



Partnership brings benefits for all

Developments in specialty chemical distribution bring benefits to producers, distributors and customers alike, as partnership and transparency lead to efficiency and better service

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Distribution of specialty chemicals is undergoing a series of fundamental changes in response to market developments.

Leading chemical producers are increasing their use of distribution partners to service customers cost-effectively and to achieve faster growth in the marketplace. These partners can also play a part in developing business in emerging markets, where they may already be present sourcing materials for European customers.

As a result, distributors are having to become more professional and flexible and invest in technical service capabilities and added-value operations. They also are having to think about expanding outside Europe to meet their principals' geographic objectives.

In the medium term, all parties involved – producers, distributors and customers – stand to benefit from the developments.

It has been described as a win-win-win situation, but only if current trends are recognized and appropriate ways of doing business are embraced.

But what do specialty chemical producers

expect of distributors today and for the coming years? And how can distributors seize the opportunities and overcome the challenges that these requirements present?

These questions formed the basis of a recent high-level Roundtable organized by ICIS in collaboration with Azelis, a leading pan-European specialty chemical distributor based in Belgium. The discussion ranged widely and deeply, but identified a number of key requisites for success: professionalism and transparency, effective communication between all players in the supply chain and at various levels within organizations and in- >>

» creased investment in technical capabilities and IT structures.

The three specialty chemical producers taking part in the Roundtable – US-based CP Kelco, Germany’s Evonik Degussa and France’s Bluestar Silicones – all have a strategic intent to increase their use of distributors in the future.

They are looking to distributors to accelerate the penetration of their products into the market and to take responsibility for handling marketing and sales to non-key account customers. Each has cut the number of distributors they use in Europe already, preferring to work with a limited number of more strategic distributors.

Pascal Chalvon Demersay, CEO of Bluestar Silicones, is convinced that there is a growing need for increased professionalism in the chemical distribution sector. “For specialty chemical distribution, we need time to develop complex partnerships that can lead to value creation,” he commented, adding that improved transparency was helping to overcome producers’ fear of using distributors.

CP Kelco, explained vice president David Edgington, has been selective in choosing the distribution partners that it uses for its core businesses. “The philosophy of how [distributors] do business is very important, and [if this matches ours], it often improves communication and works well.”

For Volker Grunwald, Evonik Degussa’s

president of international sales, the use of distributors in the specialty chemical sector makes excellent sense. “Today, we are looking to select [distributors] according to product applications and customer field where they have better coverage and can create better re-

Distributors are having to become more professional and flexible and invest in technical service

sults. We focus on the bigger customers and reduce the complexity of our operations by using distributors.”

In essence, he notes, “by handling a broader portfolio of products and customers in the market, distributors can do a better job and the customer gets a better deal as well.”

GROWING TREND TO DISTRIBUTION

The move among producers to establish strategic distribution partners is a general trend, Grunwald believes, with the result being that distribution volumes currently are growing faster than chemical consumption worldwide at the moment.

He believes they will continue to do so, especially in certain sectors where the customer base is fragmented.

Speaking from the distributor’s point of view, Michel Dubois, corporate strategy officer at Azelis, noted that there has been a transformation of the chemical industry and the specialty chemical distribution sector over the past five years. There is now a global offering coming from the leading players. This, he described as a “mega-change”, and one which will accelerate in coming years.

Azelis CEO Joris Coppys also emphasized that trends in specialty chemical distribution are being driven by developments going on at principals, including merger and acquisition (M&A) activity, globalization and the transfer of production into emerging markets.

“We see more and more outsourcing”, he noted, “but it is only relatively recently that the drivers for change have been introduced, and the pace is now accelerating.

“Distributors need a certain size and span and need to understand the strategic direction of their principals and their investments so they can be aligned with them in the long term. Partnerships need to be long term to support the investments distributors need to make to become more professional and increase value-added service.

“We also need to be able to be the commercial front-end [of the principals] and defend their brands, etc.”

Bluestar Silicones’ Chalvon Demersay agreed completely with Coppys’s point. “These trends will continue – complexity reduction is a key driver and the concept of critical size is essential – if you can’t get it, you need a partner either on a product line basis or geographical basis”.

But, he sounded one note of warning on the threat of traders coming into the market to sell to customers at the tail end of the size spectrum, but without the service element that specialized distributor can offer. They are becoming able to do this, he explained, because of the greater and much faster open flow of information in the marketplace today.

“How can you protect against this and the market disruption it might cause?” It is more critical in emerging markets such as China and Russia, he commented, and also possibly more so in Europe since the crisis in 2008, after which some customers became more sensitive to cost than service.

Azelis’s Dubois agreed that knowledge transfer is an issue in a large, fragmented customer base, but reassured that distributors should be able to reach all customers. “Critical mass is important – if the distributor can get the scale, it can achieve efficiency and can create an edge in the market.” Thus, all customers can benefit, no matter what their size. “We don’t differentiate by customer size”, he added.

Edgington also agreed, suggesting that there needs to be some control on information flow between principal and strategic distributor to ensure that smaller distributors and traders do

OPEN COMMUNICATION

SOCIAL MEDIA OPPORTUNITIES?

The talk of communication and information flow led participants to a discussion of the novel uses of IT and social media in their companies and beyond. Facebook, LinkedIn and the like have millions of users, and offer the potential to reach communities created around specific interests.

Chalvon Demersay noted that Bluestar Silicones has established a young persons’ user group within his company – the “digital natives,” due to their familiarity and agility with modern IT – to brainstorm and bring ideas forward as to how social media might be used beneficially. The group goes across all functions and encompasses a lot of expertise.

“The speed of networking at work is very slow, and there are still many barriers,” said Chalvon Demersay. “We need

to be very proactive in this area, as who goes further and faster can win the battle.”

For instance, there might be ways of increasing the speed of regular reporting of figures, rather than just seeing outdat-

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VOLKER GRUNWALD
Evonik Degussa

ed quarterly information. “If we push the flow of information, people can then react earlier.”

David Edgington, at CP Kelco, chipped in with the fact that his company is beginning to embrace e-learning, and has developed a course on the company that could be used by

distributors and their sales forces to learn about CP Kelco, its business and operations.

“The system is quite powerful, it asks questions and measures and validates the performance of those taking the course,” said Edgington.

Joris Coppys of Azelis expressed his interest in the use of social media to promote not just Azelis but its principals and their products – as an adjunct to direct marketing activity.

Although, as Bluestar Silicones’ Demersay pointed out, this needs to be done under control and with dedicated personnel to execute.

Volker Grunwald of Evonik Degussa advised that “you need to drive [social media] where you want it to go and with a certain amount of control. You need to have a vision.” ■

not obtain access to this information. Azelis's Benoit Fritz added that traders simply can't develop the intimacy with suppliers and customers needed in today's markets. "How you build customer intimacy is critical. Commercial transactions are not intimacy – it's down to visiting, building links and understanding positioning and branding."

CHOICE OF STRATEGIC PARTNER

The move from regarding distributors as third-party sales outlets to strategic partners has not been an easy one, the Roundtable participants agreed. Evonik Degussa has taken a systematic approach to analyzing its distributor needs in recent years and, as noted above, has cut down the number it uses dramatically, explained Grunwald.

This has meant a big change in its organization. "The choice of strategic partner is a crucial one and we need to ensure we are going to see performance, transparency and reporting," he emphasized. Evonik Degussa has developed a sophisticated approach to score distributors during selection and monitor their performances thereafter.

The screening criteria cover such things as market knowledge, technical and service capabilities and financial strength. Monitoring involves a number of key performance indicators (KPIs).

One of the key KPIs, explained Dubois, is the number of new customers added by the distributor over a given period of time. Coppys added that he sees this trend to measurement of distributors as increasing. "We need to measure sales and the growth of business – sustainable margins are a key driver for large principals."

INTIMACY

At CP Kelco, explained Edgington, personnel from strategic distribution partners will often be brought into company meetings so employees understand what the strategy is and become more a part of the overall team. "We sometimes feel it is useful to give them a 'brand bath' so they have wider understanding of what we are doing. When we select a distributor as a channel to market, we try to explain all this to them."

Grunwald added that Evonik Degussa recently has been going even further and temporarily swapping personnel between the company and the distributor to ensure greater understanding. This has been done a few times so far with great success, especially where issues have been identified and a certain momentum created to resolve these. This was generally viewed as a good idea by those at the Roundtable.

The closer the two partners can work, the better, noted Grunwald. This will improve the cost position and eventually the end-customer will see this and recognize the fact. "If we look

TAKING PART IN THE ROUNDTABLE



Pascal Chalvon Demersay, CEO, Bluestar Silicones International



David Edgington, Vice president, CP Kelco



Michel Dubois, Corporate strategy officer, Azelis



Volker Grunwald, President, international sales/regional president Western Europe, Evonik Degussa



Benoit Fritz, Principal development director, Azelis



Joris Coppys, CEO, Azelis

Also present: **John Baker,** global editor, ICIS

at the final customer and they are happy, then we are both happy," he concluded.

Coppys agreed with this. Investments by distributors, he noted, are bringing the total costs to market down and taking them deeper into the market, "which is what we want. Added value and excellence are not an added cost, but a necessity."

OPENNESS AND TRANSPARENCY

At Bluestar, added Chalvon Demersay, the distributor strategy is a little less advanced, but he has a vision to break down the internal fear of using distributors and move from viewing them as third parties to strategic partners. "We need to innovate in marketing, not just in

A close partnership needs open and honest communication to derive the optimum benefits

R&D," he explained, "and partnership with distributors is a good opportunity." A key step is to be open to sharing information.

Grunwald noted: "If transparency is there, it is easier to understand [each other]. If there is no understanding or transparency, there is no advantage." Edgington added that it is often beneficial for producers and distributors to get together to check whether they are in agreement and proceeding in the right way. "Feedback is important – principals can get it wrong and people on the ground often know better," Edgington said.

Chalvon Demersay added that it often helps also to check that investments you want to do as a distributor are in line with the value drivers of the markets you want to serve. "In some areas, you need to know the use of the product at the customer and need lots of technical expertise. In other areas, there might be a need for

very small lots of product, so the key ability then is to be able to subdivide, and then it becomes a logistics issue. Priority investment may not be the same in both cases. Therefore, you need to make an analysis and talk – if you don't, you can't correct any issues."

One way of making sure principals and distributors have this intimate communication is to establish links between the two at different levels in the organization: in marketing, logistics and even at the most senior levels.

As Azelis's Fritz commented, "you need to create a couple of people who know the [principal's] business" so they can be the points of expert contact. Having such dedicated and knowledgeable contact people facilitates better understanding and communication.

Evonik Degussa, explained Grunwald, has set up round tables in the US, where the company CEO and heads of five distributor companies can meet with business unit heads around one table to discuss issues and try to improve things at a strategic level.

CONCLUSION

From the expert insights around the table, it is evident there is a shift in the relationship between specialty chemical producers and distributors underway – a shift that is accelerating as market conditions drive producers to greater reliance on distributors.

This movement requires close partnership between these two players in the supply chain and open and honest communication to derive the optimum benefits. This will inevitably feed down to customers of the products being brought to market, in terms of better product and market knowledge and technical service, not to mention cost-effectiveness.

Truly a "win-win-win" situation – if the trust and information flow can be built up through long-term partnerships. ■

For more information on specialty chemical distribution at Azelis go to azelis.com/en