As consolidation continues in distribution, the rise of digitization across the industry could change the way distributors do business and interact with their customers. While bigger players are already implementing digital solutions in their businesses, and the smaller guys are reluctant to take action just yet, industry executives admit that the digital movement is here to stay.

Jing Chen

The highly-fragmented chemical distribution sector is set to become a bit more concentrated following Univar's (Downers Grove, Illinois) announcement in September that it was acquiring rival Nexeo Solutions (The Woodlands, Texas) for $2 billion. The deal is expected to close in the first half of 2019, creating a distribution giant with about $12.5 billion/year in sales. The combination of Univar and Nexeo, the first- and third-largest distributors in the US by sales, respectively, would create an entity that would be closer to rival Brenntag. Brenntag would still be the world's largest chemical distributor by sales—the company reported full-year 2017 sales of about $14.1 billion, with EBITDA of about $1 billion. Univar and Nexeo combined will generate about $843 million/year in EBITDA.

The combination increases Univar's US and Canada sales force by 45% to just under a thousand sellers, and increases its fleet of trucks by 46%, "providing the resources to deliver faster growth and better service for our customers and supplier partners," says Univar CEO David Jukes.

Guenther Eberhard, senior and managing partner at consultant firm DistriConsult (Wädenswil, Switzerland), told *CW* that the acquisition "doesn't do anything in Europe."

"It's a big move ahead for Univar in the US, but Europe is 100% plastics, although Univar [has] made noises that they want to dive into the plastics business," Eberhard adds.

Will consolidation continue?

While the Univar-Nexeo deal is significant, the highly-fragmented sector still has a long way to go. Experts agree that M&A deals in the distribution sector will continue, but there is debate on whether the degree of consolidation will be as aggressive as it has been in the last several years. "It's difficult to say if M&A deals in distribution will be as rampant as [they have] been," Eberhard told *CW*. "There's a certain number of acquisitions that take place every year, and because there's more conflict for suppliers when distributors add new acquisition targets, there are limitations to how much you can consolidate. There is a natural limit, especially in chemicals."

According to a DistriConsult report, M&A frequency in 2018 was far lower than in previous years. In 2017, there were 46 M&A transactions, while there have been just 30 deals through September 2018. Regionally, M&A activity in 2018 continues to dominate in Europe and North America as it has in previous years. Year-to-date (YTD) through September 2018, Europe accounted for 16 out of 30 deals, or 53%, and North America accounted for 9 out of 30 deals, or 30%. In 2017, 18 out of 46 deals, or 39%, took place in both Europe and in North America.

Meanwhile, National Association of Chemical Distributors (NACD) president Eric Byer is adamant that consolidation will continue in the sector. "Consolidation is a reality of the marketplace in any given year, especially with the economy being as strong as it is currently. I am sure further consolidation will take place."

Frank Bergonzi, CEO and president of Azelis Americas (Stamford, Connecticut), also thinks that M&A "will continue in a big way."

"I don't see it slowing down at all. I think [consolidation] will continue, with private equity firms [who have a strong interest in the sector] acquiring distributors as well as strategics as the case with Univar and Nexeo," Bergonzi told *CW*. "The market is still incredibly fragmented. There has been a lot of activity in the last few years, especially in North America, and I think that will continue," Bergonzi adds.

Consolidation is still the major driver behind M&A transactions, accounting for 53% of all deals in 2018, according to a DistriConsult report. Eberhard, however, told *CW* that consolidation in the sector has become a game. "Because all the acquisitive players have presence in all geographies now, any deal they do is a consolidation game."

According to Technavio's "Global Third-Party Chemical Distribution Market 2016-2020" report, Brenntag (5.9%), Univar (4.7%), and Nexeo (1.9%) make up 12.5% of the global market share in the distribution sector.

"People start to get a little nervous and antsy when the market consolidates. As consolidation continues and the big guys get bigger—like with Univar acquiring Nexeo—it makes the other big players nervous, and they are thinking that they have to make acquisitions as well to keep up," Doug Brown, president and CEO of family-owned distributor Brown Chemical (Oakland, New Jersey) and chairman at NACD, told *CW*. "So that dynamic changes the M&A market. They just can't let a big transaction go by and not announce their own deal. If their

CABARRY: Digitization could disrupt industry.

BYER: Consolidation is a reality of the marketplace.

AMIN-JAVAHERI: Embracing digitization is key to success.

HOLLAND: M&A is key to overall strategy.

customers see that they're not keeping up, I think they get concerned that they're not going to be as effective in the marketplace."

Specialties player Azelis is one the "big guys" looking to grow through acquisitions. Bergonzi said that the company is currently in the budgeting and planning phase for next year's growth strategy. The company plans to expand in Latin America, South America, and Mexico. In the US, the company is looking at the food sector. "We don't have a food presence in the US. We have significant presence in food in Europe and Asia, so we are looking to complement that with food ingredients presence in the US," Bergonzi says.

Steve Holland, CEO of Brenntag (Mulheim, Germany), previously told *CW* that acquisitions are a "key component" to the company's overall strategy. Holland also said that Brenntag spends about £200–£300 million ($236–$355 million) a year toward acquisitions. Most recently, Brenntag agreed to acquire the Desbro Group (Nairobi, Kenya)—one of the largest distributors in East Africa—and its activities in Kenya, Tanzania, Uganda, and the United Arab Emirates. In September 2018, Brenntag completed the acquisition of the chemical distribution business of Canada Colors and Chemicals (Toronto, Ontario). In August, the company completed the purchase of specialty chemicals distributor Alphamin (Wavre, Belgium), including the company's US subsidiary based in New Jersey.

Digitization

Most distributors today still serve customers primarily through direct sales forces and distribution partners, however the implementation of digital platforms across the sector are starting to change the way distributors do business and interact with their customers. As one of the first chemical companies to implement digital platforms in the late 1990s and early 2000s, Univar continues to make strides in digital transformation today. The company spends about $10 million per year to build out its digital capabilities.

In August, Univar launched a global digital hub at the company's Warrenville Campus facility in Illinois, which focuses on developing a variety of digital solutions for the chemical distribution industry. The digital hub looks to capture demand faster and more efficiently through its suite of digital capabilities, including the MyUnivar.com e-commerce solution, which offers Univar's full catalog of products that customers can utilize using a two-click re-ordering process; the Univar Digital Marketing platform, which aims to reach customers through targeted digital content that accelerates the customers' product development process and reduces the total cost of operations; the PestWeb platform, which connects customers with pest control experts; and the ChemPoint platform, which creates multichannel digital marketing campaigns for a variety of chemical and ingredient products. In October, Univar announced that it had expanded the MyUnivar.com platform to Canada. The MyUnivar.com platform initially launched in the US in October 2017.

Azelis has also invested in its digital capabilities. The company has developed two digital platforms in its personal care segment—iChat, which provides technical support tool and offers instant answers to solve formulation questions; and eLab, a 24/7 digital platform that supports Azelis' hard asset application labs, enabling customers and Azelis to more effectively

> "Customers are responding quite positively to our digital platforms."
> **Frank Bergonzi**
> Azelis Americas, CEO and president

manage their R&D projects. "[Our customers] want answers quickly, and the two platforms are making technical communication far easier for our customers," Bergonzi says. He also adds that the company plans to roll out the two platforms throughout the entire company in 2019.

In addition, Bergonzi told *CW* that Azelis has also created a digitization team comprised of five to six people whose primary task is to help implement digital strategies. Azelis' investment in building out its digital capabilities has paid off. "Customers are responding quite positively," Bergonzi says. "They enjoy the immediate feedback and answers to their technical questions." Azelis is currently just targeting and connecting "key and strategic customers" to the platforms, according to Bergonzi.

Meanwhile, the implementation of digital technologies is not as prevalent with the smaller distributors. "The small and mid are more reluctant. On one hand, they are more flexible and they want to experiment, but on the other hand, their business is not always conducive to digitization [end to end]," Eberhard says. "They might not have the capital to build their own platform, and might set up shop on another platform, similar to the Amazon marketplace. Whereas the big guys have the means to build their own proprietary platform."

Why is digitization taking so long?

"Why fix something that wasn't broken? That has been the industry's mantra so far," Jay Bhatia, founder and CEO of Agilis Chemicals told *CW*. Agilis is a commerce platform that connects buyers, distributors, and producers through an online marketing and transaction portal. Bhatia, like many industry experts, acknowledged how fragmented the distribution industry is, which he says contributes to "a lot of chaos and inefficiencies" in the sector.

In addition, Bhatia said that one of the hinderances behind the chemical industry's reluctance to digitize was the complexity of the sector. "There is so much data in chemicals; moreover, every chemical product has so much data in itself. Digitization is not just about putting the technical data online, it's more nuanced. There is no off-the-shelf solution in digitizing the industry."

In addition to the complexity of the data, Bhatia admits that the industry is inherently very conservative. "Buyers want to know what this product will do in production, what the limitations are, what the safety aspects are, what the regulatory aspects are."

Despite all the challenges, Bhatia adds that "digital platforms are ideal for highly fragmented industries like chemical because industry players can benefit significantly by coming together on one platform."

How will digitization remake the industry?

A February 2017 report by consulting firm McKinsey, "Demystifying Digital Marketing and Sales in the Chemical Industry," estimated that the global chemical distribution industry could potentially gain $3 billion to $6.5 billion in EBITDA a year through marketing and sales efforts from digitization. In addition, fast-moving distributors that act aggressively to deploy digital tools could also capture approximately $1 billion of additional earnings by taking customers and revenues away from less nimble peers, according to the report.

Cost to serve can fall by 15–50% through e-commerce, the digitization of processes, and the use of big data to allocate salespeople, according to the McKinsey report. By capturing this immediate benefit, a typical company could save enough money to finance the rest of its digital transformation—and create enough buy-in and excitement to keep up the momentum.

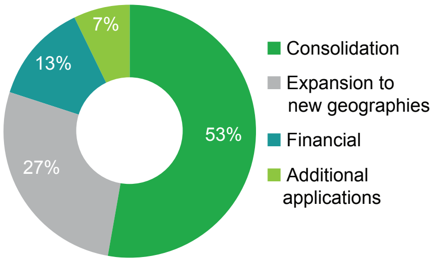
Industry experts agree that distributors who do not embrace digital may lose to distributors who do, especially since many executives will be aging into retirement and replaced with millennials who are much more tech-savvy. "The younger guys who are or will [soon] be making decisions for a company don't care about personal relationships as much," explains Ali Amin-Javaheri, co-founder and CEO of Knowde (San Francisco), an online platform that connects chemical producers with chemical customers. "What they care about is the speed of responsiveness, transparency, and platforms that will allow them to self-service as much as possible."

EBERHARD: Consolidation has become a game.

JUKES: Deal ups US and Canada sales force by 45%.

M&A Driver

(YTD through September 2018)



Source: DistriConsult. © 2018 IHS Markit

Amin-Javaheri also emphasizes that while he believes face-to-face interaction is not as important as it has been, a company undergoing a digital overhaul does not translate to losing personal touch with its customers. "Interaction can happen online," Amin-Javaheri explains. "There is a false perception that when things go digital, you lose the human touch. That's not true; the touch is just different. It may happen over a video call, a text message, or online messaging."

Byer maintains that while digital platforms are crucial in maintaining and building the success of a company, "that one-on-one interaction with a customer is still critical ... in today's digital world."

"Ultimately, I think the combination of both one-on-one interaction and e-commerce will be the solution to ensure customer satisfaction and business growth, and will remain an important facet of the relationship," Byer adds.

Threats of digitization

Like all systemic changes, digitization could also pose a threat to distributors, according to Christophe Cabarry, founder and CEO at chemical database firm SpecialChem (Paris). "The arrival of new entrants like Amazon or Alibaba might disrupt the industry and gain a substantial market share of chemical supplies," Cabarry told *CW*.

Cabarry also said that digitization could lead to "disintermediation," in which producers would deal directly with small and medium customers through digital channels, as the cost to interact digitally is substantially lower than to do so physically.

Speaking at the European Association of Chemical Distributors (FECC) annual congress in Nice, France, in June, Cabarry told attendees that there remain "open questions" about how digitalization applies to distributor sales of specialty chemicals. These uncertainties relate to areas such as fees and pricing, chemical hazard risk, and partnerships, Cabarry said.

Nonetheless, digitalization is changing the way companies are facing the market, Cabarry said. He estimates that more than 70% of first interactions initiated by customers with their suppliers are today through digital channels.

How will tariffs affects distributors?

The trade war between the United States and China has some distributors wary. "We are letting our customers know what's going on," Brown told *CW*. On 24 September, the United States and China launched the third round of tariffs aimed at $200 billion in Chinese goods and $60 billion in US goods.

While Brown said that the trade war won't affect Brown Chemical directly, the company will feel secondary effects. "While most of our offshore purchases are not from China, we could be affected in that our customers who are buying offshore who are directly linked to China may be coming to us looking for raw materials."

Eberhard agrees that while the trade war had led to "some dark clouds in the horizon for distributors," he admits that it is too difficult to say what will happen. "If the Chinese can't sell their products in the United States anymore, products will find their way to another geography. This will shift trade patterns," Eberhard told *CW*. ■