WHITE PAPER

Chemical Distribution: The New Age of Winning

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Intro

The 2023 chemical distribution survey shows recent trends and evolving principals' expectations. The survey reveals a notable rise in third-party distributor usage across regions and chemical sectors. Principals require diversity in distributors and maintain the upward trend from previous years. They now demand higher distributor standards while being less tolerant of performance issues. The survey also examines China's special market dynamics. These findings emphasize the need for adaptable chemical distributors. By enhancing offerings, ensuring performance, managing costs, and embracing sustainability, distributors prove as essential partners for long-term success amidst evolving challenges.

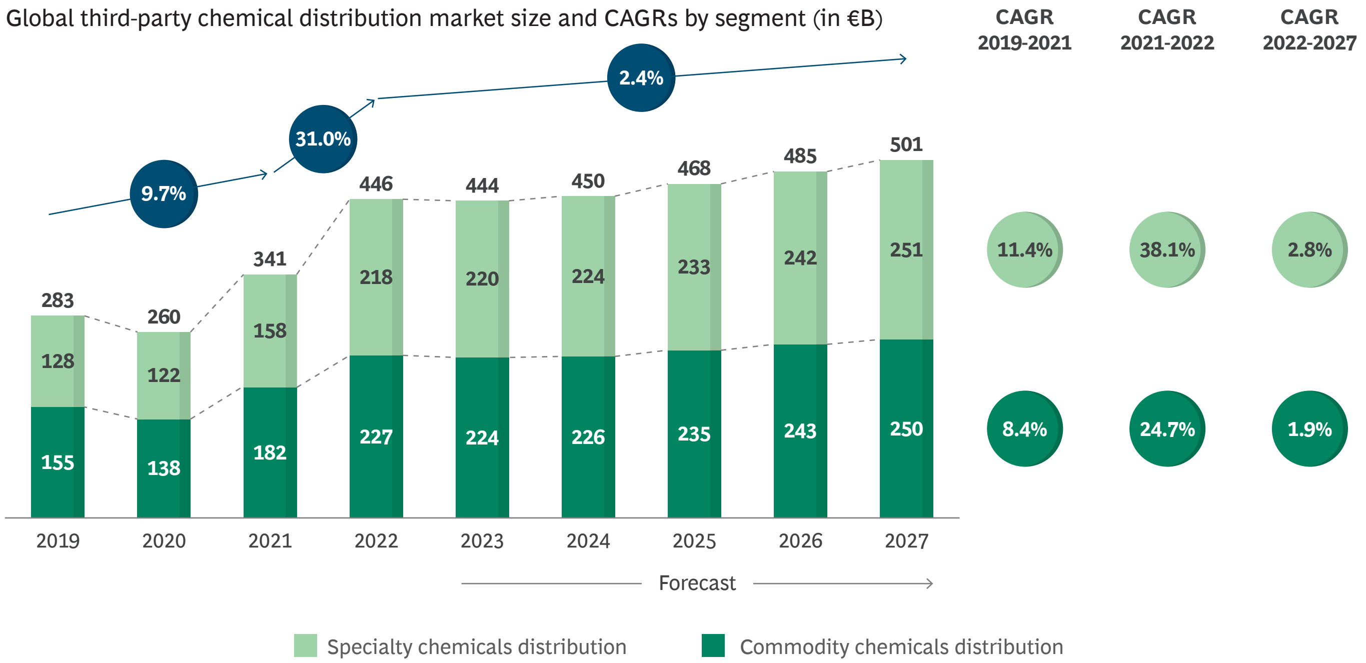
Eight Key Findings

To delve into chemical distributor performance and outlook, we analyzed market dynamics and surveyed more than 300 global chemical principals. The survey includes input from senior executives from all major regions, representing commodity and specialty companies. These results, building on BCG's earlier reports on chemical distribution in 2018 and 2021, reveal eight key findings about the industry's current state and future. We also gathered insights from 20+ leading distributors on market dynamics and challenges.

#1: APAC is key driver of positive outlook for the chemical distribution market
Following a notable rebound from the impacts of the COVID-19 pandemic with a compound annual growth rate (CAGR) of 9.7% from 2019 to 2021, the chemical distribution market maintained its positive momentum in 2022, with a never before experienced CAGR of 31.0% from 2021 to 2022. This noticeably strong year-over-year growth was mainly driven by distributors passing on higher prices resulting from both, the tight availability of product in market as well as volatility brought along by supply chain disruptions. However, over 80% of growth can be attributed to price increases, for some commodity distributors even higher. Volume increases have been negligible for most chemical distributors during those two years, implying that future growth rates are expected to normalize as price volatility stabilizes. On the contrary, for 2023, we expect a slight decline, with a CAGR of -0.5% from 2022 to 2023, caused by an overall lower demand for chemicals, as exemplified by the current trend of destocking among end customers, who increased their stock levels to mitigate previous supply chain shortages. This holds especially true for the European and North American markets. For Q1 2023, stock levels were still 9% above longer-term averages, indicating declines in overall demand for chemicals[1]. After 2023, the chemical distribution market is anticipated to grow again with slightly higher and steadier growth rates. For 2024, we expect a moderate growth of 1.4%, whereas the global chemical distribution market is projected to grow with a CAGR of 3.5% from 2025 to 2027, continuing to outperform the forecast CAGR for global GDP of 3.0% for that timeframe.[2] We expect a stronger growth path for specialty vs. commodity chemical distribution. Thus, it is anticipated that the global chemical distribution market will expand to reach a substantial size of €500 billion by 2027 and grow with a CAGR of 2.4% from 2022 to 2027 (see exhibit 1). However, in comparison with our forecast for the chemical distribution market from 2021, the overall growth outlook for the chemical distribution market trends slightly weaker. The rationale behind this prediction is slower anticipated growth for the underlying chemical consumption industry, especially in North America and Europe.

1. Jefferies, longer-term averages include data from Q1 2013 onward.
2. Real growth forecast on constant prices and exchange rate by Oxford Economics as of August 2023.

Exhibit 1 - Outlook on chemical distribution market



Sources: IHS; VCI; Oxford Economics; BCG.

Note: All forecasts are made at fixed prices.

When examining the geographical breakdown, we see significant differences in terms of size and growth. APAC represents around half the market and is expected to experience substantial growth from 2022 to 2027 with a CAGR of 3.1% to reach a market size of €74 billion by 2027. Rapid growth and industrialization in those regions, driven by political infrastructure and economic policies, have led to improvements in local chemical distributors' capabilities. They are increasingly aligning with international standards, offering professionalization and supply reliability, and expanding their service portfolios, technical know-how, and regulatory support. As a result, we anticipate that the APAC chemical distribution market will ultimately mature and catch up to the Western market in the next decade.

By contrast, Europe and North America have lower expected CAGRs of 0.9% and 1.5%, respectively, for the same period. The chemical distribution markets in these regions have already reached a certain level of maturity and saturation, limiting the potential for rapid growth. Nevertheless, we expect principals' outsourcing shares to keep growing up to 0.5% each year in Europe and North America until 2027, implying that the chemical distribution market outgrows the underlying chemical market. Furthermore, there is a trend of manufacturing bases shifting from Western regions to APAC due to lower labor costs, closer proximity to growth markets, raw material cost advantages, and favorable regulatory environments.

While many COVID-19-related issues have diminished in significance—namely, shortages in warehouses have given way to fully stocked warehouses—more recent challenges such as inflation continue to have a significant impact on the competitiveness of market players within specific regions.

The distributors' view:

Amid economic and geopolitical challenges, chemical distributors face investment uncertainties. Demand dips, attributed partly to destocking, are causing expected price reductions, especially in commodity chemicals; recovery is anticipated by Q4 2023. Distributors see European principals contend with energy cost and Asian competition, passing pressure on to them. For North America, distributors experience economic swings, while hoping that IRA (Inflation Reduction Act) will support for growth as it hits the road.

#2: We see significant increase in the use of third-party distributors across all regions and sectors

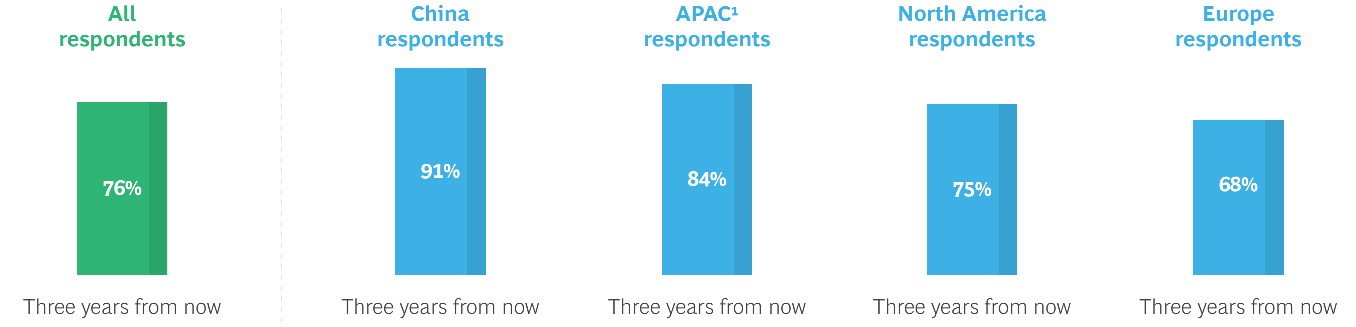
According to our survey, three out of four principals anticipate a substantial rise in their reliance on third-party distributors. Across all respondents, 76% expect the share of their outsourced sales to increase within the next three years. This anticipated increase highlights principals' inclination to establish strategic partnerships that leverage the expertise and extensive networks of their distributors to enhance their own capabilities and drive growth. Hence, the trend of outsourcing continues, albeit in a slightly dampened way. This year's result are only slightly lower than the 84% of our 2021 study (see exhibit 2).

Furthermore, the findings reveal regional variations in the use of third-party distribution: In China, 91% of the respondents expect an increasing outsourcing share in three years from now, as do 84% in APAC. Interestingly, the latest results show that the share of APAC respondents anticipating strengthened reliance on third-party distributors grew by 3 percentage points in comparison with 2021. As a result, Asian principals seem to strongly push their use of third-party distributors to expand their global market reach as the primary line of defense against potential sales declines in their home markets. This strategic approach highlights the crucial role third-party distributors play in navigating the complexities of international markets and facilitating market entry for Asian chemical companies (see key finding #8). At the same time, we see 75% and 68% of respondents in North America and Europe, respectively, expecting to increase their outsourcing shares in three years from now. Interestingly, comparing the results with the findings of our principal survey from 2021, we see a significant decline in anticipated increase of third-party distributors for North America and specifically Europe (-20 percentage points). While the underlying trend of increasing the use of third-party distributors remains unchanged, we see respondents in North America and Europe with a reduced focus on growing their outsourcing shares within three years from now which may be due to a refocus on direct sales.

Exhibit 2 - Large majority expects to increase use of third-party chemical distributors

Do you expect third-party distribution outsourcing to increase in the coming three years?

Percentage of respondents who expect to increase their third-party distribution share in three years from now



76% expect an increasing outsourcing share in three years from now vs. to **84%** in **2021**

91% expect an increasing outsourcing share in three years from now

84% expect an increasing outsourcing share in three years from now vs. **81%**[2] in **2021**

75% expect an increasing outsourcing share in three years from now vs. **81%** in **2021**

68% expect an increasing outsourcing share in three years from now vs. **88%** in **2021**

Source: BCG.

[1] Excluding China.

[2] APAC included China in 2021 survey without additional separation.

The distributors' view:

Distributors recognize the increasing trend towards outsourcing of more business – partially, as principals aim to focus on their key customer accounts. However, they expect an increasing outsourcing share especially from asset-heavy principals in NA and Europe, driven by rising costs to serve. Among different end-sectors, distributors expect largest opportunity pockets in Pharma, Food & Nutrition, and Personal Care.

Moreover, despite recent disruptive events such as the Suez Canal incident, which blocked relevant trade flows, and inflationary pressures, we see minimal short-term impact of these crises on the outsourcing practices of chemical principals. Approximately half the respondents maintained a constant outsourcing share of their third-party distributors, indicating their unwavering confidence in the outsourcing model.

#3: An increasing outsourcing share comes along with a set of expectations toward distributors

Over the past decade, the top three key drivers for principals to use third-party chemical distributors have remained remarkably stable. These comprise the expansion of geographic reach, focus on principals' core business, and expand the reach to small customers (see exhibit 3).

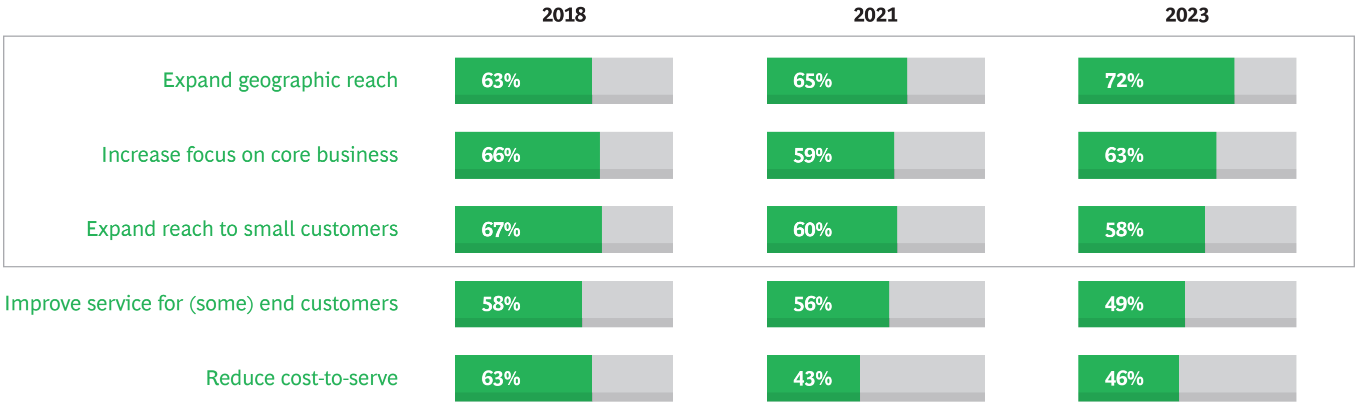
The top driver in 2023 (expand geographic reach) even gained increasing importance over the last couple of years. Principals have come to understand that successful penetration of new markets requires a deep understanding of local customer preferences, regulatory frameworks, and cultural nuances. By partnering with third-party distributors with local expertise and customer proximity, principals can navigate these complexities and establish a strong market presence and hence easily expand into untapped market potential and capitalize new revenue streams. In addition, principals can focus on their core business while also reaching smaller customers, thereby enhancing customer satisfaction.

On the other hand, using third-party distribution for principals' own cost-to-serve reductions has become less prevalent over the past years compared with other factors. While it was among the top drivers in 2018 with 63%, only 46% of all respondents perceive it as key driver in 2023 (see exhibit 3). Interestingly, cost-to-serve reduction is the only key driver that is perceived differently in its relevance by specialty and commodity principals: While 59% of specialty principals perceive cost reduction as a key driver for an increasing outsourcing share, only 36% of commodity principals share this opinion. This may be due to specialty principals currently facing higher margin pressure, as they are concerned about rising shipping and inventory costs and hence are more cost sensitive than their commodity peers. However, overall, the top key drivers in 2023 indicate that principals are choosing a more strategic approach, focusing on the value-adding benefits and synergies distributors bring to the table, rather than emphasizing cost-to-serve savings.

Exhibit 3 - Over the past decade, the top-three drivers to work with a distributor have been stable

What are the key drivers for the expected increase of your third-party distribution outsourcing share?

Percentage of respondents



Source: BCG.

Note: Multi-selection of drivers possible.

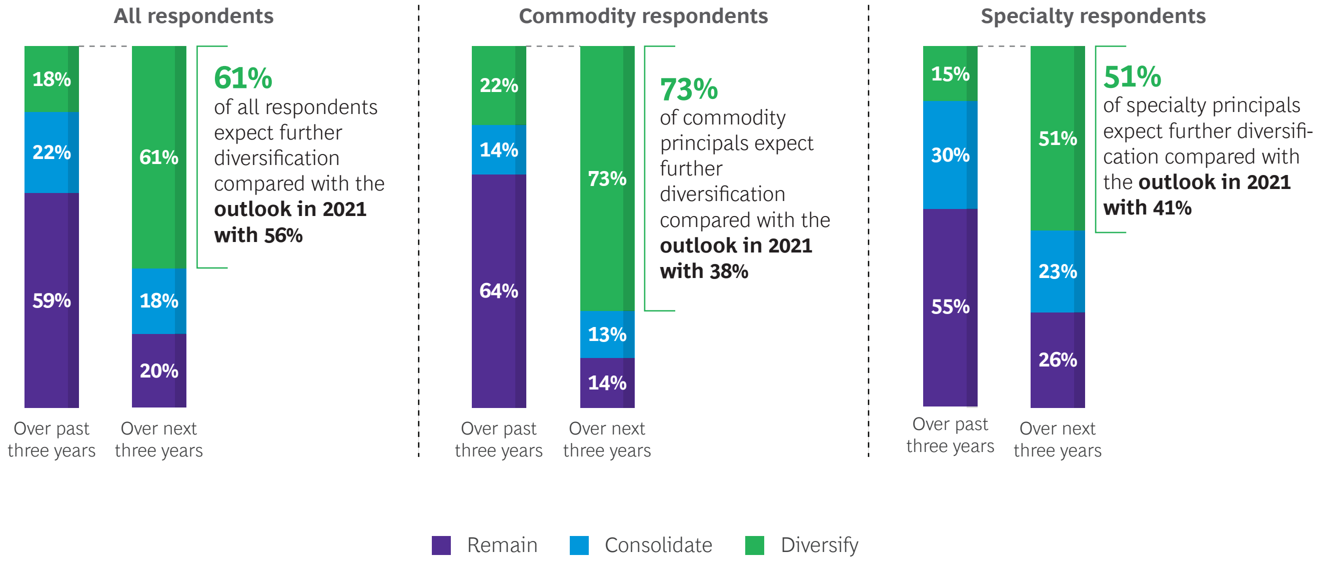
#4: Principals push for a diversified distributor portfolio

There is a rising tendency among all principals in the chemical industry of diversifying their distributor base. With 61% of all respondents expecting further diversification over the next three years, the share is likely to triple compared with the past (see exhibit 4). Thus, principals are willing to increase the complexity of their interactions with multiple distributors, as their strategic objective is to reduce their reliance on only a few distributors. A larger base of distributors promotes competitive pricing and increases the quality of services offered. Principals also expect to balance out market instabilities and fluctuations across regions with increasing diversification.

In particular, we see commodity principals actively striving for more diversification, as 73% of commodity principals (vs. 51% specialty principals) expect the diversification of their distributor base to increase over the next three years, as compared to 38% in 2021 (see exhibit 4). The motivation behind the focus on diversification lies in the unique challenges faced by commodity principals: Commodity products often involve high volumes and limited differentiation; hence, their principals are compelled to target different customer segments within a variety of different markets. For specialty principals, the desire for a more diversified distributor base tends to focus on leveraging the specialized expertise of distributors operating in specific niches, including application-specific expertise that has been accumulated over many years.

Exhibit 4 - There is a continuous trend toward a more diversified distributor base

Has your company consolidated/diversified its distributor base over the last three years and will it in next three years?
Percentage of respondents



Source: BCG.

Note: Excluding responses of 'Don't know'.

#5: While principals are willing to diversify their distributor base, they expect excellent distributor performance in return

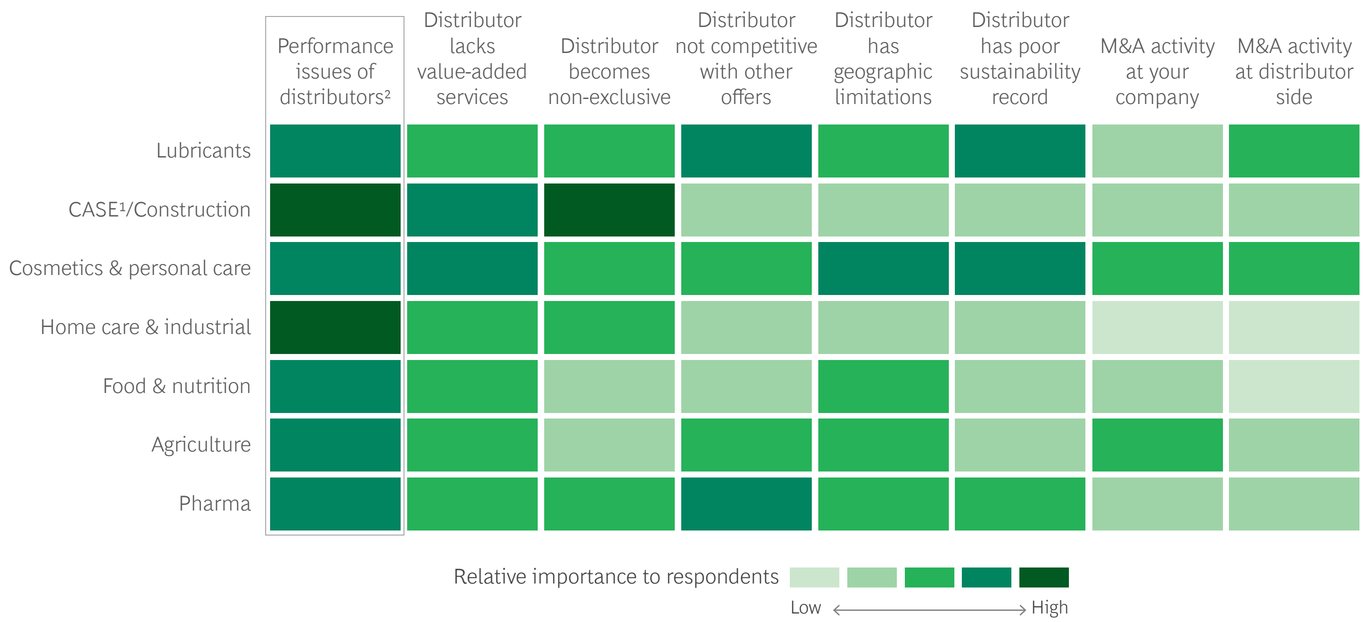
In the pursuit of increasing their distributor portfolio, principals in the chemical industry are reprioritizing their expectations of what excellent distributor performance means. Our findings show "performance issues of distributors" emerging as the most crucial reason for principals across all sectors to assess their distributors, followed by "distributor lacks value-added services" (see exhibit 5).

The expected performance factors of distributors include meeting sales targets, dealing with financial issues (i.e., not meeting payment terms), providing high-quality services, and overcoming a lack of insights into market and customer data due to inconsistent strategies. Distributors falling short in these areas may undermine principals' growth objectives, hinder profitability, and jeopardize the overall success of the partnership. Principals expect their distributors to demonstrate strong financial health, provide valuable market insights on end customers and their application needs, and align their strategies with the principals' goals. Growth is more the result of a joint effort than a one-way street. Past crises, such as the recent disruptions caused by the Suez Canal blockage, global inflation, and the Russian war on Ukraine also shed light on the importance of a distributor's performance, as these events emphasized the need to quickly adapt to changing environments, maintain financial stability, and navigate challenging circumstances while ensuring a seamless supply chain for principals. Further, our survey results show that principals value distributors that provide value-added services. These include reducing logistic complexity, offering access to new regions, customer support, and support in product formulation. Hence, principals who experience distributors that lack value-adding services are more likely to switch distributors.

Exhibit 5 - Principals across all sectors see performance issues among their distributors as most critical

How important are the following reasons for your company to switch distributors?

Relative importance to respondents



Source: BCG.

[1] Coatings, adhesives, sealants, and elastomers.

[2] E.g., not meeting sales target, financial issues, does not provide sufficient market/customer data and insights, inconsistent approach/strategy, etc.

While performance issues are critical across all sectors, certain sectors exhibit stronger sentiments on specific factors: Principals in CASE/Construction and Home Care & Industrial sectors place particular emphasis on the performance issues of their distributors as these industries rely heavily on distributors for their supply chain and customer support, making reliable and high-performing partners essential. On the other hand, the “distributor has a poor sustainability record” factor is particularly important for principals in the Cosmetics & Personal Care and Lubricants sectors, while other sectors see this factor as less important. As sustainability becomes a growing concern for customers in these industries, principals expect their distributors to both be in alignment with sustainable practices and help them meet their environmental goals throughout the entire supply chain.

As distributor competition grows, principals expect higher partner performance. Apart from the previously mentioned factors, distributors must show cost competitiveness since principals often pass along their own cost pressure. Additionally, data transparency is crucial, as principals expect access to accurate and timely information in order to make informed decisions. Distributors must effectively leverage customer data and provide valuable insights as a unique selling point.

Collaboration is another critical aspect: Principals expect their distributors to establish strong collaborative relationships, ensuring open communication, responsiveness, and target commitment. Offering additional services like legal or regulatory support on sustainability topics also sets distributors apart, enhancing value and trust.

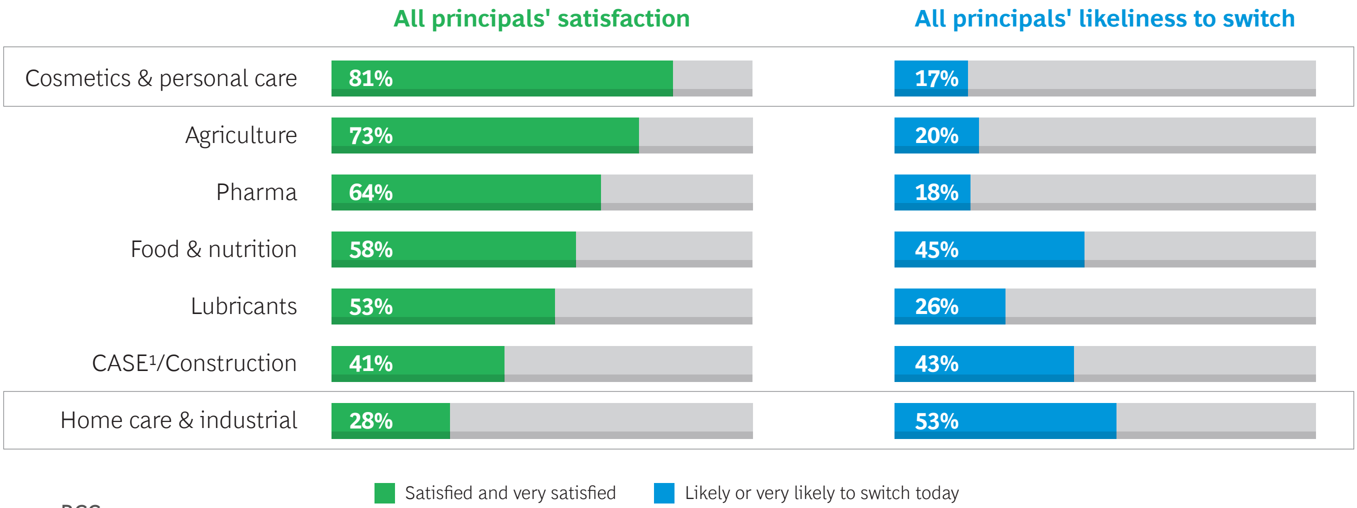
#6: Principals are less accepting of performance issues and are therefore willing to switch distributors

We see an increasing likelihood of principals switching distributors across all regions when they are dissatisfied with their performance. In the next three years, that likelihood is expected to double, as principals expect partners that can better support their growth and performance objectives. This trend is particularly strong in China, as the Chinese market continues to experience rapid development and heightened competition. The probability of a Chinese principal switching distributors is expected to increase almost fivefold from 9% today to 43% three years from now. Therefore, principals are compelled to explore new partnerships in order to stay competitive.

However, the increased willingness to switch distributors needs to be de-averaged in our view. While we observed deepening of principal-distributor relationships during COVID-19, some principals are willing to switch in specific application or regional markets where they need a better growth position than their current distributor can provide. Especially when performance issues arise, principals do not compromise and are willing to take on more complexity in distributor management.

The desire to switch distributors often goes hand-in-hand with a principal's level of satisfaction. Out of all sectors, principals in the Cosmetic & Personal Care sector show the highest satisfaction: 81% of principals report being satisfied with their current distributors (see exhibit 6). Conversely, the Home Care & Industrial sector experiences the lowest satisfaction levels of only 28%. This disparity suggests that the Home Care & Industrial sector faces unique challenges and specific expectations that are not being adequately met by current distributors. This dissatisfaction may prompt principals in this sector to actively seek out alternative distributor partnerships in order to improve performance and achieve their growth objectives, as 53% of Home Care & Industrial principals also report a comparably high willingness to switch their distributors. Somewhat interesting is the balance we found in Food & Nutrition principals: While ~60% of respondents are satisfied with their distributors' performance, ~45% still consider it likely that they will change their existing relationships. This is driven by the fact that some principals in Food & Nutrition nurture a rather open relationship with their distributors, providing them the option to choose distributors based on their current needs. For instance, if they need support to develop a new product formulation, principals choose a distributor that offers best-in-class labs; whereas a distributor with a global footprint can be leveraged when geographic expansion is the priority.

Exhibit 6 - Highest satisfaction among cosmetics & personal care, while home care & industrial ranks bottom



Source: BCG.

Note: Relation of percentage of satisfied and very satisfied respondents and average score of satisfaction are not linear since average score also accounts for dissatisfied respondents.

[1] Coatings, adhesives, sealants, and elastomers.

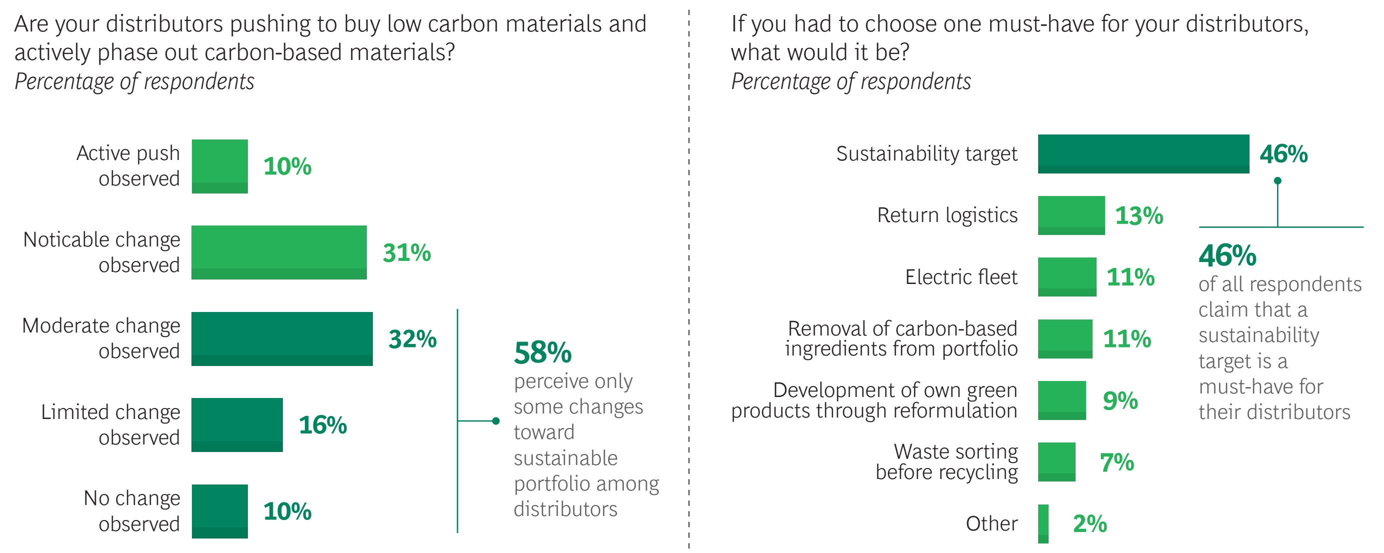
Regional analyses reveal a different trend, especially for the APAC region excluding China: Principals express overall satisfaction with the capability level of their current base of small, local distributors. However, they are actively looking to switch to larger, more global distributors to expand into new markets.

#7: Sustainability has become an important factor in chemical distribution, yet distributors are making only moderate portfolio adjustments

Sustainability has gained traction within chemical distribution. With findings indicating that 41% of principals anticipate changing to more sustainable product portfolios among their distributors, yet thereof only 10% with an active push and only 31% in a noticeable manner (see exhibit 7). An active and comprehensive push toward sustainable portfolios remains relatively rare: While distributors are making efforts to address sustainability concerns, there is still room for both improvement and greater commitment to sustainability initiatives.

Principals in the Agriculture (60%) and Cosmetic & Personal Care (59%) sectors observe the highest levels of change toward a sustainable portfolio among their distributors. These sectors, driven by regulatory and environmental considerations as well as evolving customer preferences, have spurred distributors to prioritize sustainability initiatives. Agriculture, with its emphasis on responsible farming practices and minimizing environmental impact, demonstrates a strong inclination toward sustainability. Similarly, principals in the Cosmetic & Personal Care sector cater to consumers' growing demand for eco-friendly and ethically sourced products and put significant importance on sustainability within their distribution networks.

Exhibit 7 - Sustainability has arrived in chemical distribution, yet only small efforts are being made



Source: BCG.

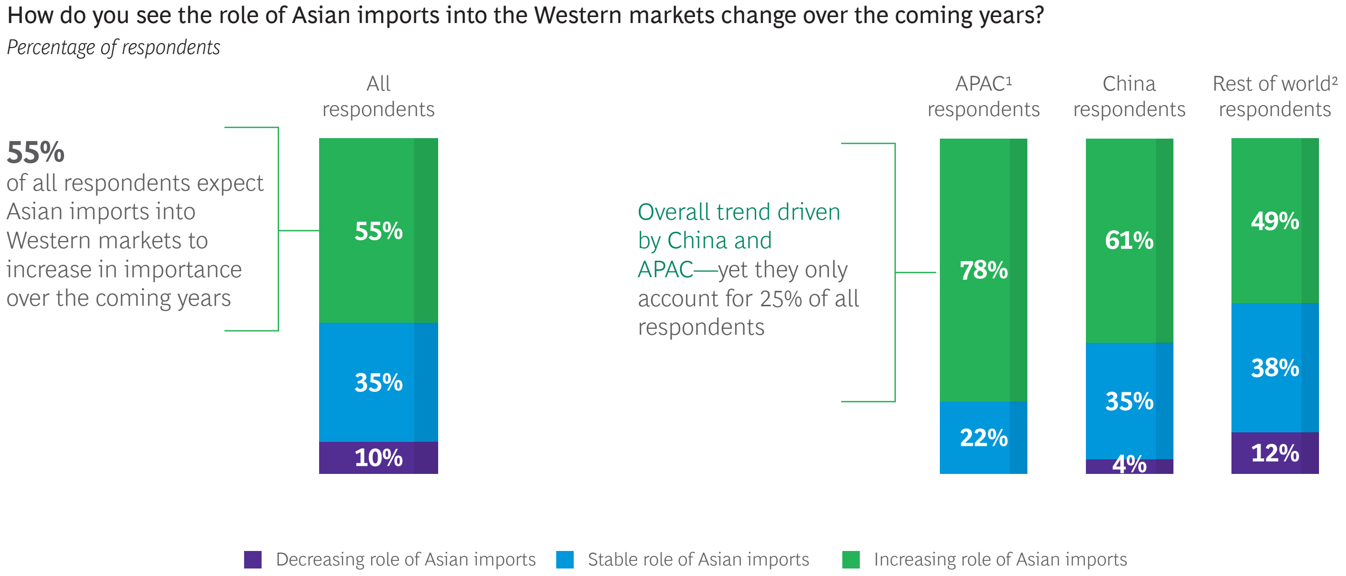
Furthermore, 46% of principals claim that a sustainability target is a must-have requirement for their distributors (see exhibit 7). Recognizing the importance of sustainable practices in today's business landscape, principals expect their distributors to align with their sustainability goals. However, it is interesting to note that while sustainability targets are considered crucial, principals have not yet established or communicate clear requirements or guidelines for these targets to their distributors. This lack of specificity may stem from the diverse nature of sustainability goals, allowing room for individual interpretation and flexibility among distributors.

Interestingly, 13% of all respondents rank sustainable return logistics as the second-most important must haves. As integral players in the supply chain, distributors are in a unique position to address the challenges associated with product returns and waste management. Their ability to effectively manage and optimize return logistics processes can significantly contribute to reducing environmental impact and fostering a more sustainable distribution ecosystem. This finding suggests that principals recognize the value and potential of distributors in driving sustainability efforts beyond product-related considerations.

#8: Dynamics in China are different from the rest of the world regarding third-party chemical distribution

The evolving dynamics of the chemical market in Asia already impact Western markets today—a trend that is expected to intensify in the future, as 55% of all principals expect Asian chemical imports to gain increasing dominance within Western markets, signaling a changing global landscape (see exhibit 8). Driven by China's growth, Asian imports are predicted to dominate, especially in specialty chemicals, with increased capabilities of local producers.

Exhibit 8 - Asian imports to Western markets expected to gain significance



Source: BCG.

[1] Excluding China.

[2] Europe, North America, Latin America.

Hereby, we see a transformation of the Chinese chemical distributor landscape: International distributors have entered the Chinese market and gained a foothold, alongside local Tier 1 and Tier 2 players. Local Tier 1 players implement international standards and offer high levels of reliability and service. They have also developed technical services, application support, and products that are tailored to the needs of specific sectors while local Tier 2 and other distributors still lag behind in most of those capabilities. State-owned distributors enjoy significant customer access, but their focus on commodities often limits their high-end capabilities.

In response to these market dynamics, major international distributors are strategically expanding their access to the Chinese market through local M&A. This approach allows them to establish local entities while transferring a substantial share of their capabilities to these new entities. By leveraging the strengths of both the global footprint and the local Chinese entity, these international distributors aim to navigate the unique market landscape more effectively.

However, it is important to highlight that the Chinese chemical distribution market operates under its own unique set of market mechanisms, which differ from their Western counterparts. This divergence is characterized by heightened governmental involvement, with direct state-owned distribution companies holding considerable influence. Distributors in China are often perceived as "necessary but evil middlemen" to be circumvented, rather than being viewed as equal partners for growth (see exhibit 9). Chemical distributors can still tap into significant growth potential in China if they continue to pursue partnerships with local suppliers and distributors, which will help foster the personal relationships that are so important in the Chinese market. Although we anticipate that it will take some time until Chinese distributors gain a foothold beyond their domestic market, insights from other industries, such as the automotive industry, might offer a glimpse into what lies ahead.

Exhibit 9 - Chinese chemical distribution market follows its own market mechanisms

Indicative

	Western distribution market	China distribution market
Distributor capabilities & brand	Consolidated distribution landscape, distributors with **high reliability and high capabilities**	Fragmented distributor landscape, local top players w/ high capabilities, remaining players lagging behind
Role of government	Indirect steering through regulations impacting general chemical consumption	More direct intervention via partially SOEs1 with distribution arms, incentivized regional shifts, and enforced env. standards
Industry value pools	High gross margins in sub-industries willing to pay for value-added services (e.g., pharma)	Lower gross margins even in high-margin industries such as pharma (low overall price levels, high share of generics)
Key supplier base	Well-established domestic supplier base relying on distributors to serve their tail end	Growing domestic supplier base with new distribution channels, global players' dependency on distributors decreasing
Supplier mindset	Suppliers perceive distributors as strategic partners to grow their business	Suppliers perceive distributors as necessary evil (middlemen) that should be circumvented
Role of digital	Digital offerings with low relevance—limited to customer information/advertisement	Digital offerings with medium-to-high relevance—e-platforms for distribution gaining traction
Outsourcing share	Market equilibrium reached—relatively stable outsourcing shares across industries	Market equilibrium not reached—shifts to new direct sales channels, decreasing outsourcing share

Sources: CNCIC; IHS; VCI; expert interviews; BCG.

[1] State owned enterprises.

Four Imperatives for Chemical Distributors to Increase Their Relevance to Principals

Based on our survey findings and acknowledging the ongoing expansion of the third-party chemical distribution market, we see four imperatives for chemical distributors to enhance their bond with principals.

Rigorous Data Management

In an era of growing digitization in supply chains and operations, efficient data management is a key distinguishing factor for chemical distributors. To be recognized as best in class, distributors must possess harmonized data systems and tools, as well as the ability to leverage data for commercial purposes.

Harmonized data systems and tools based on a shared data management strategy—including inventory management, compliance measures, and cloud-based transactions—ensure seamless data flow for efficient information handling. In addition, the ability to commercially leverage data is crucial for distributors: This involves conducting customer data analyses to gain valuable insights and stay on top of current market priorities, as data-driven insights can help distributors to proactively respond to emerging trends.

> **"We expect distributors to provide data analysis capabilities for customer behavior, market trends, and inventory management."**
> — Sales manager, commodity principal

Furthermore, harmonizing and leveraging data is also a prerequisite for advanced technologies such as Generative AI, which has recently arrived in chemical distribution: Players must adapt and explore use cases early to gain competitive advantage, as principals have a clear preference for advanced and innovative technologies.

> **"Innovative technologies such as automation and artificial intelligence can improve efficiency and might help to provide excellence in the service of distributors."**
> — Marketing manager, commodity principal

Cost Competitiveness

The global landscape is witnessing a surge in cost pressures, affecting both principals and their chemical distributors. Volatile inflation rates, high labor cost and rising interest rates exert significant financial strain on principals, prompting them to shift the burden of cost to their distributors.

> **"We face higher pressure on working capital and higher raw material costs, hence cost-efficient and performing distributors are most attractive to us."**
> — Sales manager, specialty principal

To cater to principals' preference for cost-effective alternatives, distributors must assert control over their major cost items. This entails implementing efficiency measures across various aspects of their operations, such as sourcing strategies, supply chains and logistics, headquarter, and sales teams. Effective sourcing strategies facilitate the acquisition of cost-effective products, while streamlined logistics and supply chain networks minimize transportation and storage expenses. Ensuring efficient headquarters minimizes administrative costs and optimizes resource allocation while efficient sales teams maintain fruitful customer relationships. Distributors of today need to allocate their resources to value-accretive activities to stay competitive. Going forward, the ability to offer services at competitive prices will emerge as a key success factor as customers increasingly prioritize cost-effectiveness in their decision-making processes.

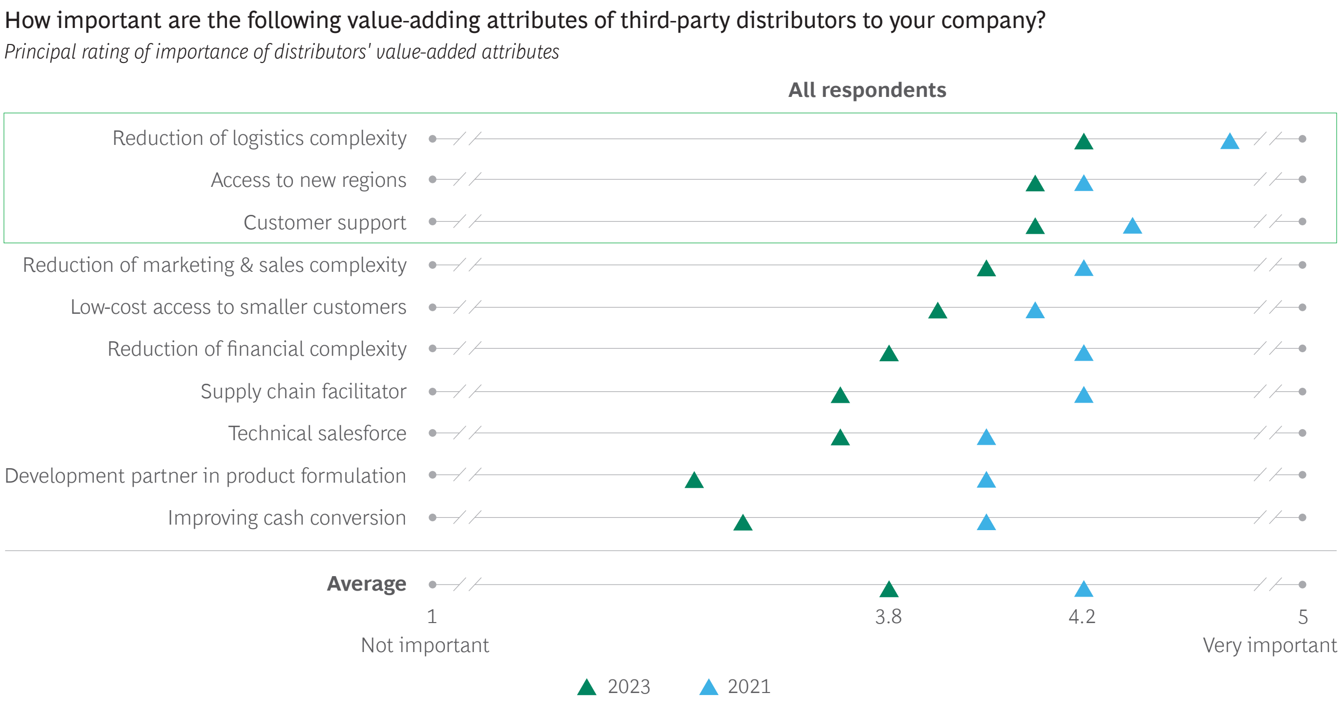
Value-Added Services and Capabilities

In 2023, principals consider the "reduction of logistics complexity" as the most important value-adding attribute a distributor can offer. This attribute is followed by the "access to new regions" and "customer support." However, overall, the importance of value-adding attributes has decreased compared with 2021 (see exhibit 10). Combined with the trend of increased use of third-party distributors across all regions and sectors, it becomes clear that principles rely more heavily on distributors, although their value-adding attributes are perceived as less important. Among the reasons for this development are vulnerable supply chains caused by past crises such as COVID-19 and the Russian war on Ukraine that hinder principals to drive growth and satisfy customer needs. Due to a global presence paired with safety stocks and often their own transport operations, distributors are essential for principals to overcome disrupted supply chains.

In line with the overall trend, specialty principals continue to prioritize the "reduction of logistics complexity" as the foremost value-adding attribute sought from distributors—akin to the results in 2021. However, the dynamics differ for commodity principals, as the latest findings reveal that "access to new regions" has emerged as the new focus. This shift might be attributed to a strategic realignment toward growth and geographic expansion by commodity principals.

Furthermore, principals highly value distributors that deploy best-in-class laboratories. These advanced facilities empower distributors to go beyond their traditional role as intermediaries and establish themselves as collaborative partners in the development of processes for chemical principals. By utilizing the capabilities of top-notch laboratories, distributors can actively contribute to the creation of customer-centric and innovative solutions.

Exhibit 10 - Reduction of logistic complexity, access to new regions, and customer support remain top value-adding



Source: BCG.

Sustainability

In the current business environment, the significance of sustainability for principals cannot be overstated. As a result, principals anticipate their distributors will embrace sustainability goals that are in line with their own.

> **"Our organization has a sustainability target, so we want our distributors to follow the same."**
>
> — Sales manager, commodity principal

However, achieving this alignment proves to be challenging due to the differing business and operating models employed by principals and distributors. Nonetheless, distributors can leverage sustainability targets as a unique selling proposition to their principals, which in turn can be utilized to cater to their own customers. Distributors play a pivotal role in ensuring the environmental friendliness of the entire supply chain. One effective approach for distributors to meet sustainability targets is to adjust their product portfolio to include sustainable offerings or engage in the co-development of sustainable products. This proactive approach not only supports principals in achieving their sustainability goals but also positions distributors as leaders in sustainability within their industry. Conducting a comprehensive sustainability assessment becomes imperative for distributors to eliminate ingredients with high carbon emissions from their portfolio. Further, chemical distributors can provide carbon footprint data of their portfolio, offer recycling solutions, drive circularity in the industry, or support especially smaller customers with advisory services for sustainability regulations. However, they also need to engage customers and advertise sustainable products.

> **"A distributor must motivate customers to decrease use of carbon-based ingredients and educate them about sustainability for a better future."**
>
> — Marketing manager, specialty principal

By scrutinizing their practices and setting a sustainability target and corresponding roadmap to reach this target, distributors can contribute significantly to mitigating environmental impact and fostering a greener future for all stakeholders involved in the supply chain.

Chemical distributors, which have successfully managed to navigate the challenges of recent crises and ongoing market disruptions, are now in a favorable position to experience growth. However, it is crucial for them to recognize and adapt to the new dynamics. It is evident that these dynamics will continue to transform alongside the ever-changing global markets. Distributors that prioritize their customers' needs and align with their principals' expectations will have the greatest chances of enjoying growth.

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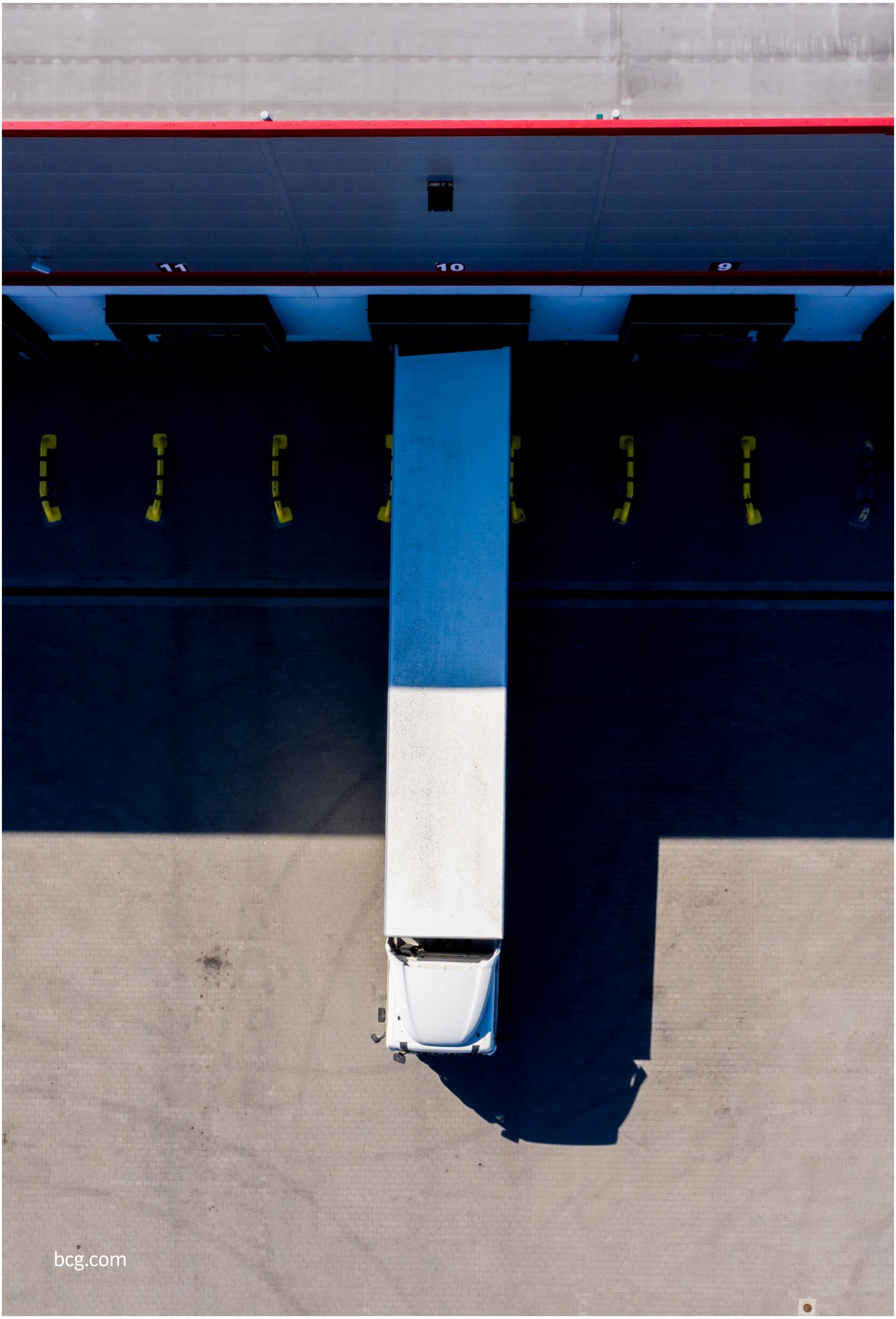
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