



Angus Maclean, Proudfoot

Five-point plan for... 2022



Based on recent conversations with top construction and building materials executives and its 76-year history of implementing industrial best practice around the world, consulting firm Proudfoot presents its five point plan for the cement sector in 2022.

Proudfoot anticipates that the cement sector's performance will, for most players, be nearly as good in 2022 as it was in 2021. However, there will be significant uncertainty in the first half of the year as firms wrestle with rising input costs. These will erode margins and slow down volume growth. At the time of writing, the Omicron Covid-19 variant has just been detected. It is not easy to predict if this will have a big impact or not. Nevertheless, here is Proudfoot's five-point plan for navigating in these uncertain conditions:

1 Pass on the cost price increases... No Choice!

The challenge of rising raw material prices such as petcoke, coal, gas, electricity - as well as the >100% increases in EU Emissions Trading Scheme (ETS) price - as well as scarcity and price increases in freight and looming pressure on labour rates, means there is serious pressure on cement producer margins in 2022. The difficult question is, what percentage increase should be applied to the sales price? If input costs rise by 15-20%, this will mean sales price increases of Euro10-15/t of cement, if firms want to retain the margins seen in the recent past. In the longer term, producers also need to anticipate when 2021's energy and power hedges have to be renewed.

2

Low consumption and resilient supply chains

Effective energy and raw material management will be key in 2022. Know where, when and how much is being consumed across your operations and look again at how to optimise even further. See if it is possible to operate at the lowest tolerance levels in the Bill of Materials. See if it is possible carry out some 'shrinkflation,' often seen in the food and beverage sector when a manufacturer shaves a few grams from the product and charges the same price.



Left: Pass on the cost price increases. There is no alternative!



Right: Supply chains are becoming increasingly complex and stretched. It pays to keep an eye on your suppliers' suppliers.



With respect to supply chain resiliency, particularly around the spend area of transportation and logistics modelling of material supplies, consider installing a supply chain 'control tower' to oversee your suppliers' suppliers, as some markets are seeing increasingly panicky buying patterns.

4

Continue selective investment in smart technology and AI

Digital programmes will be an important lever in 2022, as in previous years, as these can help the sector achieve many

of its goals. Unfortunately, these programs are not yet delivering the value they initially promised. Proudfoot recommends implementing next generation operational and digital Target Operating Models at the same time. These use digital and operational solutions and tools to enhance each element / building block of an efficient cement business. This is in contrast to costly global IT / Operational Technology / Internet of Things proof of concept projects. Digitisation should not only optimise the value chain, end-to-end, but also humanise the processes. New technologies need to *add* to existing human capabilities, not replace them.

3

Decarbonisation and green products

The immediate challenge for European building materials firms is to respond to new and stricter European targets for CO₂ emissions through the development of decarbonised products. 'Development' is probably not the correct word, as there are now plenty of prototypes and proofs of concept out there. In the early 2020s it's really about accelerating the percentage of green products, low-CO₂ materials and cement manufacturing equipment actually used in the market.

Linked to this topic is how to operationalise environmental, social and corporate governance. Most firms have the roadmaps and the ratings/indexes covered now, but what are the specific operational initiatives that need to be implemented first to improve the ratings? The EU ETS CO₂ price has risen and analysts forecast a 2030 price of Euro100/t. The Carbon Border adjustment mechanism (CBAM) is going to happen, so now is the time for a rethink of the asset portfolio. Current asset footprints are not necessarily adapted to the future markets and the coming decarbonised world. Implement 'ahead of the future' environmental and pollution regulation changes to be ahead of the pack. Eliminate old plants or upgrade them now!

Right: Decarbonisation and green products should be ramped up.



5

People plan for 2030

Most cement firms have a vision of how their cement plant assets will look in 2030, or are putting one together. However, what is less clear is how organisational structures, processes and job roles will change by 2030. What are the steps from the 'workforce of today' to the 'workforce of tomorrow?' How can we engage, enthuse and energise employees to design, develop and implement these transformations? At Proudfoot, we have identified eight trends that will significantly impact cement plant organisation and staff roles over this time-frame.

i. Decarbonisation: Proudfoot estimates that 70% of the cement plant staff skills and capabilities used in 2022 will still be required in 2030. However 30% will need new skills, with some tasks to be eliminated altogether;

ii. Rapid technological advances: Most cement players already have a good digital roadmap, with digitalisation, Industry 4.0 and automation projects underway. However, it is evident that few have calculated the organisational impacts of this on their business structure;

iii. Circular construction economics: There will be increases in the number of raw materials, alternative fuels and renewable power sources. Handling these will change the job requirements in management and resource control. New skills and competences will be required, but a large proportion could be covered by retrained existing staff;

iv. The speed of green politics: The EU ETS price has already reached Euro75/t, but it may reach Euro100/t or more by 2030. Proudfoot anticipates that speed of technical and organisational changes will more or less follow the increase. The EU ETS

CBAM (and possibly other taxes) will affect the locations of cement plants around the world;

v. Covid-19: The pandemic has forced many companies to ask whether or not all office staff and support functions actually need to work on site. For many, working from home will become the norm.

vi. Shortages, access to talent, supplier competences and materials: Few people want to work in cement production/execution. Everyone wants to run a digital start up! Cement producers have to turn this trend around by making the sector more attractive.

vii. Increasing complexity of 'end to end' supply chain, operations and products: Cement production and the products manufactured will become significantly more complex in the coming years;

viii. Looming demographics: Baby Boomers will retire *en masse* between 2022 and 2030. The proportion of Millennials and Generation Z employees will increase to fill the void. There will also be rapid urbanisation. By 2030 just 50 cities will be home to more than half of global GDP.

These eight trends raise huge operational, organisational and talent challenges for cement producers over the period to 2030. Cement plants will need to identify what roles they need to replace, retrain and source from elsewhere, in a timely manner. They will need to align and agree now, in 2022, what talent they will require in 2030. How will they find, source and attract the correct new talent? What learning and development needs to take place? What are the year-by-year demographics, and of course, how can firms incentivise, reward and measure the performance of their many new Generation Z employees... all while still turning a reasonable margin? The task is not to be underestimated. Our final piece of advice...?

Start NOW! 



Left: Employee demographics will shift dramatically in the period to 2030.