Distributor-Supplier Relationship in the Chemical Industry

A Survey of DKSH and FECC analyzes Distributors’ Expectations of Suppliers

Distributors face growing pressure to invest in technical expertise, formulation labs and regulatory setup to meet increasingly demanding industry requirements. To ensure that these investments are profitable, distributors need to develop long-term relationships with suppliers for sustainable business development. Which factors are therefore required to create a successful distributor-supplier relationship?

In recent years, the chemical industry has gone through many changes. Growing regulatory hurdles and a continuing outsourcing trend, combined with ongoing consolidation among distributors and chemical producers, have led to increased complexity and influence the relationship between suppliers and distributors.

To achieve sustainable growth and compete successfully in this challenging business environment, a closer collaboration between distributors and suppliers is therefore crucial.

Distributor-Supplier Relationship

Before the 2014 European Association of Chemical Distributors' (FECC) Annual Congress in Rome, DKSH, a leading market expansion services provider, in collaboration with FECC, conducted an online survey on distributors’ expectations of suppliers. This survey, which focused on representatives of European chemical distribution organizations, was created to capture and understand their views on how to improve the relationship between distributors and suppliers.
The survey carried out in March 2014, asked participants to rank their business expectations and deliverables of the distributor-supplier relationship by importance within the following six categories: product offering, culture and strategy, services for distributors, communication and information flow, contractual points, and structure and presence.

The following examples provide a first insight on the content of the survey. In the category **product offering**, which was ranked highest among the six categories, a supplier with an attractive product portfolio and/or attractive technical solution was rated the highest. When it comes to **services for distributors**, the most important expectation is to ensure that technical sales experts are well trained by the suppliers in order to function as an extended sales force.

With regard to **contractual points**, the top expectation is written and agreed exclusivity in terms of geography and application.

**Two Groups Of Expectations**

Upon evaluating the results of the survey, it was discovered that distributors' expectations could be clustered into two basic groups: "hard facts" and "soft values." "Hard facts" refer to traditional expectations such as the product offering or contractual topics. These "hard facts" are measurable and form the basis for any business relationship between a supplier and a distributor. On the other hand, "soft values" are not measurable and require a long-term investment in the relationship, meaning that they are built up together over time. Examples of these include trust and reliability, teamwork, and regular communication.

One could think "hard facts" are more important than "soft values" since they form the basis of a distribution relationship, but when we look at an example from the survey, say **culture and strategy**, the expectation that "a supplier is reliable and trustworthy" is rated significantly higher than expectations for the "transfer of existing business." In short, whenever distributors could choose a "soft value," they did, and this was consistent throughout the survey.

Additional insights that came out of the survey were that the importance of the expectations did not vary much based on the participant profile, nor did company size or geographical coverage make a difference. However, some diverging expectations occurred in the category **communication**: Bigger companies (more than 501 employees) found it more important that the supplier shared "market insights and product strategies." This might be because larger companies have often dedicated staff for market and business intelligence; hence the provided
market insights will actually be processed.

As a conclusion of the survey findings, efforts on both sides are required to develop the distributor-supplier relationship from a transactional level to a real partnership level. Both parties need to invest and have an agreed long-term goal, only this can lead to long-term cooperation. The "hard facts" remain important, the "soft values," however, are even more crucial to turn a collaboration into a successful, sustainable relationship.

**Formation of a Solid Partnership**

There is a clear trend in the industry toward investing in teams that work specifically on creating successful interactions and strengthening the relationships between both sides. Several blue-chip chemical companies have put in place "channel-management" structures, with managers who develop insights into the distribution industry and who closely interact and network with distributors. This highlights the growing awareness of the importance of distribution services by these large manufacturers.

On the side of distributors, there are more and more specific resources employed to build and develop relationships toward key suppliers, the counterparts for channel managers.

"In the case of DKSH, we have created a function called 'Key Client Management,' which is fully dedicated to developing our business with our major partners. This function provides the supplier with a single point of contact and coordinates all efforts internally across industries and markets. This creates and establishes a common strategy with the supplier to jointly grow the business over a long period of time," said Thomas Sul, co-head, Business Unit Performance Materials at DKSH.

In conclusion, it all comes down to building a relationship that goes beyond selling products and adding more value to a business. A partnership between equals is the basis for being successful in a market, together.

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