Ongoing trends in European and Central European chemical distribution

This paper is mapping the trends and actual developments in the chemical distribution market. It should give actual overview of market sizes, trends and developments, dynamics of the chemical distribution markets and key companies acting on these markets by analysis of secondary figures. Different characteristics, strategies, objectives and key success factors in chemical distribution enterprises are discussed in this paper.

Introduction

The European chemical distribution market size in 2015 reached level 168 billion €. Chemical distribution market grown by 6.5%, expected growth in 2017 and 2018 is on level 6.2% CAGR (Burridge 2014, p. 14). The growth is driven by emerging economies; growth in west European countries on level of 1.6%, different situation is in Central and Eastern Europe where the growth is on level 10.1% in period of years 2012-2015. Chemical distribution market tis categorized to two main segments – Commodity and Specialty chemicals. Commodity chemicals are produced and distributed in bulk, pricing is quite transparent and with limited sources. Commodities are traded basically without necessity of technical support and expertise of distributor. Commodities without petrochemicals make up 46% of all chemicals traded. Estimated CAGR for commodities is 6.2% and market size about 97 billion € including petrochemicals. Specialty chemicals are produced and distributed in smaller volumes. Quite often specific products are produced for few or even single customer, as well as tailor made solutions and special formulations for specific applications. Estimated CAGR in specialties is 7.0% with market size 71 billion €.

Objectives of the paper

The aim of this paper is to bring the overview of the actual situation and trends on chemical distribution markets in Europe with accent on Central Europe markets. By identification of trends will allow creating a list of opportunities and threads for enterprises acting on chemical distribution market.

The partial objectives:
- to characterize and compare the distribution companies by their focus and economic indicators
- to analyse current situation and create list of main ongoing trends in chemical distribution
- to identify the actions increasing effectiveness of distribution companies
Methodology

Based on the available European statistical data, business reports, annual enterprise reports we processed information on the actual situation of chemical distribution enterprises. Based on the available information we compared and classified distributors to several classes. Consequently, we have created an overview of the actual trends and identified opportunities and threats on the distribution markets, which will directly influence competitiveness, effectivity and profitability of chemical distributors in changing European market.

Segmentation of chemical distributors by size

In general 85% of all chemicals are sold in B2B directly and 15% through indirect channels as traders, agents and distributors. European distribution market is covered by more than 2000 companies with revenues 47.5 bn €. (Chelliah 2013, p. 109) First group consisted just from 10 biggest chemical distributors contribute on total with 13bn €, which represents 27% of total revenue value. This group is characterised by revenues over 0.4 bn. Second group characterized by revenues in interval between 40 million to 0.4 billion € consists by 92 distributors with total revenue at 15bn €, value represents 32% of total revenues. Third group consists by more than 1900 companies which generated less than 40 million € per company. It is far the biggest group representing 95% of all chemical distributors with revenues generated on level of 19.5bn €, this is 41% of total revenues (Hornke 2013, p. 66). It is obvious the market is quite fragmented and SMEs contribution on revenues is significant, with value creation for high number of processing companies. In fact every industry sector with manufacture relies on distribution chain as these companies represents the chemical producers locally and providing specific added value services.

Figure 1: Distribution market growth by countries or regions in 2008-2014
Source: author

Usually service level of the distribution companies is different and depends on couple of conditions: on focus of specific distributor; on supplier portfolio; geographical presence; in case of SME also on investment strategy of the owners and the phase of economic cycle. According to FECC data distribution market growth in West Europe between 2008 and 2014 was below 2% yearly, In Central and Eastern Europe yearly growth reached 7%, this is clearly visible also on Figure 1. Another country with significant growth are Germany and Turkey. This difference shows significant influence of country GDP and industrial production growth on distributor’s performance. The amount of employees in this sector is close to 35 thousand with about 1600 working sites.
Segmentation of chemical distributors by types of chemicals sold

Chemical distribution companies are often compared by focus on products which they sold. In principle two major groups of chemical products are being produced. Basic chemicals and products usually sold in large volumes with widely known and used standards are called commodities. Usually this group of products is being sold in bulk or wide range packaging including returnable packages of distributors, which own the specialised equipment for repackaging, diluting, mixing or blending and even for recuperation of used chemicals. Distributors oriented on commodities had to invest significant capital to facilities and effective logistic and handling of packaging to be competitive and profitable, in general the raise of volume increase effectivity and profitability of this kind of business. Commodities are often hazardous chemicals, flammables or environmentally dangerous, distributors often own specialised trucks to serve customers with own logistic service. Commodities are mostly generic molecules produced locally; active radius of producer is in range 1.000-1.500 km very often. On the market is available limited amount of companies acting as full scale commodity distributors. (VCI 2013, p. 3) Usual competitor of distribution companies are local producers. This business is characterized by high entry financial barriers, usual short terms trading and transactions with typical non-exclusive relations with producers. This shows the customer orientation and relationship is more important than focus on relation with nonexclusive supplier. This kind of business shows lower growth than overall distribution business due tendency of producers to cover local markets by own sale services, additionally maintenance and increased environmental standards costs lead to consolidation on local and regional levels to keep efficiency of distribution chain.

Specialty chemicals belong to second major group of products traded by chemical distributors. The specialty products are normally sold by exclusive distributor within then area together with additional technical services. Often distributors offer application laboratories, pilot plants, laboratories, where customers are able to test and optimize their products with distributors support and know how. (Rothman 2014, p. 8) In the past this function was mostly provided by producers, the aim of increasing number of sold products by distributors lead to investments in such facilities to have chance to offer solution based mainly on products sold by distributor, secondary such investment gives the opportunity to provide high level services to medium and small size customers, which are not in scope of producers by size of consumption of specialty product. Such services and need of technical service, not only sales team makes this business intensive in manpower and for orientation on employee development in specific knowledge. Usually university graduates needs several years of training and experiences to become fully qualified. Specialists often serve national eventually regional in few applications even European market. The specialty products are often branded and are produced mostly for specific industry or application. Specialty chemicals are mostly not repacked. (Research and Markets 2013, p. 21) The business with specialty chemicals is characterised with long terms partnerships between distributors and producers, working on exclusive base, often producer use distributor logistic chain to serve direct customers, exclusivity ensure the open communication about pending projects and activities. Warehousing and logistic service is usually not as important as in commodity sales. Added value per unit is higher than in commodities. Effectivity is measured by costs in use – so performance of the product is extremely important. The amount of distributors dealing with specialty chemicals is much higher, often small and medium size companies with few or just one main principal. Such companies have extremely close relations with principals and differentiate with specific customer services and market coverage locally.
Chemical distribution market situation and actual trends

European chemical distribution market used to drive by new chemical and innovated materials used in manufacturing and distribution companies focused on product portfolio optimisation to be able to offer newest cutting edge materials and they were able to keep those products as significant sales and profit generating items, although life cycle of chemicals shortened in general. (Fermont 2007, p. 92) Another ongoing trend is quite critical for even biggest distribution companies; it is process when increasing number of chemical producers contacting directly end users of their products and trying to eliminate the distributors as much as possible from their sales channels. This approach is not new and the process speed up after crisis in 2008. Some research sources reveals that 80% of producers trying to sell their products through chemical distributors only to customers with annual consumption lower than 100,000 € p.a. (CBA 2015, p. 4) This trend leads to limitation of sales possibilities for distribution companies and at the same time lower effectivity of invested capital, especially if company invested into additional services to boost the sales. Similar effect on investments is coming from EU legislation and compliance, regulatory framework has a significant impact on investments and costs of distribution. As main contributors can be taken REACH and CLP classification. Apart of direct implementation costs are generated additional secondary costs on additional human resources and expertise. Secondary additional certifications and quality systems on top of common ISO and GMP+ are being demanded by customers for example BRC, SQAS, IFS, Fair trade, Bio, GDP and others. (Chelliah 2010, p. 226) With current needs for capital investments distributors started to cooperate together and increased amount of merges, partnerships and acquisitions is reported in last six years. (Whyte 2012, p. 2) This approach gives a chance for SME to share expertise on quality and compliance management and partly increase also their effectiveness in distribution. Key factors influencing European chemical distributors are listed in table 1.
### Table 1: Key factors influencing the effectiveness of European chemical distributors

<table>
<thead>
<tr>
<th>Factor</th>
<th>Relevant Considerations</th>
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<tbody>
<tr>
<td>Company size</td>
<td>Geographical coverage with same producers, purchasing conditions, value added services.</td>
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<tr>
<td>Business network</td>
<td>Strong relationships with customers, special relations with suppliers, partnerships.</td>
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<tr>
<td>Financial resources</td>
<td>Needs of significant investments and capital expenditures to keep in good position on the market, compliance costs.</td>
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<tr>
<td>Market portfolio</td>
<td>Supplying the growing market with properly selected products is critical success factor.</td>
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<td>Added value services</td>
<td>Additional services for local customers are typical approach to be preferred partner on saturated markets.</td>
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<td>Human resources</td>
<td>This is challenging and problematic area, with high demand on qualified expertise. Becomes to be critical factor for local success.</td>
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<tr>
<td>Quality management and regulatory compliance</td>
<td>All companies run the compliance dpt., just few excel and offer excellent service for customers. This factor makes is often the one which makes distributors attractive.</td>
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<tr>
<td>Group international network</td>
<td>This factor seems to be connected with company size, just often SMEs cooperate in group much better as large distributors with complicated internal structures.</td>
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<tr>
<td>Strategic planning and execution</td>
<td>Focus on ongoing and future trends is essential for recognition of opportunities, threats and challenges. Strategic planning should prepare distributors on changes and modify their approach and tools to maximise their effectiveness.</td>
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<tr>
<td>Customer relationship management</td>
<td>CRM systems are often being used just as reporting systems to provide information for categorizing customers and potentials of products, eventually measure effectiveness of sales teams. Still there is high potential to use existing CRM systems to strengthen relations with suppliers and establish platforms which will provide regular market updates and product reports to both sides.</td>
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Table 1: Key factors influencing the effectiveness of European chemical distributors  
Source: author

# Approaches increasing the effectiveness of distribution companies

Saturated markets create pressure on chemical distribution companies, to modify their market approaches. It is not possible to reach the same effectiveness of service to from high volume to small customers. Various customers and industry segments demand different services, resources and approach. This leads to differentiation of distributor internal structures to serve specific segment with customized strategies and segment based approaches. To follow this approach it is necessary to understand specificities of industry segments and to be able to develop processes and services which meet customer needs and at the same time are effective enough to generate profits. Proper strategy is needed to decide which segments should be serviced by own personnel, which has to be outsourced and which will not generate profit and should be abandoned.

Management needs to take into consideration five main factors:
Selecting a product portfolio and building the partner network
Selecting the proper products with reasonable potential in distribution is critical, using collaboration and partnership to reach the critical mass to get purchasing costs on reasonable level is necessary for SMEs. Distribution company can be valuable partner for chemical producer by bringing of knowledge of local markets and bringing existing relations with potential customers, which producer does not know, or is no table to effectively serve.

- Definition of segment strategies
Internal structures of distribution companies should be optimised to effectively servicing their segment and customers. The costs should be transparent to be able to differentiate the role and objective of each structure, not all segments must be generating high profits, but can be crucial for bringing synergistic effects. These approaches will allow defining the targets, identifying valuable future trends and markets and contributing on product portfolio development, or just define activity on opportunistic spot sales. Segment strategies and different approaches by segments then can be built into the cross segment concepts, if this action will enhance their effectiveness.

- Analyse and understand industry segments
Analysis a customer portfolio in each segment will allow identifying opportunities to increase effectivity, or to find new products with interesting potentials, which will bring synergies with existing products. This will help to identify the trends in industry and such regular analyse should be one of basic sources to define medium and long term strategy and targets.

- Process orientation and definition of ownership
Distributors and partly also producer's needs to precisely define the competences, activities and processes within then serviced area or country. Underestimation of this factor importance leads to misunderstandings and future conflicts between producers and distributors and often is the real reason to break cooperation. Surprisingly this is possible to observe in SME, as well as major distribution companies.

- Costs transparency
Market distribution potentials are taken together with costs to evaluate the business potential. Additionally expenses on marketing, sales and distribution are planned based on these figures. Further analyses of cost structure can bring the ideas how to optimise the processes, packaging, or logistic services, or it can show company position and possibilities compared to competitors.

**Conclusion**

The chemical distribution market is growing in recent years and expectations are clear this trend will continue in midterm period. This paper offered and view to actual European chemical distribution industry, compared and characterized distribution companies by their specific attributes. The list of ongoing trends was investigated and the key factors influencing effectiveness of distribution companies were identified. To maximise the market potential needs to follow key factors and focus on the critical ones to differentiate company approach from competitors. Differentiation includes the selection of suppliers, logistic partners, compliance services, group strategy and finally also customers. Operating in group with clearly defined strategy and approaching the EU market on global scale not focusing on selected country markets will be one of the most important success factors in achieving of profits on scale and group services in chemical distribution. Product portfolio, partner network, definition of segment strategies, analyses and understanding of industry segments, process orientation with definition of ownership and costs transparency are approaches which leads to increased effectivity of chemical distribution companies and their competitiveness.
Literatúra/List of References


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chemical distribution, european chemical distribution market, success factors
chemická distribúcia, európsky chemický distribučný trh, faktory úspešnosti

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M21, O14, M31

Résumé
Súčasné trendy na európskych a stredoeurópskych chemických distribučných trhoch

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