

Chemical Week

A winding road

M&A, uncertain economy
change the game for distributors



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Digitization has a growing impact

Chemical distributors seek ways to maximize benefits, minimize risks

by Ian Young

The digital revolution is increasingly impacting the chemical distribution sector. E-commerce, the digitization of operations, and various other uses of Big Data are set to transform the way companies operate. Distributors, with their direct access to producers and customers, logistics expertise, strong industry knowledge, and value-added services, are in a good starting position. The potential benefits are huge, but there are also risks and challenges.

An initial wave of digitization was seen in the chemical industry in the mid-1990s with the introduction of software-based management and commercial systems, the best known being SAP. According to a recent report by market research and consulting firm Smithers (Akron, Ohio), *The Impact of Digitization on Chemical Distribution to 2023*, the main impacts of digitization on chemical distributors in 2019 are in warehousing and sales and marketing, but by 2023, the main impacts will shift to companies' administrative and commercial back-office divisions.

The report identifies benefits for distributors and their customers, and specific advantages for certain sectors of the chemical distribution industry. "Digitization and Big Data means there will be a massive increase in the volume of data generated and used," says John Nelson, an editor at Smithers. "For firms, this will translate into reduced operating costs, but for the customer there will be greater choice and lower price expectations. At the same time there will be increased opportunities for specialty chemical distributors."

Chemical and ingredients distribution market leader Brenntag sees "huge opportunities" in digitization, says Karsten Beckmann, Brenntag board member with responsibility for EMEA and for global accounts. He sees opportunities in two main areas: fuelling organic growth and digital marketing.

Better use of data can play a big role in generating organic growth, Beckmann says. "It's an opportunity to create an improved customer experience and customer bonding. The question is: how to use the data better?"

Brenntag's immediate focus is on digital

sales and marketing, where the company is "investing heavily," Beckmann says. "Many customers are searching for products via Google. We can improve a lot here," he says.

Distributors have numerous possibilities to improve efficiency by streamlining their internal processes through improved data flows. "There are many opportunities to improve," Beckmann says. "A lot of the chemical distribution industry is still relatively manual."

Brenntag has identified cost savings in more efficient handling of customer orders, with a corresponding opportunity for customers to order automatically in Brenntag's system. "Our sales reps have more time to focus on meeting customers' needs because there is less documentation," Beckmann says.

Univar Solutions, the second-biggest distributor by sales, also sees huge potential gains from digitization. "At Univar Solutions, we see digital as a powerful enabler to create a superior customer experience through innovations targeted at the ease of doing business while strengthening our global network of chemical and ingredient distribution," says Ian Gresham, vice president and chief digital officer at Univar Solutions. "Our ability to create an ecosystem with our supplier partners places the company in an advantaged position and as we continue digitizing our business, it allows us to fulfil our mission to streamline, innovate, and grow."

However, efficiency improvements and the streamlining of operations, while generating greater financial rewards than the 1990s digitization wave, will also likely result in more job losses. "The current wave of digitization will realize great benefits and will be more disruptive to the people involved," says Nelson. "Redundancies will be greater, processes will be even faster, fixed costs will reduce, reliability will improve, and customer service will increase."

The most immediate external threat to chemical distributors is the potential entry of established e-commerce sellers into chemical markets, according to Smithers. "Established e-commerce sellers are investigating the

chemicals market and fully intend to develop a position, though their current offer is not yet perfected to allow large-scale transactions," Nelson says. "The current chemical distribution participants need to take this threat very seriously. If they fail to do so there is a high probability that their current business model will not be able to resist. In particular, chemical exchanges have the

potential to be almost a perfect storm to the current chemical distribution industry, and should be considered the biggest threat." Nelson cites China-based platforms Molbase and OK Chem as examples of rapidly emerging chemical exchanges. Other players include CheMondis, Knowde, and SpecialChem.

A recent analysis from Boston Consulting Group (BCG) concluded that disruption of chemical distribution by digital platforms is unlikely to be

sudden, but will happen "over decades." It says there is a "higher likelihood of digital platforms for standard products defined by price and specification."

BCG also identified potential threats to distributors' position in the value chain from chemical producers, logistics providers, and "digital attackers" such as established e-commerce sellers Amazon Business and Alibaba Group. Chemical producers can use digital technologies to "extend the economic reach of direct sales" to smaller customers, bypassing distributors, BCG says. Logistics providers have the potential to move into "digital-enabled distribution" and the digital attackers could leverage their strengths in customer-oriented platforms and logistics to enter the chemical distribution value chain, BCG adds.

Existing chemical distribution companies and chemical suppliers are creating their own e-commerce platforms to avoid becoming victims of this trend, Smithers says.

Brenntag is rolling out its digital platform, Brenntag Connect, where customers can buy chemicals and ingredients, and access services online. The platform is live in Germany and North America, and Brenntag plans to extend it to most major European markets in the next six months, followed by select APAC



BECKMANN: Chance to create an improved customer experience.

countries. “It’s moving along nicely,” Beckmann says. “The scale-up is quite steep. It’s an opportunity for customers to experience Brenntag differently.”

The leading distributors can meet the challenge of the business-to-business (B2B) platforms by focusing on key differentiators—the wide range of products that distributors offer and their high level of customer service—Beckmann says. Brenntag has decided not to participate actively in any B2B platforms and has not so far seen much participation from chemical producers and customers. “It’s an open game,” Beckmann says. “I haven’t seen much success for those platforms yet. Nobody knows if a single, dominant platform will emerge. Now they are rather small and inefficient in terms of service offerings.”

The leading distributors have the resources to disrupt their own business model with positive results, according to Univar. “We see digitization as a huge opportunity to challenge existing norms and be the disruptor of our own model,” Gresham says. “Our vision is to redefine distribution and our continued investment in this area will certainly allow us to do just that. We can build stronger links with our customers, redefine the supply chain, and execute consistently well across all the geographies in which we operate.”

Small and medium-sized distributors with limited resources have fewer options to redefine their business models than big distributors such as Brenntag, Univar, IMCD, and Azelis. “The challenge for other distributors is that this all costs money and few have the ability to leverage their investment in the way we do,” Gresham says.

Univar has integrated its entire product catalog into a new e-commerce site, store.univarsolutions.com, and October marks the first month that customers are able to purchase online from the combined Univar Solutions offering. Multilingual and multicurrency functionality will be added soon. “This marks the latest step in our ongoing digital transformation to be the number-one destination for digital content and commerce in the chemical and ingredient distribution industry,” says Gresham.

Univar also owns ChemPoint, which forms part of the group’s omni-channel approach

that helps it capture demand faster and more efficiently through its digital capabilities. ChemPoint’s MarketConnect offers marketing as a service, creating multichannel digital marketing campaigns for a range of chemicals and ingredients. “ChemPoint offers a unique business model focused on demand creation, which includes finding, engaging, retaining, and nurturing customers on a large scale,” Univar says.



GRESHAM: An opportunity to challenge existing norms.

Another key challenge for any chemical distributor is the need for standardization, says Beckmann. “Digitization requires standardization of documents and data to generate the most value,” he says. “Companies must optimize their master data and adapt it to customers’ needs. At Brenntag, we’re focused on our own program, talking to customers, and making progress on improving our document management.”

Brenntag is also upgrading its tailored, digital marketing effort

and has established a team to accelerate the process.

The company is working to upgrade its enterprise information portal as part of the standardization process, as well as raise the level of its master data. Brenntag is committing “a sizeable investment” to all its digital initiatives, Beckmann says. “It’s a high-level initiative with board-level support,” he says. “We clearly believe in this opportunity.”

An improved customer experience, including greater transparency around transactions, is driving customer expectations of lower prices. “It’s challenging margins, but this has been happening for some time,” Beckmann says. “I do see some price deflation when it comes to an open marketplace, more in basic chemicals than specialty chemicals, because of the complex supply chains and solutions in specialties. Digital offers are more tailored to segmented pricing. That’s why we are driving the service element of our product offering.”

There are particular reasons why specialty chemical distributors stand to gain from digitization. “Specialty chemical companies typically have already engaged with the megatrends of sustainability and the cyclical economy,” Nelson says. “They can exploit new channels to market via e-commerce to sell more widely if they can offer the appropriate levels of technical support—this would be mostly at the expense of large commodity suppliers.”

One of Brenntag’s main strategies is to grow its specialty chemicals business and the company sees digitization as a way to achieve this. The company currently generates about two-thirds of its sales from industrial chemicals and about one-third from specialty chemicals. “We see digitization as a further differentiator,” Beckmann says. “We are trying to grow digital solutions for our specialties business. But industrial chemicals also need a high degree of customer service, so we will improve there too.”

BCG says the digital platforms for standard products that it expects to emerge are most suited for specialty chemicals. It expects “vertical-specific platforms” to emerge in individual segments of the specialties industry such as food ingredients and leather chemicals.

There is still room for “generalist platforms” across the chemical industry with the involvement of many suppliers, distributors, and customers, BCG says. But this requires a “true platform approach” from distributors that is not yet visible. BCG categorizes distributors’ own digital platforms instead as “webshops.”

The upcoming digital shift to distributors’ administration and commercial back-office functions includes logistics. Changes to logistics are on the way, with automated order processing and automated stock monitoring, possibly driven by Blockchain tracking software, which is likely to be seen soon, according to the Smithers report. “Furthermore, digitization allows for better predictive order analysis,” Nelson says.

Back-office functions such as human resources and finance are also likely to be digitized over the next five years.

The biggest hurdle to greater adoption of digital processes is companies’ own staff, because a mindset change is needed to embrace digitization fully, according to the Smithers report. “Therefore the strategies that are essential for early adoption will be getting staff to buy into development and implementation of greater digitization techniques,” Nelson says.

Brenntag sees the need for a change of behavior among customers as well as distributors. “We need customers to see the value and embark on a digital journey with us. There are pockets of success regarding digital,” says Beckmann. “The chemical manufacturing and distribution industries have been slow to adapt, and at the moment are not at a level of penetration that makes it a big part of the business.” But he is “fully convinced that will change over time.” ■

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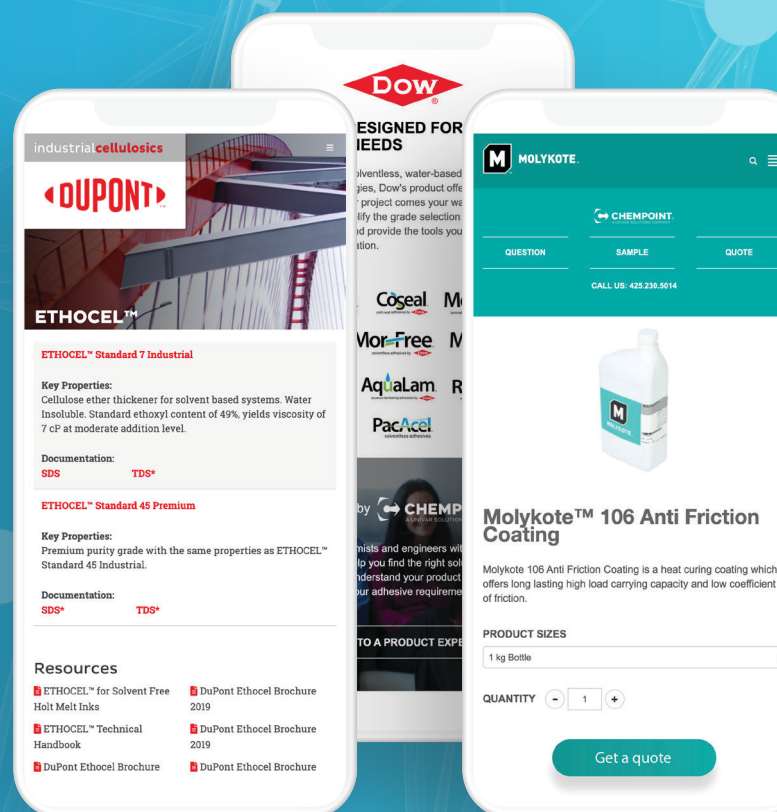
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