross-functional request is “no.” When functional vetoes happen, savings and margin opportunities stall in prolonged “is it worth it?” analyses that never translate to action.

→ Limited analytics and market intelligence

Even well-designed procurement organizations operate with thinner data than their counterparts in sales or finance. Without a clear view of supplier cost structures, current market benchmarks, or the true scale of aggregated demand, negotiators enter conversations at an information disadvantage—and build pricing cases they cannot fully defend at scale.

Notably, these five barriers are not binary. Every chemical producer sits somewhere on the spectrum for each, and specific mix varies by company. But taken together, they explain a pattern that holds across the industry: procurement captures a fraction of the margin opportunity available to it, and the gap between what is captured and what is possible rarely closes on its own.

How procurement breaks through: Six levers

Based on our experience across chemical value chains, the six levers below have proven effective in reducing direct material costs. They are the operative moves that help organizations level up from capturing 2% of addressable spend to capturing 6%-8%.

Crucially, they apply regardless of the macro environment. Markets can change with a tweet. But chemicals is a mature industry. Raw material sourcing follows the same principles regardless of daily conditions or shifts in tariffs, feedstock disruptions, or changes in demand. They may alter outcomes, but they should not alter process.

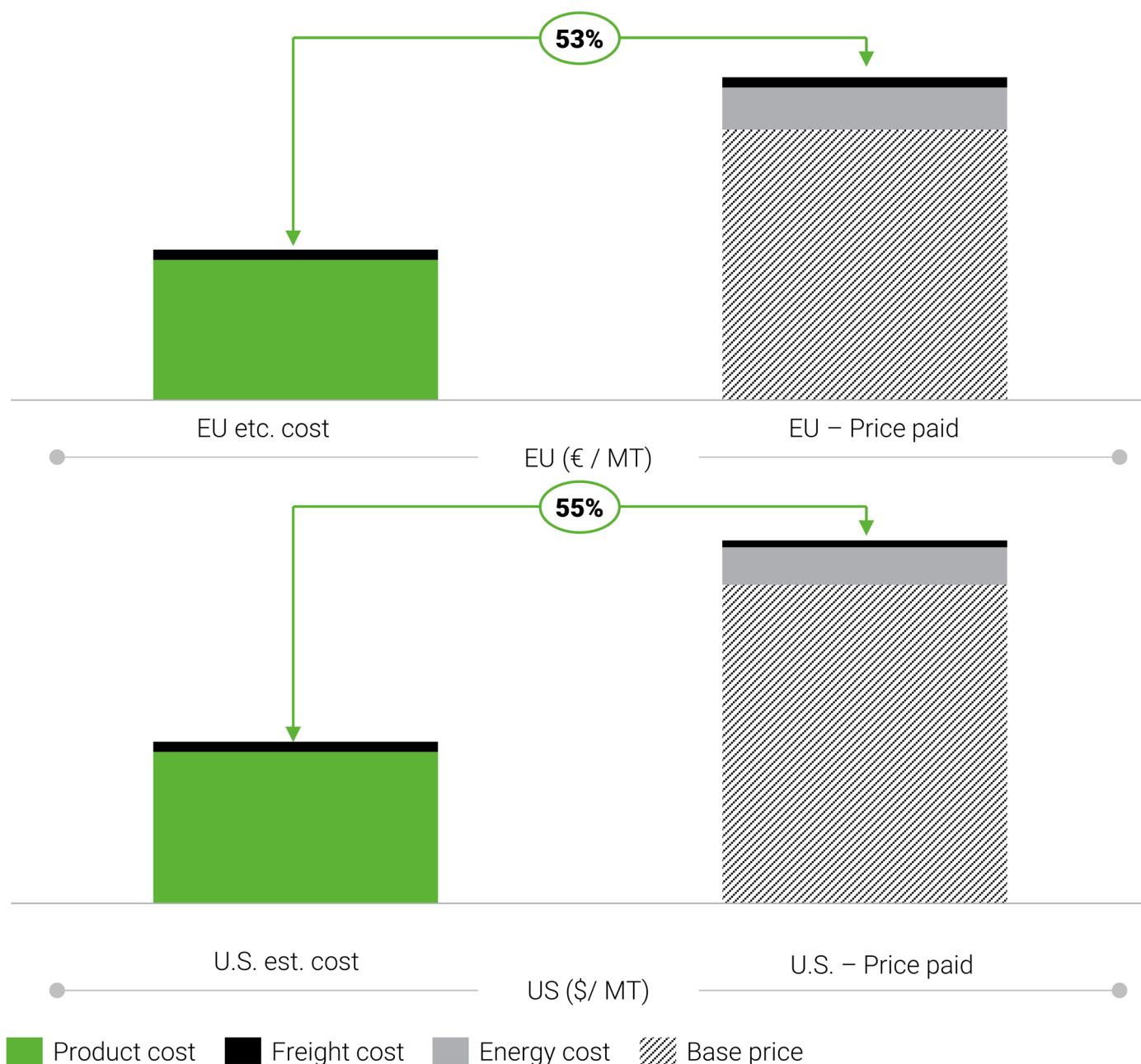
Together, these six levers deliver what Executive Leaders want from procurement: more margin, faster, and sustained year over year.

- 01 Should-cost modeling
- 02 Price formula optimization
- 03 Global and low-cost country sourcing
- 04 Supplier collaboration
- 05 Supplier consolidation
- 06 Specification discipline

01 Should-cost modeling

Many procurement negotiations run without a clear view of the supplier's actual cost structure. Should-cost models reconstruct that structure from its inputs—feedstock prices, energy consumption, labor, logistics—and enable negotiations that are fact-based, rather than positional, revealing pricing gaps that would otherwise remain hidden. In recent engagements, combining cost transparency with identification of alternative supply options has reduced product costs by 30–40%.

FIGURE 1: PRODUCT COST STRUCTURE VS CLIENT PRICES PAID

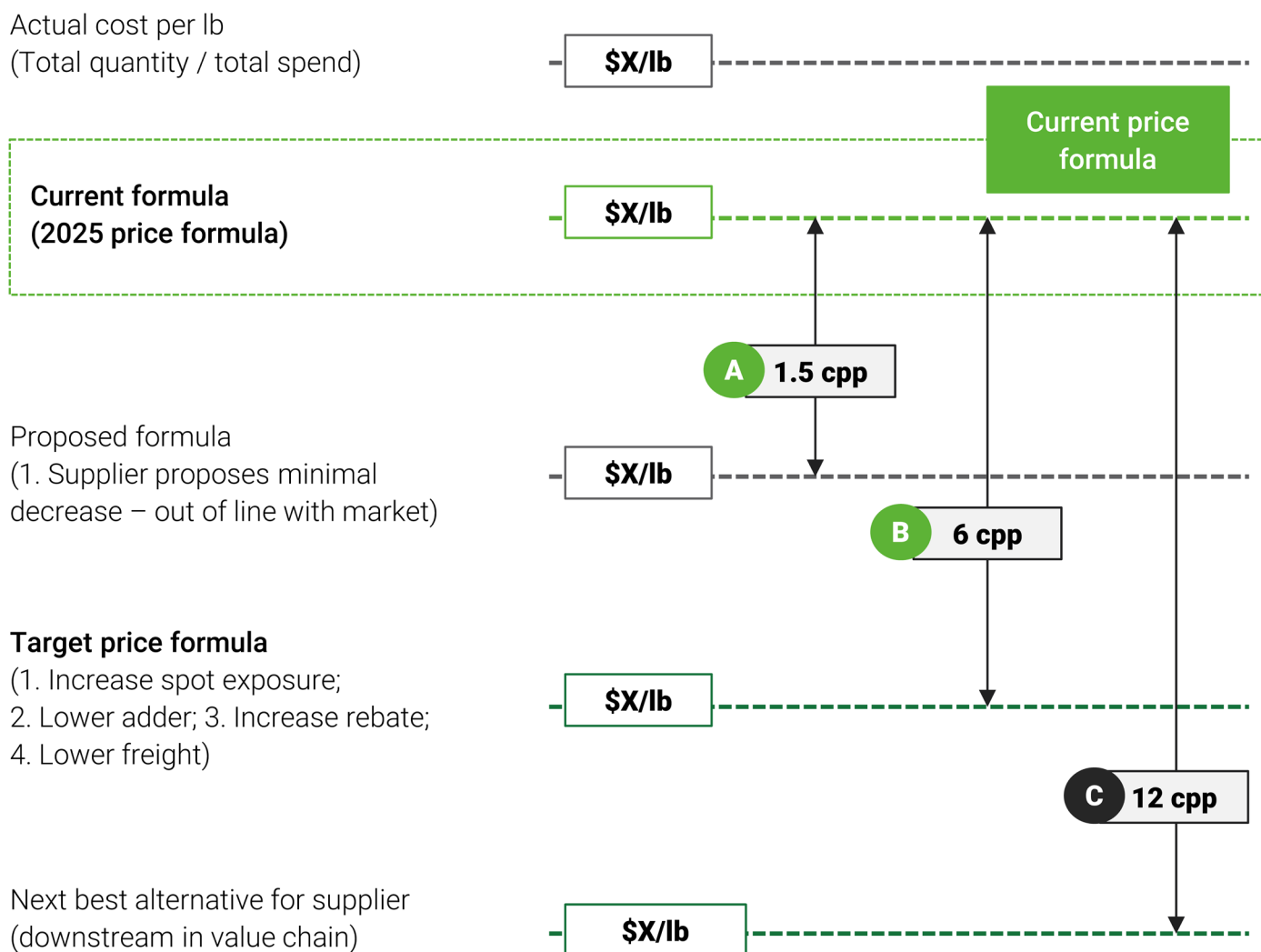


02 Price formula optimization

Chemical procurement runs largely on formula-based contracts indexed to feedstock benchmarks. Over time, those formulas drift out of alignment with market reality. Regularly reviewing index selection, lag structures, and embedded premiums often delivers meaningful price reductions without the risk of changing suppliers. In one case, a product was priced against polymer-grade propylene (PGP) when chemical-grade propylene (CGP) was the appropriate benchmark. In another, a contract was indexed to an ethylene benchmark reference when an ethylene average acquisition cost reference would have been more accurate. In a third, the multiplier itself was mismatched. We saw a product priced at $0.7 \times$ benzene when $0.66 \times$ benzene better reflected the actual chemistry and yield relationship. Realigning the indices and recalibrating the multipliers delivered approximately 10–15% price reductions.

FIGURE 2: OPTIMIZING PRICE FORMULAS

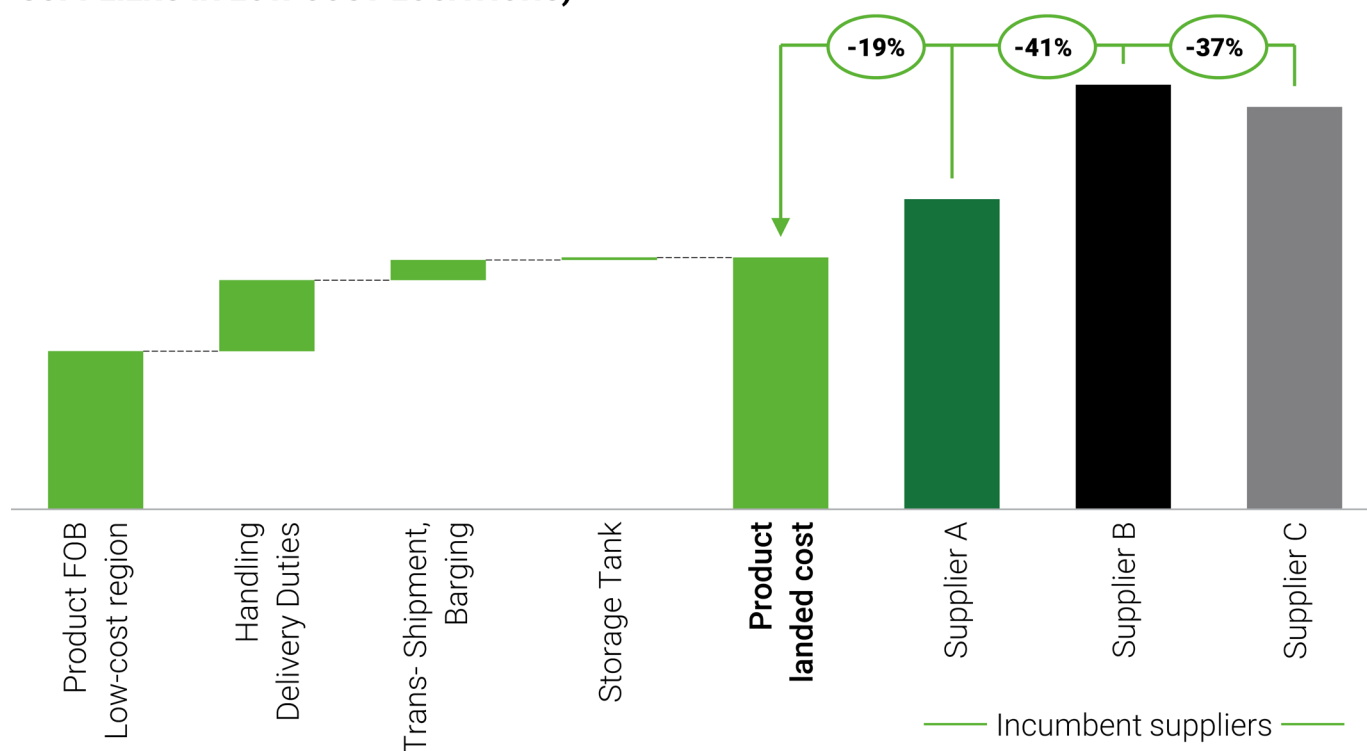
Incorporated increased spot exposure due to expected market length, negotiated adder and rebate to be inline with current market pricing, decreased freight cost to reach benchmarked rail costs



03 Global and low-cost country sourcing

Global and low-cost country sourcing. Production economics vary significantly across regions—often driven by feedstock availability, energy costs, and labor structures. Evaluating total landed cost against regional alternatives—including freight, tariffs, and supply risk—can reveal arbitrage invisible from a single-region view. In one case, opening an RFP to global suppliers rather than sourcing regionally captured an 8% category cost reduction.

FIGURE 3: CAPTURING REGIONAL PRICE ARBITRAGE (IDENTIFIED CREDIBLE ALTERNATE SUPPLIERS IN LOW COST LOCATIONS)



04 Supplier collaboration

Supplier collaboration. Not all value creation comes from competitive pressure. Strategic suppliers can also be partners in cost reduction. Joint initiatives focused on process optimization, logistics redesign, and demand planning integration often deliver mutual benefits while strengthening long-term relationships. In some cases, we have helped clients partner with suppliers willing to co-invest in infrastructure, such as dedicated piping or storage. This both lowers cost and increases optionality, since the client is no longer tied to a single supplier. The threat alone can lead the incumbent to lower its pricing, in an effort to support alternative sourcing strategies and reduce dependency on single suppliers. In one instance, a supplier co-invested in a dedicated pipeline to the client's site; the resulting price reduction paid back the capex in under three years.

05 Supplier consolidation

Supplier consolidation. Chemical companies typically operate with highly fragmented supplier bases—often a byproduct of decentralized procurement and legacy relationships. Rationalizing that footprint and consolidating spend with fewer strategic suppliers produces immediate commercial upside: structural price reductions, a shift from spot exposure to formula-based pricing, and scaled rebate mechanisms tied to volume commitments. The step-change, however, comes from reframing the competitive dynamic itself. When suppliers bid at the enterprise level rather than plant-by-plant, the scope of opportunity expands materially. Share-of-wallet framing intensifies competition, drives more aggressive pricing, and unlocks concessions that fragmented sourcing cannot access. For example, on a recent engagement we discovered a client sourcing the same product from four vendors. This was a basic commodity, without a risk of shortage, so the key driver was site location. Consolidating to two primary suppliers drove ~6% reduction in price, improved consistency in product quality and service delivery, thanks to the leverage of higher volume and the threat of displacement.

FIGURE 4: CONSOLIDATED SPEND AND PRODUCTS PURCHASED ACROSS SUPPLIERS TO LEVERAGE HIGHER VOLUME TO DRIVE LOWER PRICING

Material	Global LTM Spend (€M)										
	Supplier 1		Supplier 2		Supplier 3		Supplier 4		Supplier 5		
	EU	US	EU	US	EU	US	EU	US	EU	US	
Product A		X	X	X	X	B				X	
Product B						X					
Product C		X		X							X
Product D		X		X							X
Product E	X										
Product F		X									
Product G			X		X						
Product H				X	X		X	X			
Product I			X								
Product J			X							X	
Product K			X		X					X	
TOTAL	X	X	X	X	X	X	X	X	X	X	X

06 Specification discipline


Specification discipline. Technical specifications are prone to drift. Over time, requirements exceed actual operational need, inherited specs carry forward unchallenged, and the qualified supplier pool narrows unnecessarily. Breaking that pattern requires an alignment of procurement, engineering and operations that most organizations struggle to force. In one case, a client procured multiple concentrations of the same base chemical across its network. Our analysis found no operational reason for the variability. It was driven by historical purchasing behavior and inconsistent technical assumptions. Standardizing to a single concentration consolidated volume and delivered a ~12% unit price reduction while simplifying storage, handling, and operational complexity. In another, a product was specified with a cold-weather stabilizer despite the asset sitting in a consistently warm climate. The requirement had been inherited from a European specification and carried forward without challenge. Eliminating it expanded the viable supplier pool and drove meaningful cost reduction.


Working with AlixPartners


Closing the gap between 2% annual procurement savings and 6 to 8% structural margin improvement is not a function of better sourcing, but the result of fundamentally changing how procurement is executed.


Most chemical companies are structurally limited by the five barriers we have identified. While the six levers provide a clear playbook, the real value comes from shifting procurement from a transactional sourcing function to a structured margin transformation program.


A programmatic transformation changes both scale and mechanics:


 Spend is aggregated across sites and regions to unlock real leverage.

 Supplier engagement is global, increasing displacement risk and competition.

 SKUs and specifications are analyzed at scale to surface structural opportunities.

 Broad market baskets are competitively tested to reveal true pricing.

 Negotiations are run as structured, multi-round programs with clear governance.

 Cross-functional barriers are resolved through rapid, decision-forcing forums.

AlixPartners enables this shift by combining deep category expertise, advanced analytics, global supplier intelligence, and intensive program execution under a disciplined governance model. The result is a procurement function that consistently delivers structural—not incremental—margin improvement.

AlixPartners works with chemical producers, private equity sponsors, and industrial companies to identify where the margin opportunity sits, build the cost transparency and cross-functional alignment needed to capture it, and put the governance in place to hold it. Done in concert, these moves convert procurement from an annual savings exercise into a structural margin capability.

AlixPartners

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About us

For more than forty years, AlixPartners has helped businesses around the world respond quickly and decisively to their most critical challenges—circumstances as diverse as urgent performance improvement, accelerated transformation, complex restructuring and risk mitigation.

These are the moments when everything is on the line—a sudden shift in the market, an unexpected performance decline, a time-sensitive deal, a fork-in-the-road decision. But it's not what we do that makes a difference, it's how we do it.

Tackling situations when time is of the essence is part of our DNA—so we adopt an action-oriented approach at all times. We work in small, highly qualified teams with specific industry and functional expertise, and we operate at pace, moving quickly from analysis to implementation. We stand shoulder to shoulder with our clients until the job is done and only measure our success in terms of the results we deliver.

Our approach enables us to help our clients confront and overcome truly future-defining challenges. We partner with you to make the right decisions and take the right actions. And we are right by your side. When it really matters.

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