

# The Chemical Distribution Industry

## Shaping a Future-Proof and Sustainable Transformation

The chemical distribution business is a diverse industry that provides customized solutions for important sectors such as pharmaceuticals, paints & coatings, agriculture, cosmetics, food & feed, and automotive. At the center of the supply chain sit a critical partner for both global corporations and SMEs: distributors. Distribution's role has become particularly relevant over the last three years as the global supply chain faced unprecedented challenges brought on by the coronavirus. But the supply chain did not face these alone; distributors also struggled in the aftermath of the pandemic. Ralf Kempf asked Lars Wallstein, IMCD's Managing Director Germany, who was elected in September as President of FECC — the European Association of Chemical Distributors — about the current market trends and the organization's vision for the sector's future.

**CHEManager: Which developments, both among your customers and the distributors themselves, do you see as challenges for the sector — and which as opportunities?**

**Lars Wallstein:** There is a silver lining to the recent challenges we've all faced in the chemical industry. When times were tough during the pandemic, distribution stepped in to prove their enormous value, seamlessly linking all partners along the value chain to keep things moving.

That said, in 2023, the chemical industry faced new challenges that trickled down the value chain. It started with low demand. Throughout the year, we've watched Europe struggle with a lack of consumption and investments, and, at the moment, we still don't have neither China nor US picking up the slack. As a result, we saw destocking in epic proportions in the first part of the year; luckily, we see early signs of recovery. At the same time, most of the industry struggled with price erosion, while watching structural costs increase rapidly due to inflation. To make things more complicated, we see a heightened regulatory burden and rise costs of CO<sub>2</sub> abatement, all while the wars in Ukraine and Israel sit on our doorstep. To say the least, our world, and chemical distribution, has become more complicated and divided.

Now, we see major chemical manufacturers and customers revisiting

their global manufacturing footprints with aims to strategically adapt to a lower demand and higher cost in Europe. Nevertheless, chemical distribution plays a critical role in the conversation. We are enablers of global trade. Unlike chemical producers, our members are comparatively asset light and adaptable, offering arbitrages and added-value services whilst enabling product development and innovation. Mid-term, the biggest opportunity lies in digitalization, where most sit on a goldmine of data that can be utilized to our advantage. Combining this knowledge with our hand-on approach to distribution, we will be able to provide any product, formulation, and service in a more sustainable and circular way.

**The 2023 chemical distribution survey by BCG [see pp. 10-12] considers the outlook for the chemical distribution market to be positive. Where do you see the possible main drivers for this development?**

**L. Wallstein:** Although BCG predicts lower growth rates than in previous years, several factors can be identified for more positive development. One significant driver is certainly the trend of outsourcing. It is simply more effective and efficient to service the vast number of chemical downstream users with a broader span of products from several sources, especially when it



Lars Wallstein, Managing Director, IMCD Germany, and President of FECC

comes to b- and c-type customers that are geographically dispersed.

Typically, our members prioritize closer relationships, allowing for more touchpoints, value-added logistics, and other regulatory, formulatory, and financial services. Chemical manufacturers, however, have different pri-

---

*“The European Green Deal requires effective partnerships along the value chain.”*

---

orities on their agendas. Today, they are increasingly focused on simplifying their manufacturing, re-tooling and electrifying their asset base, decarbonizing their products, managing their risk of product obsolescence, and making strategic asset allocations. Despite this, we remain customer driven which ultimately best serves our partners at both ends. We keep our focus on offering our partners smarter solutions, like flexible sales cost, lower working capital, lean processes, optimized warehousing, and efficient supply chains. Additionally, diversification of sales channels is crucial in any go-to-market strategy to allow for flexibility in dynamic and ever-changing market conditions.

**According to BCG, principals are willing to diversify their distributor base, but they expect excellent distributor performance. What requirements do chemical distributors face?**

**L. Wallstein:** In the end, the chemical distribution business is a people business. Our people are our assets. Chemical distributors must understand customer requirements to offer customized solutions and we must be prepared to be agile and quick in response to changing market conditions. At the same time distributors need to tie into their suppliers go-to-market-strategies. In-depth market, industry, and customer knowledge is essential for this. The broader the regional coverage and deeper the application expertise the better. At the same time, first-class service delivery matters. Offering product know-how, technical expertise, efficient logistics solutions, and sizeable inventory levels is just the tip of the iceberg. It's equally important to offer flexible financing and payment options, on-time delivery, and transparency at every step of the way to prove a reliable supply chain. Additionally, the use of digital technologies and pro-active sustainability initiatives are increasingly important. This enables chemical distributors to build and maintain long-term partnerships, with customers and suppliers alike, often on an exclusive basis.

**Sustainability has become an important factor in chemical distribution. What adjustments are distributors making to their portfolios and activities?**

**L. Wallstein:** Amongst other regulations, the European Green Deal requires effective partnerships along the value chain. The sustainability challenge is bigger than any single company can face alone. However, sustainability is not just an obligation; it's an opportunity for differentiation. Our members are required to meet the highest standards and need to comply with Responsible Care. Newer certifications, like Ecovadis or mass balancing systems such as ISCC+ and RedCert, are increasingly important to reassure partners of self-sustainability and to help create supply chain transparency. Chemical



distributors are an essential market intelligence resource for their principals and developers. Our high-quality market feedback, captured from hundreds of thousands of downstream users enables the development of novel products and innovative solutions.

*Everyone is talking about digitalization, but many industrial sectors are still not as advanced as expected. What is the situation in chemical distribution with regard to the use of digital solutions?*

**L. Wallstein:** Yes, I agree. A very long fuse and — so far — no big bang. Digitalization in our sector seems to be an evolution and not a revolution. I think we are seeing all elements of a successful digital transformation, certainly amongst the sector leaders, but also, amongst our startup members with new innovative approaches to digitalization. Those two elements need to come together. Today, we already see our member companies rapidly advancing towards cloud-based, safe and secure, state of the art, ERP and CRM systems — ideally in the form of global platforms to connect as much data as possible in all corners of the world. Product information management, data organization, and AI readiness are all hurdles as well as we look at sharing information about tens of thousands of products, many of which are highly regulated. Having a fancy website with great content and some product search functionality is a given these days; however, transforming the entire customer journey in a fully digital way is challenging in our industry. Whilst the interaction model has already changed, with features like online product search, platform transactions, and video calls, both customers as well as suppliers still prefer the personal interaction in what remains a complex, relationship-based, people business.

*Amid economic and geopolitical challenges, chemical distributors face investment uncertainties. In which areas do you think investment is nevertheless essential?*

**L. Wallstein:** There are several fields for investment. The obvious ones are the investments into the tangible assets, like offices, labs, warehouses, trucks, and trailers. Many of our family-owned members own such assets, sometimes for decades. They have a direct need to invest into sustainability. The asset lighter distributors must select and opt for those third party logistic/service pro-

viders with the most sustainable offering. Investments into digitalization is also critical not only to ensure data safety and security but also because suppliers and customers expect a best-in class digital experience. Fueled by new technology, like AI, data will soon

*“Sustainability is not just an obligation; it’s an opportunity for differentiation.”*

play a key role in offering more sustainable solutions and services, and you need to be ready for it. It’s also important to not overlook investments in people. The commonly referred to ‘war for talent’ is over; the talent has won. Being a science-based industry, expertise in chemical distribution is built over many years, and a loyal and always-learning workforce is essential. After all, we are in the people business. Finally, the geopolitical challenges require more robust and secure supply chains, and, partic-



© IMCD

ularly after a year of heavy destocking, need working capital investments. That, however, is obvious, and we know our members are well prepared.

*As change is everywhere, how does the FECC as an association providing advocacy, educating and supporting for their members adapt to the changing market environment?*

**L. Wallstein:** FECC does a great job supporting its members to keep pace with the latest trends and developments in all relevant areas, such as regulation, digitalization, and sustain-

ability. As a lean, European trade association based in Brussels, it provides easy-to-understand access to all relevant industry information, technical support, and networking opportunities. This includes a continuous flow of information on market and downstream user trends, developments in the chemical supply chain, geopolitical aspects, and international trade issues. Of course, we also focus on regulatory terms and conditions, and it is worth to mention that FECC also serves as a platform for small- and medium-sized chemical players, giving them a voice in Brussels.

We are particularly proud of our ‘early warning system’ for upcoming regulations. Through intensive monitoring and an extensive network, FECC can outline possible scenarios ‘ahead of the wave’ and develop guidelines to prepare the industry for changing framework conditions at an early stage.

The important pillar of personal networking is also promoted through regular webinars and the FECC Congress, which has established itself as the central platform for the entire chemical supply chain. Our main task

is to help our members to remain or become fit for the future.

*Chemical distributors will also be increasingly confronted with a shortage of skilled workers in the future. Are there any initiatives by the FECC to support its member companies in finding and, above all, retaining qualified employees?*

**L. Wallstein:** All FECC members naturally have their own strategies and activities for recruiting talent based on their respective needs and service portfolios. Many work closely with

schools and universities. However, we all know that we are competing with the major chemical manufacturers for the best talent. FECC is therefore specifically committed to giving the chemical distribution industry a face and positioning it as an attractive and future-orientated field of work. For this reason, the topic of ‘attracting and retaining young talent’ is regularly at the top of the agenda at FECC congresses, to which we invite young participants as part of young talent competitions. It is very important to us not only to talk about the topic, but also to start a dialogue with young talent and create a platform for exchange.

As a further development of this, we will be introducing the “FECC Young Talents Forum” next year; a pan-European network for young people from FECC member companies to network, gain specific insights and work in multicultural, multilingual, and cross-company project teams on certain topics of overall relevance.

*What is your vision of the future for chemical distributors? How can they play to their strengths even better in the future to further expand their role as a key partner to the chemical and pharmaceutical industry?*

**L. Wallstein:** It is a complex world we live in today. The challenges and opportunities that arise in this global reality require transparency and effective cooperation between all partners along the entire value chain. Chemical distribution plays a central role due to its important function within the supply chain. As the link between suppliers and customers in the chemical and pharmaceutical industries, distribution recognizes the requirements of all parties and focuses on smooth supply chains and effective supply. In addition, it actively contributes to solving the major sustainability issues. Here, chemical distribution can play a pioneering role by focusing on sustainable practices and promoting the development of environmentally friendly products. And finally, it is an important driver of innovation by intelligently sharing data between customers, suppliers, products, and applications, thereby creating a comprehensive solution space for the entire value chain.

Note: The complete interview is available on [www.chemanager-online.com/en](http://www.chemanager-online.com/en)

[www.fecc.org](http://www.fecc.org)