

Please keep an eye out for our upcoming article, *Innovative Chemical Distributors Gain a Digital Edge*, expected in July 2020.

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How Will Digitization Affect Chemical Distribution?

Will digitization enhance the chemical distribution sector—or make it obsolete?

While incumbent distributors are moving slowly to digitize their internal operations and their external customer and supplier interactions, market leaders aren't waiting. They're investing significantly in digitization. And new entrants, such as Xenon arc, are playing the digital card, presenting new channel options to both suppliers and their end customers.

As digitization becomes a reality, therefore, many wonder about the outcome. Will suppliers and end customers use the advantages of digitization to interact with each other directly, cutting out the middleman? Or will digitization simply strengthen existing business models, boosting transparency and cutting costs?

We believe both are true to some extent, with different distributors being affected in different ways. Some relationships will certainly shift, for example. Customers in some chemical value chains will be able to interact directly with suppliers through digital channels; as a result, many will ultimately cut out their distribution middleman. Other customers will continue to organize their supply through third-party distributors.

Outcomes will vary by the distributor's market position as well. Market leaders, for example, have an excellent starting point for exploiting digitization, with access to, and the trust of, many small, local customers, along with a growing ability to provide their customers with both chemical applications and value-added services, and the assets to service local supply chains. These unique advantages give them an upper hand in using digitization to expand the value already added by their analog platform.

In addition, the implications of digitization for individual distributors are inevitably linked not only to market position, but to the quality of the business. We expect those with a clear competitive advantage in terms of quality to be able to grow the value of their analog platform business into the digital world.

For those distributors with the right market leadership, chemicals value chain, and/or business quality to avoid disintermediation, we find that digitization can strengthen the business model.

A Continued Growth Market

Even as digitization progresses, there is naturally a great deal of short-term uncertainty for the sector due to the impact of COVID-19 on the economy as a whole and on the eventual recovery. Currently, forecasts for the depth of the recession in the industry range from a 10% to a 20% decline in market value in 2020,