

Covestro's headquarters are located in Bayer's Leverkusen Chemical Park in Germany. The executive floor can be reached in style with a paternoster

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## The Decathletes

### *Covestro CEO Dr. Markus Steilemann Emancipates the Group, Makes it Digital and Globally Agile*

The colorful logo and the name Covestro are already well known. New to the team since summer is Dr. Markus Steilemann who heads the manufacturer of polycarbonates, polyurethanes and specialty chemicals. In our interview he talks about the transformation of the former Bayer division into an independent plastics producer, the pitfalls of large-scale chemistry and what sets him apart from his predecessor other than the consumption of Cola light and coffee.

**T**he evening before, Dr. Markus Steilemann, CEO of Covestro AG, received first prize for employee quality from the German Association of Employed Academics and Senior Executives (VAA) of the Chemical Industry. Covestro has already been second twice, before now the company was named winner. The next day, one of his few "office days" in Leverkusen, Germany, Steilemann faces one appointment after another. Yet, he still manages to find time to talk to **Kunststoffe**. The next day he is already on the road again.

**Kunststoffe:** *Dr. Steilemann, you have been a member of the Board of Management of Bayer MaterialScience for 14 years and of Covestro since the spin-off in 2015. You had almost a year with your predecessor Patrick Thomas for the transition. Sounds like a perfect relay race handover, doesn't it?*

**Markus Steilemann:** We had already worked together in various roles and prepared many long-term decisions in the Executive Board, but also in a two man team. After the official announcement, I had enough time to prepare myself concretely for the specific challenges of a CEO. Sometimes things don't work out so well when predecessors and successors work together for so long. In our case, however, it was excellent and very harmonious.

**Kunststoffe:** *While you were doing your doctorate in chemistry, did you ever think about becoming head of a chemical company?*

**Steilemann:** Certainly not that specifically. I always enjoyed very much what I did and was allowed to do. On top of that, there were opportunities to meet a lot of people, travel to interesting countries and work on exciting topics. That kept me awake. On average, I changed jobs every two and a half years. Continually

getting new stimuli, being able to set impulses, shaping a lot of things and finally a good portion of luck contributed to being able to take on this insane task.

**Kunststoffe:** *What prepared you best for managing a publicly held company?*

**Steilemann:** The permanent willingness to learn and accept feedback. The world is changing very rapidly today, which means that planning accuracy is decreasing. So having people around you who stand by your side in a supportive and simultaneously critical fashion is the greatest gift. It is important to challenge yourself again and again and to accept the encouragement of others.

“Today, digital technologies and social media can rapidly increase the importance of supposedly minor topics”

**Kunststoffe:** *Who do you turn to for advice when you need it?*

**Steilemann:** When it comes to interpersonal issues or certain approaches, often my wife. At a more technical level, I naturally have a very large number of colleagues with whom I have a very trusting relationship and whose advice I greatly appreciate.

**Kunststoffe:** *You said the planning accuracy is decreasing. What makes you think that?*

**Steilemann:** Well, particular assumptions, theses and framework conditions are changing more frequently and faster than in the past. This is certainly also due to the increasing spread of digital technologies and social media. Sometimes supposedly minor topics suddenly acquire a radiance that they would not have attained before the digital age.

**Kunststoffe:** *Unlike your predecessor, you were born not far from Leverkusen and have been with Bayer almost since you started your career. Is the commitment to the region and the company rather advantageous or disadvantageous for you?*

**Steilemann:** Both. I am a Rhinelander (a native of Rhineland) with heart and soul. I feel extremely comfortable in this region with its people. But I also worked in China for over ten years, which has provided me with a global, outward perspective. In this respect, I am not blind to issues where this region could develop further.

**Kunststoffe:** *Do you have anything concrete in mind?*

**Steilemann:** In Germany, we have launched a pioneering project in the form of the energy turnaround. The challenge, however, is to ensure that the energy is not only delivered reliably, but also remains affordable by international standards. Covestro is an energy-intensive company and will continue to be so despite all its efforts. Our production in Germany must maintain its international competitiveness and energy costs make a major contribution to this.



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## Company Profile

Born in 1970, **Markus Steilemann** studied chemistry and graduated from RWTH Aachen University with a doctorate. At the age of 28, he joined the Bayer Group and began his international career. At Bayer MaterialScience, now Covestro AG, he held various management positions in the polycarbonate segment in Asia. Steilemann headed the international PC segment from 2013 to 2015. With the spin-off of Covestro in 2015, he became a board member, responsible for innovation. He succeeded Patrick Thomas as CEO on June 1, 2018.

**Kunststoffe:** *What are your own goals with Covestro and how do you differ from your predecessor?*

**Steilemann:** I drink a lot of coffee and almost no Coke light. With Patrick, it was the other way around. Otherwise the differences are really not so big. I have put digitalization at the top of my agenda. Everything that can be made digital should also be made digital – across the entire value chain, all functional areas and all geographical regions. In addition, the corporate culture is very important to me. It is intended to create an environment in which each colleague can make an optimal contribution. We want to promote the intrinsic motivation of our employees and use it as a trend-setter for the success of the company. For me, this is a key element for achieving our strategic goals.

**Kunststoffe:** *What opportunities and risks does Covestro have without Bayer?*

**Steilemann:** All the employees I talk to look back with pride on Bayer's past, but feel very comfortable with their independence. We are now flexible and free to make our own decisions, can concentrate entirely on ourselves and develop our businesses to the maximum. The focus is set on solutions for acute issues such as climate change, renewable energies, energy-efficient con- ➤

struction and mobility. We can use the free liquid funds generated for our own purposes, such as sensible acquisitions or portfolio measures. At Bayer, we had to divest ourselves of the surplus cash flow. We don't have a protective shield anymore, though. When things sometimes don't run so well, that's the way it is.

**Kunststoffe:** *Sales, results and earnings per share are rising. Nevertheless, a major "efficiency program" was recently announced with the aim of saving around EUR 350 million per year by 2021 at the latest and of eliminating around 900 jobs worldwide. Why?*

**Steilemann:** In 2015 we started with a structure that optimally supported the IPO. The company was structured almost exactly like Bayer. Tasks from Bayer departments could thus be transferred directly to Covestro and vice versa. However, a pharmaceutical and crop protection group in a highly regulated market has completely different structures and country particularities than a globally active plastics company needs. After performing well through the IPO and the time afterwards, Covestro now needs specific structures. Extensive analyses have shown that we no longer need certain departments. The cost savings are therefore a consequence of the organizational adjustment and not vice versa.

**Kunststoffe:** *What kind of structure does a plastics manufacturer need?*

**Steilemann:** Highly agile structures worldwide in direct proximity to customers. We used to produce in one region and then ship globally. Now it makes more sense to produce in the regions for the regions and to design the plants for a broader product range. Especially today in this very uncertain global economic situation with its trade conflicts, customers are readjusting their value chains. The automotive industry that we supply, for example, adapts to certain markets at very short notice, establishes global logistics chains and has many model changes. This requires an adequate offer for research and application development. No matter where our customers go, with a regional presence and global competence, we are very flexibly positioned.

**Kunststoffe:** *Some of your fellow managing directors are concerned about the high inventory levels and the weakening economy in the automotive industry. How do you estimate the demand from the automotive industry for 2019?*

**Steilemann:** The current situation has to do not only with the trade conflicts, but also with stricter approval regulations in Europe. For this reason, dealers have created intermediate stocks. In principle, however, the demand for cars continues to rise. Government incentive measures are boosting business in Asia as well as in Germany. So this is not due to demand, but to uncertain supply chains and stricter regulations. The general rule for Covestro is: our products will grow faster than the customer industries in the long term and this will continue, so there is no cause for concern in my view.

**Kunststoffe:** *In 2015, Asia accounted for almost half of global demand for poly-*

*urethane (PU) and almost 65% for polycarbonate (PC). In view of this overwhelming demand from APAC, does capacity expansion only make sense in Asia?*

**Steilemann:** Our product groups are growing between 3% and 5% and thus faster than the gross domestic product of the global economy. We continue to see great growth opportunities for the future, also in Asia, and we intend to accompany this growth with investments in our product base. On the one hand, we are trying to eliminate bottlenecks in existing plants with relatively little expenditure and increase volumes. On the other hand, where it makes sense and is necessary after careful consideration, we also build new plants on a global scale. Here, the next major investment for the foam pre-product MDI will take place in the USA and additional capacities will also follow in Europe, for example in Spain.

**Kunststoffe:** *How is Covestro's business affected by the slowing economic growth in Asia?*

**Steilemann:** We are noticing an increasing nervousness among customers, for example due to their changing short-term ordering behavior. Due to the supply, prices are also falling in certain areas, in particular for TDI and to some extent also for MDI and polycarbonate. However, Asia remains the largest and fastest growing single market. In China, sales of our products are still increasing in the mid to high single-digit percentage range.

**Kunststoffe:** *Why does Covestro "only" rely on PC and PU?*

**Steilemann:** Our portfolio is based on completely backward integrated production with various by-products. This large infrastructure thrives on economies of scale: the larger and more products, the lower the overall costs. And the wider the bouquet of products at the end, the better the great infrastructure pays off. It would be difficult to supplement other products purely on the basis of only their chemical nature.

**Kunststoffe:** *Do you believe that the two products will be sufficient for further growth in the future?*

**Steilemann:** We are growing and have no indications that this will change in the medium term. Polycarbonate is an all-rounder, so to speak the decathlete among polymers. It is not always the world leader in every case, but overall it is so good that no other athlete from the plastics family can match these characteristics. It is particularly in demand in electromobility. A housing does not only have to protect the battery, it also has to cool it, repel chemicals and be impact resistant. Polycarbonate is the product of choice here. This is an example of how the technical diversity of our products ensures growth.

**Kunststoffe:** *Lanxess has completely divested its rubber business and Evonik is currently divesting its acrylates business. Both will become suppliers of specialty chemicals. Is it still possible to be globally competitive in Europe with mass plastics, panels and molded goods?*

**Steilemann:** I cannot speak for Evonik and Lanxess. Europe continues to offer very good opportunities for the MDI

## Service

### Digital Version

- A PDF file of the article can be found at [www.kunststoffe-international.com/7491628](http://www.kunststoffe-international.com/7491628)

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and TDI raw materials we manufacture. Many procedures, processes and products are pre-developed here. Even though the German automotive industry is currently the subject of strong international criticism, it is still a major driver of innovation. I am therefore firmly convinced that we are still very well positioned in Germany as a manufacturer of allegedly mass plastics.

**Kunststoffe:** *Where could you envisage expansions or acquisitions?*

**Steilemann:** We have very good fundamental internal opportunities. The markets for our plastics and basic products are highly consolidated. Up to 90% of these products are manufactured by only five companies worldwide. For antitrust reasons, it is almost impossible to buy additional assets there. That is why we are moving in the direction of advanced specialty grades and compounding. In 2015, for example, we acquired a composite start-up company that developed a technology to produce high-performance new composites from carbon fibers and polycarbonate. For us, market and technology access are particularly important. We have developed over 300 ideas for possible future expansions, some of which are already at a concrete stage.

**Kunststoffe:** *The supply bottlenecks for PU due to production difficulties with TDI and MDI have annoyed many customers. How and why did it happen?*

**Steilemann:** In the financial crisis of 2009, many investments were initially postponed. On the production side, the crisis has meant that companies have not earned their cost of capital for several years. This in turn has led to an investment backlog or a reluctance to invest. As the financial situation improved, there was an enormous surge in demand. But then, between 2014 and 2017, suppliers were unable to bring sufficient capacity to the market. In addition, there were technical uncertainties because the safe production of chemical products is complex and difficult.

**Kunststoffe:** *Aren't failures also due to poor maintenance?*

**Steilemann:** There is no indication at all that maintenance has any influence on this. Our budget for the operation of plants is clearly defined and has remained constant even in the years of crisis. In addition, we are trying to write off the assets as quickly as possible.

**Kunststoffe:** *The bottlenecks were also caused by supplier failures. Why are there not several suppliers for the pre-products?*

**Steilemann:** Industrial chemical products are manufactured in composite structures and joint industrial parks. All the material streams are dependent on each other. It is simply not possible to work with redundant structures, and this is also not common in industry. In addition, we could not handle the masses of chemicals needed in the short term at all with normal means of transport by road or rail. Neither is there any provision for loading and unloading. Also you cannot feed non-discontinuous material into a continuously running synthesis plant. All in all, it is simply impossible to compensate for a major failure, even in the short term.

**Kunststoffe:** *Covestro is committed to sustainability with its CO<sub>2</sub> technology, the production of aniline from renewable raw mate-*



*"The safe production of chemical products is complex and difficult," says Dr. Steilemann when asked about supply bottlenecks* (© Covestro/S. Mechnig)

*rials and many projects and campaigns. Do these activities pay off?*

**Steilemann:** I think they pay off very well. We want to develop chemistry sustainably and contribute to solving the major problems. Sustainability drives all our research and development. Every product and project should increase the environmental benefit or significantly reduce the negative effects, increase the social benefit and of course also keep the profitability of the company at least the same, but also increase it wherever possible. By 2025, this will be the focus of around 80% of our research activities. The other 20% flows into our process technology. The customers reward this because they know that we are really working consistently on it. This is not necessarily a price advantage, but we expect higher market shares, more development orders and simply a closer customer relationship.

**Kunststoffe:** *Since April, Covestro has been offering its products through Alibaba's flagship store 1688.com. What do you want to achieve with this and what have your experiences been so far?*

**Steilemann:** We wanted to better understand plastics sales via the Internet and have already gone through an enormous learning curve. We have met an incredible number of new customers, despite our already very large market penetration in Asia and especially in China. It was particularly interesting for us to observe the procurement behavior of small and very small customers. In addition, there are new opportunities through data analysis, which we are conducting jointly with Alibaba. In this sense, we see this as an experiment in which we intensively continue to learn how markets function in times of digitalization.

**Kunststoffe:** *Dr. Steilemann, thank you very much for the interview!*

*The interview was conducted by Franziska Gründel, editor*