Status of the Chemical Distribution Sector

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Chemical distribution: Overview & key data
Direct sales (still) dominate the chemical industry

In chemicals outsourcing rates vary a lot by segment ...

... from close to zero in highly concentrated end industries

... to north of 80% (e.g., laboratory chemicals/farm-gate agro chemicals)


Note: In all Industries, 3rd party distribution varies a lot by product, application and region

Source: Wolk; Marketline; Baustoffmarkt; Eurometal; BCG analysis
End-industry specifics and market development drive
market trends with implications for chemical distributors

Market drivers
1. Suppliers and customers streamline distribution relationships—distributor capabilities per end industry as must have
2. Market consolidation: Distributors expand via M&A activities
3. Distributors strengthen value chain position via value-added services
4. Increasing regulation drives growth of large distributors
5. Industry fragmentation and geography drives degree of outsourcing
6. Digitalization will likely change the value chains

Implications for chemical distributors

- Proof of capabilities in specific verticals/end-industries essential
- Build regional/multiregional reach and broad product portfolio—to become attractive for preferred partnerships
- Principals are actively managing distribution management and establishing CoEs, e.g., using 2-layered distributor model to optimize their activities or “encouraging” business units to centralize distributors
- Cross-border M&A in specialty chemical distribution recently started, e.g., IMCD, Azelis following the lines of “full-liners” (Brenntag, Univar), creating a sub-set of players with wide geographical knowledge
- End-industry specific value added services of growing relevance
- Develop technical capabilities and build application labs, increase value-add offered on top of distribution chemicals
- Expand service offer continuously (e.g., including supplier development)
- Ensure strong regulatory capabilities
- Take advantage of M&A opportunities with smaller players
- Very different levels of end industry consolidation (e.g., paper vs food processing industry)
- Leverage deep market understanding to find attractive spots within industry as well as geography
- Stay flexible to adapt to changing market conditions
- Currently often parallel and not always consistent efforts of producers, customers (e-procurement) and distributors
- Disruption potential of market places yet to be proven—but potentially very high

Source: BCG analysis
Sustainability, Security and Safety
Circular Economy provides activities along the value cycle
Percentages below show the share of surveyed companies that are active and successful in each area

- **Raw materials**
  - Collect: 47%
    - collect and recycle products and materials at the end of their current life to close the loop
  - Process: 54%
  - Use: 42%
    - use products responsibly, not excessively to extend their lifetime and to reduce pollution
  - Produce: 18%
  - Distribute: 12%
    - sell access (rather than ownership) leasing or sharing products

- **Recycle/new input**
  - Recycle: 32%
    - design products that are recyclable and reusable
  - New input: 44%
    - buy materials that are regenerative or recycled

- **Design**
  - Design: 41%
    - make product waste-free and resource-efficient as possible

Results joint study from WBCSD and BCG on ~ 100 leading CE companies across industries

Source: BCG
Chemicals: Significant disruption over coming decades

Short-term: EU-ETS Phase IV reform triggers new costs—\(2030 \sim \€1.5B\) in total until

Medium term cost risk could increase up to \(\€1B\) annually, depending on further CO\(_2\) regulation

Fully decarbonizing the chemical industry will require significant investments—
almost \(\€100B\) over coming decades

But: New “low-carbon” opportunities emerge, e.g., in battery chemistry, hydrogen & CCU