# Embracing e-commerce

Chemical distribution is entering a new digital era with companies able to access platforms that help reach new customers and understand buyers' preferences

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Mention e-commerce to a chemical distributor and enthusiasm and skepticism tends to follow in equal measure. For all the positives that digitalization brings, there are also many perceived negatives.

E-commerce can help reduce costs and improve efficiency, while also providing access to new markets and a larger customer base. However, it can also mean more competition, lower market share, potential job losses and potentially lower prices and margins.

A recently published NACD white paper considers the effects of e-commerce and suggests it is important distributors fully understand whether it is right for their specific business model.

The authors – all recent graduates of the association's Emerging Leaders program – researched the effects of digital business solutions and noted that the chemical industry will indeed have to make changes to encompass the end-to-end process of selling products. If done right, these changes will allow companies to differentiate their offerings, increase customer satisfaction and compete more effectively.

E-commerce is certainly not a new concept to the chemical industry; third-party dot-coms debuted back in 1999 and were met with an initial reaction of fear and frustration in the distribution market. Attitudes have since changed and many distributors are now looking to enhance their digital B2B capabilities.

There had been apathy amongst chemical players as many believed shared third-party platforms posed little threat because they were unable to compete in terms of logistics, regulation and compliance, and technology. These factors led many to think they could offer less value to the customer. Amazon's emergence on the chemical scene, however, has changed those perceptions.

"E-commerce is something that the industry has been a little worried about for a while. There's a certain ambiguity about it and what it will mean to distributors," says Will Crimmins, sales manager at Brainerd Chemical.

"This isn't something they're used to and they don't want to lose the intimacy of working with a customer directly on a telephone or meeting them face to face. They worry that companies like Amazon are going to cut into their market share – but we've got to remember that we provide a unique offering and many value added services to our customers. "

## LOSS OF MARKET SHARE?

Crimmins continues: "This will only be a threat to our industry if companies don't adopt their own platforms that provide data to customers and online ordering. I think if you just step back and don't change the way you do things, you'll eventually lose market share – you need to appeal to today's buyers. They want access to information in a quick and efficient manner."

Platforms like Amazon and China's Alibaba are well-known disruptors to other industries and the threat remains that these behemoths will attempt to do the same thing in the chemical distribution sector. The logistical strength of these huge online retailers has made the industry sit up and take notice. Amazon's ubiquitous platform, for example, provides immediate exposure to the marketplace and brings a level of familiarity to the growing number of Millennials now entering the work force.

With chemical distribution sales projected at $368bn by 2022, Amazon also has plenty of reason to master regulation and compliance in the way it has logistics, and to try to emulate the success Alibaba has had in the Asian market.

A report by consultancy Accenture looked at the impact of Amazon Supply since its launch in 2012. The online marketplace – now renamed Amazon Business – continues to expand, having

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grown from offering around 500,000 products to over 2.2m today. Although it is unlikely Amazon will make inroads in the sales of propylene and ethylene, it still represents a serious threat to chemical distributors.

It could make headway with paints, varnishes and additives, flavors, fragrances, reagents or surfactants, for example, thereby disrupting important segments of the chemical industry value chain. In 2016, Amazon Business's revenues surpassed $1bn and it has been growing at 20% each month.

"Traditional chemical distribution is not going anywhere but it is changing," notes Paul Broome, vice president of Chemformation, an online chemical data resource.

### LOOK AT CUSTOMER RELATIONSHIP

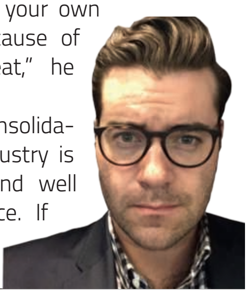
"Amazon may not be directly affecting chemical distributors right now but it is a worry. It may not be a threat today but this should make us think about what we're doing, the tools we're using and how we need to change our business to stay ahead. You should look at how you can strengthen your relationship with your customers and then, if something like Amazon does come in, you're ready," he says.

In 2000, Fred Buehler, then Eastman director of e-business, recognized that this new technology would "radically change our industry in a short term. The early adopters will win, and the laggards will lose." Indeed, chemical companies that insist on sticking with traditional selling methods may find it hard to compete in the internet economy. Many customers are now demanding electronic transaction capabilities, for example.

"E-commerce platforms are making progress but there are several factors that limit their full entry into the market," says Michael Tarr, director of purchasing at Tarr, LLC. "I personally don't think it's really going to impact chemical distributors because of the value they add.

"Much of the research on e-commerce says you need to adapt or die, that you have to create your own platform to fight back – but you should create a platform for your own reasons and not because of some perceived threat," he says.

Despite ongoing consolidation, the chemical industry is hugely fragmented and well suited for e-commerce. If structured and implemented correctly, distributors can leverage this fragmentation and their foothold in the market to find success through e-commerce platforms of their own.



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Michael Tarr
Director of Purchasing, Tarr, LLC

It is important to have a clear understanding of your company's capabilities to truly understand the potential impact of e-commerce to your segment. Assess how your business compares regarding the logistical advantages, value proposition and meeting of producers' requirements – and then compare that to Amazon and other platforms for a clear understanding of what your road map should look like.

"Third party platforms are going to affect segments differently. It's difficult to know what the impact will be and whether a threat actually exists," adds Tarr. "Just 10-15 years ago, e-commerce just meant being able to place an order online. With the emergence of third-party Amazon-type sites with their logistical abilities and the public awareness, we have no idea what that's going to do to the market."

"It's hard to pinpoint what will be a threat or opportunity. What distributors need to do is think about their own strengths and weaknesses, and what they can do to prepare."

Wolfgang Falter, chemicals and specialty materials sector leader at Deloitte Global, warns that distributors should be alert to the possible emergence of a "Chemazon" - a chemical industry e-commerce platform equivalent to Amazon that vies for the space between suppliers and customers.

### OPPORTUNITY TO ALIGN SYSTEMS

He estimates that distributors' customers, specifically their purchasing departments, spend 70% of their time searching the internet for product information and just 30% of their time on sampling, negotiating and purchasing.

For some, e-business presents an opportunity to align their systems around a new era of buyers and decision makers who prefer convenience and speed over peer-to-peer relationships.

Seattle-based TRInternational has first-hand experience, having listed some chemicals on Amazon to reach new customers. President and general counsel Megan Gluth-Bohan sees this as a fresh alternative to making a sales call. The company maintains full control of the inventory and manages physical fulfilment. "Amazon owns the mall, but we still operate the store," she says.

An article published by China Chemical Reporter quotes research published by Tay and Chelliah in 2011, which shows e-commerce platforms could only provide certain important functions with support of local intermediaries like distributors. These were on-time delivery, product availability, credit payment and technical support.

Distributors have nurtured relationships with their clients, and boast customer loyalty, better capacity utilization, lower inventories, and lower earnings volatility.

Amazon and similar platforms will have a hard time establishing loyal customers within many segments of the chemical distribution industry until they establish local "brick and mortar" distribution centers.

The key to success for current distributors is using a "boots on the ground" approach along with a strategic e-commerce platform that helps the company reach new customers and retain those who are looking to streamline their buying into an online platform.

Distributors should focus their recruitment efforts on hiring talent to take advantage of e-commerce platforms and leverage the assets they have to appeal to customers who prefer a digital option.

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Sales Manager, Brainerd Chemical

"There's definitely a transition going on. You need to get ahead and position yourself so that your business is more online," says Broome. "That means using e-commerce tools and hiring Millennials – are you hiring the right people to help your business grow?"

"It's hard to determine when it will finally tip and become an actual problem," adds Crimmins. "Our industry is very specialized and many of our customers are really old school but I expect we'll see a shift in the next five years. Convenience is king. People want information and they need things to be easy to access – they want a platform that saves time. Although not everyone offers that today, this is the direction we're going."

Digital technologies show tremendous potential to move the industry beyond current growth and productivity levels and deliver value in terms of innovation or increased reliability and efficiency. Digital technology can support companies in improving their understanding of customers, their interactions with them and their customer service. ■

The NACD white paper, "E-Commerce and the effect on the chemical distribution industry", was written by Paul Broome, Chemformation; Dan Cadenhead, Viachem; Will Crimmins, Brainerd Chemical; Juan Estrada, Miami Chemical and Michael Tarr, Tarr, LLC – all graduates of NACD's Emerging Leaders program.