grosse-hornke
Private Consult

Study “Chemical Distribution 2012“

- Results -

Dr. Matthias Hornke, LL.M. (M&A)

Münster, February 2012

Agenda

grosse-hornke
Private Consult

Status Quo and Study Overview

Results: Overview

Results of the Online Survey

- Function/ Responsibility of the Respondent
- Role of Chemical Distributors
- Challenges and Key Success Factors of Chemical Distributors
- Classification of Respondents

Contact: Grosse-Hornke Private Consult

Chemical distributors with growing relevance to chemical manufacturers and end-customers of chemical products

grosse-hornke
Private Consult

Status Quo Chemical Distribution

- Economic recovery of the chemical distribution in 2010 and 2011 with record revenues of approx. €190bn generated by the German chemical industry in 2011
- Growing relevance of chemical distributors as partners of the chemical manufacturers representing >10% of market share (in terms of revenues) for basic and special chemical products
- Increasing coverage of news about the chemical distribution in trade media as well as general business media stressing the economic relevance and development (e.g. M&As) in this industry

"There is a continued trend toward increased outsourcing of the distribution […] by [chemical] manufacturers [to distributors]." (John Zillmer, President and CEO, Univar, 2010)

"IMCD set on continued growth path." (ICIS Chemical Business, 2011)

"Chemical distributor IMCD changes private equity hands." (Chemical Week, 2010)

"M&A Activity shifts up a gear in the Distribution Sector." (Chemical Week, 2011)

"Large shopping tour: German Mülheim-based Chemical Dealer Brenntag intends to acquire further companies after IPO." (Welt am Sonntag, 2010)

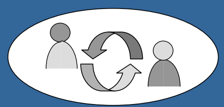
The sample of the study “Chemical Distribution 2012” mirrors the fact that the chemical distribution industry is highly characterized by SMEs

grosse-hornke
Private Consult

Study Objectives

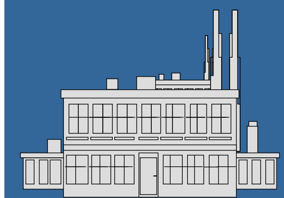
- Identification of key success factors and trends in the chemical distribution industry within Germany, Austria and Switzerland
- Demonstration of international distribution and supply markets’ relevance
- Analysis of chemical distributors’ role positioned between chemical manufacturers and end-customers

Study Format



- Online survey with 62 participants and additional face-to-face interviews
- Academic cooperation with the University of Münster
- Study conducted in October/ November 2011

Respondents



- 50% of the participants belong to the executive management, 48% to sales/ marketing and 2% are miscellaneous
- 53% of respondents distribute basic chemical products and 90% specialty chemicals
- 42% of the participants employ more than 100 employees, 10% between 50 and 100 employees and 26% between 10 and 50 employees
- Annual revenues (2011): 21% of the participants generate > €250m, 10% between €100m and €250m, 8% between €50m and €100m, and 29% between €10m and €50m
- 81% of the companies are family-owned

SME = Small and medium-sized enterprises

Agenda

grosse-hornke
Private Consult

Status Quo and Study Overview

Results: Overview

Results of the Online Survey

- Function/ Responsibility of the Respondent
- Role of Chemical Distributors
- Challenges and Key Success Factors of Chemical Distributors
- Classification of Respondents

Contact: Grosse-Hornke Private Consult

Summary: Study „Chemical Distribution 2012“

grosse-hornke
Private Consult

Evaluation by the 62 study participants:

Industry & Role of Chemical Distributors

- The majority perceives the partnership with chemical manufacturers as cooperative
- Technical trainings and product trainings are a strong requirement for chemical manufacturers
- Face-to-face contact as major communication channel to manufacturers as well as to end customers
- Distributors perceive themselves as intermediary between producer and end customer
- Request for intensified manufacturers‘ development programs for distributors
- Industry change is mainly forced by globalization and competition in saturated markets

Challenges & Success Factors

- Considerably increasing demands for employee qualification as key challenge in this industry
- Skill shortages as an important and acute challenge for chemical distributors
- Expansion of distributors’ service offers to end customers as a success factor
- Customers’ demand for reliability, speed and flexibility has increased significantly
- Increased sourcing in Asia (particularly China and India) is planned
- Focusing of product categories, industries, and applications provide good prospects to distributors
- Activity for Mergers & Acquisitions is slightly increasing

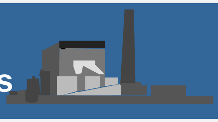
Chemical Distribution: Strongly cooperative relationship between manufacturers and distributors – however, there is demand for intensification of partnership, e.g. regarding product trainings and distributor development programs

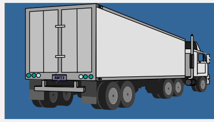
Detail: Chemical manufacturers and distributors: Tight partnership for long-term market success

grosse-hornke
Private Consult

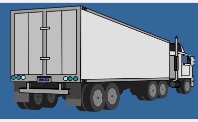
Requirements for profitable growth in 2012

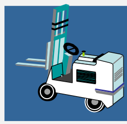
Chemical Manufacturers





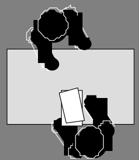
Chemical Distributors





Customers

Service

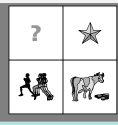


- Product training offers
- Contact person for REACH and other regulations
- Focus on Key Account Mgmt.
- Technical trainings for chemical distributors

Close Cooperation between Distributor and Manufacturer

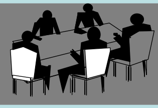
- Focus on Face-to-face contact
- Support through IT-applications
- Demand for retailer development measures

Strategic



- Expansion to new procurement markets in Asia (China, India)
- Organic growth, enhance-ment of market penetration
- Constant M&A activities
- Enlargement of service offers
- Focus on specific product groups and industries

Operative

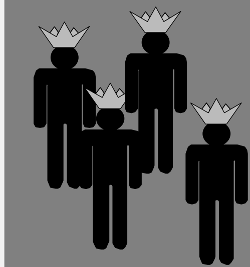


- Cost efficiency optimization
- Enhance employee qualification and recruitment

Compre-hensive Customer Relationship Management

- High relevance of face-to-face contact
- Increasing relevance of CRM[1]-Tools

Customer Requirements



Focus on:
- Reliability
- Delivery speed
- Flexibility of delivery dates
- Low prices

1) CRM = Customer Relationship Management

Agenda

grosse-hornke
Private Consult

Status Quo and Study Overview

Results: Overview

Results of the Online Survey

Function/ Responsibility of the Respondent

Role of Chemical Distributors

Challenges and Key Success Factors of Chemical Distributors

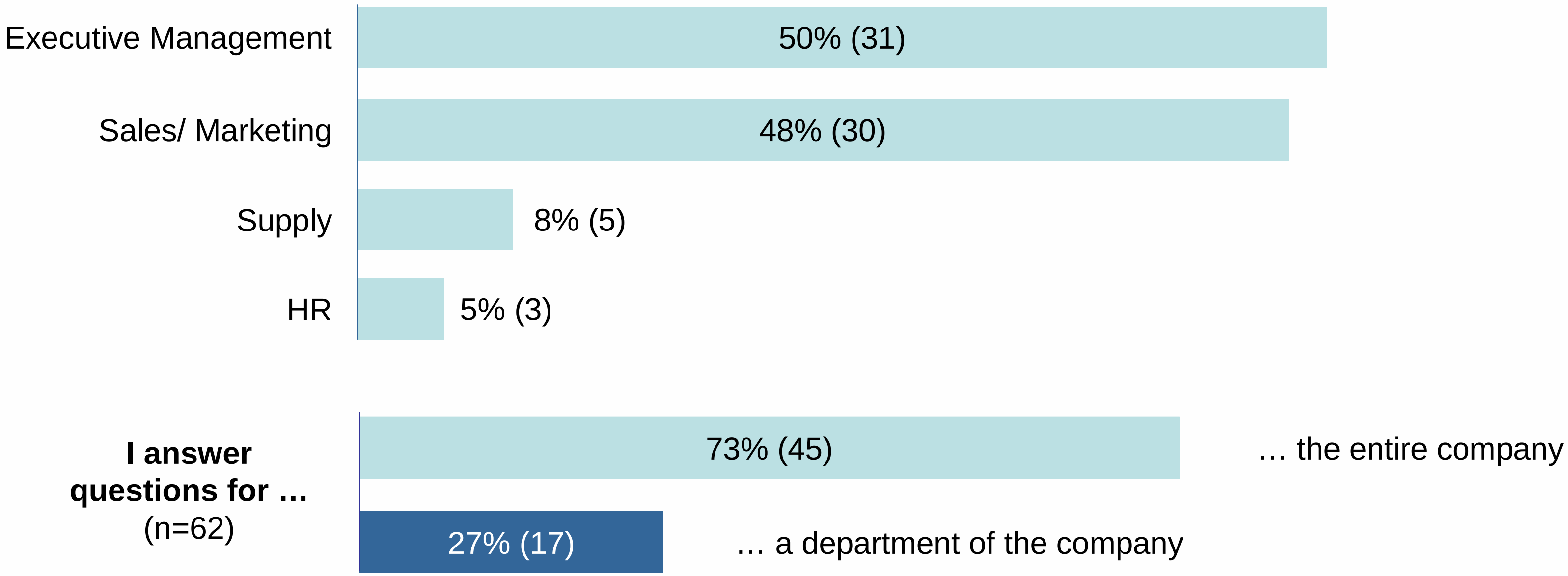
Classification of Respondents

Contact: Grosse-Hornke Private Consult

Function/ responsibility of respondents

grosse-hornke
Private Consult

Question: Which functional area do you work in? (Multiple answers allowed, n=62)



High relevance of study through high participation of executive managers, as well as employees/ managers working in sales and marketing.

Agenda

grosse-hornke
Private Consult

Status Quo and Study Overview

Results: Overview

Results of the Online Survey

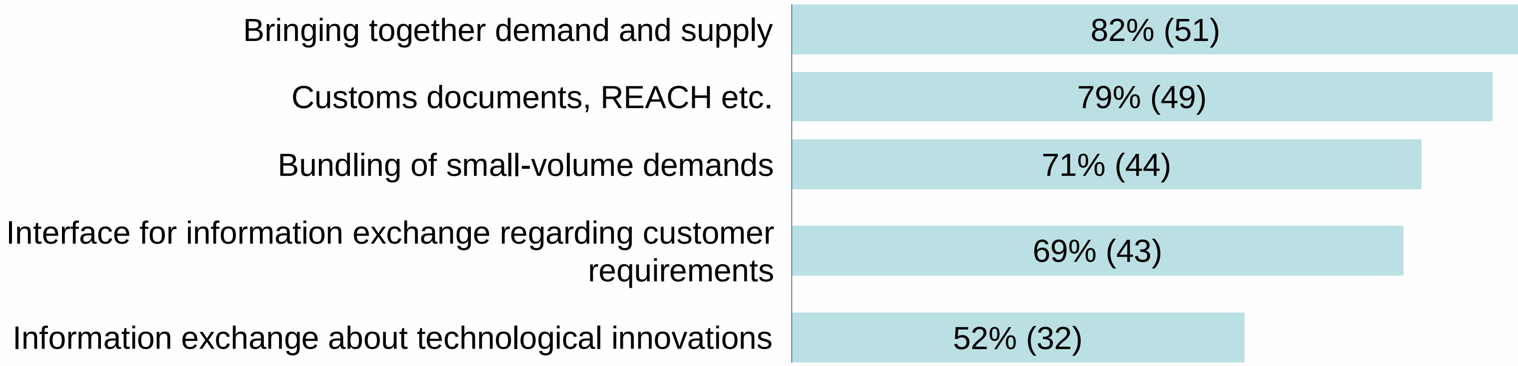
- Function/ Responsibility of the Respondent
- **Role of Chemical Distributors**
- Challenges and Key Success Factors of Chemical Distributors
- Classification of Respondents

Contact: Grosse-Hornke Private Consult

Role of the distributor

Question: Does the description of the distributor as intermediate with global and local competences also apply for your company? (n=62)

Question: Which tasks do express the best your function as an intermediate?
(Multiple answers allowed, n = 62)

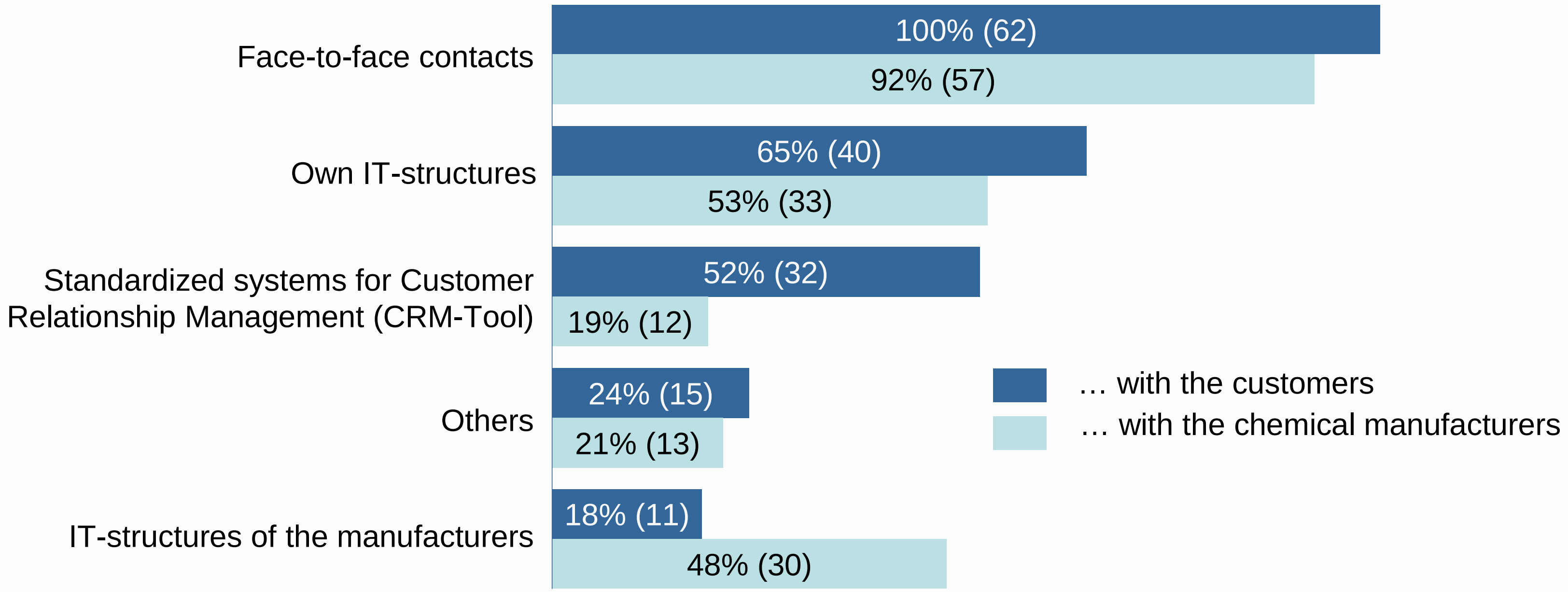


The majority of respondents sees themselves as intermediary between manufacturers and end customers.

Bringing together demand and supply as well as management of legal and regulatory affairs (customs documents, REACH, etc.) represent the most named tasks of the respondents.

Communication channels

Question: Which channels do you use for your communication?
(Multiple answers allowed, n=62)

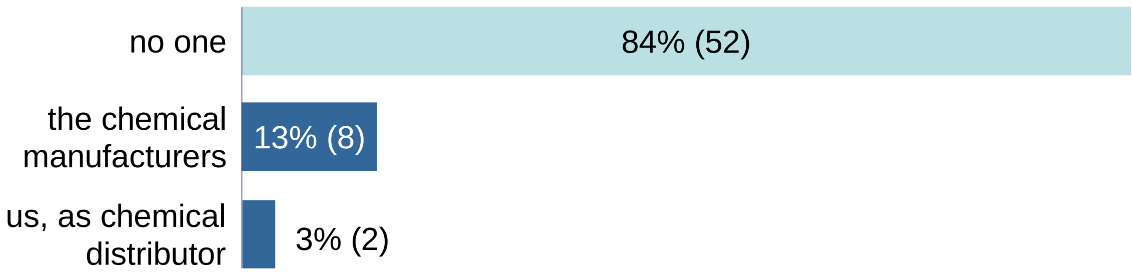


Face-to-face communication is ranked highest by chemical distributors – in contact with chemical manufacturers as well as with customers.
Two third of interviewees stated that they use IT-systems additionally when communicating with their customers, and more than half of the respondents also utilizes Customer-Relationship-Management (CRM) systems.

Evaluation of the cooperation with chemical manufacturers

Question: How do you evaluate the cooperation with chemical manufacturers?
(n=62)

The cooperation is dominated by ...



Question: Do you think that chemical manufacturers will tighten their efforts to set up their own distribution companies in the future?
(n=61)

Despite the high market power and financial power of chemical manufacturers 84% of the study participants assess the relationship as fair. Merely 3% declare that distributors are dominant, versus 13% who identify a dominance of manufacturers.

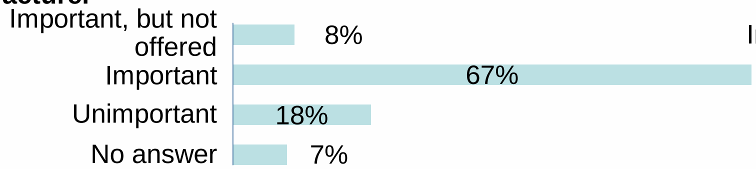
This positive cooperation between distributors and manufacturers is supported by the assumption that chemical manufacturers do not have intentions to set up their own distribution companies in the future (74%).

Requirements to the chemical manufacturers and key success factors for the cooperation

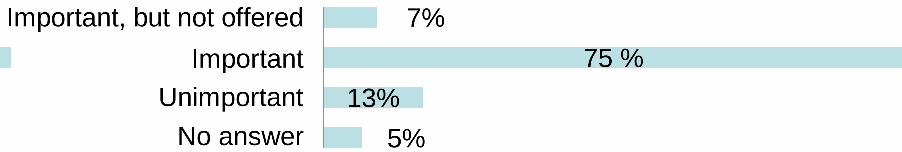
grosse-hornke
Private Consult

Question: Which characteristics of chemical manufacturers are important for a successful cooperation with your company? (n=62)

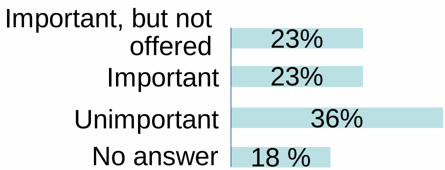
Key Account Management for distributors at the chemical manufacturer



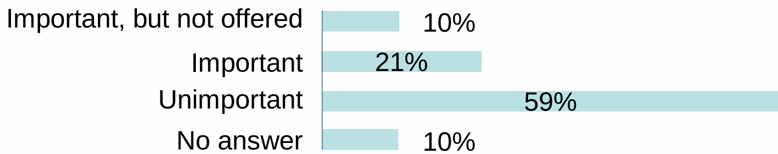
Specific contact person for REACH and other regulations



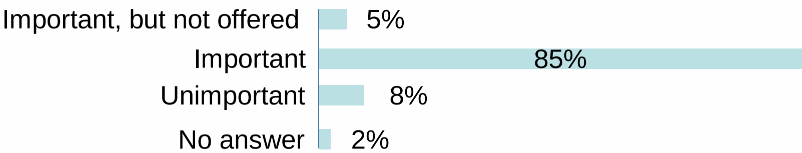
Development programs for distributors



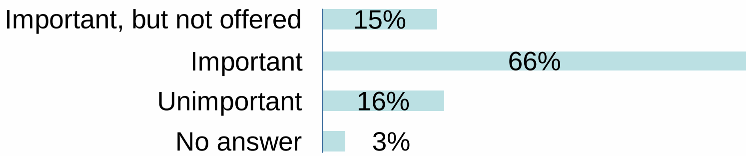
Sales training offers



Product training offers



Technical training offers



Product training offers are evaluated by 85% of the participants as important and is clearly higher ranked than the requirement to provide a contact person, e.g. for REACH and other regulations (75%) and the existence of a Key Account Management for distributors at the chemical manufacturers (67%).
In contrast, a considerable amount of respondents (59%) ranks sales training offers as unimportant.

Agenda

grosse-hornke
Private Consult

Status Quo and Study Overview

Results: Overview

Results of the Online Survey

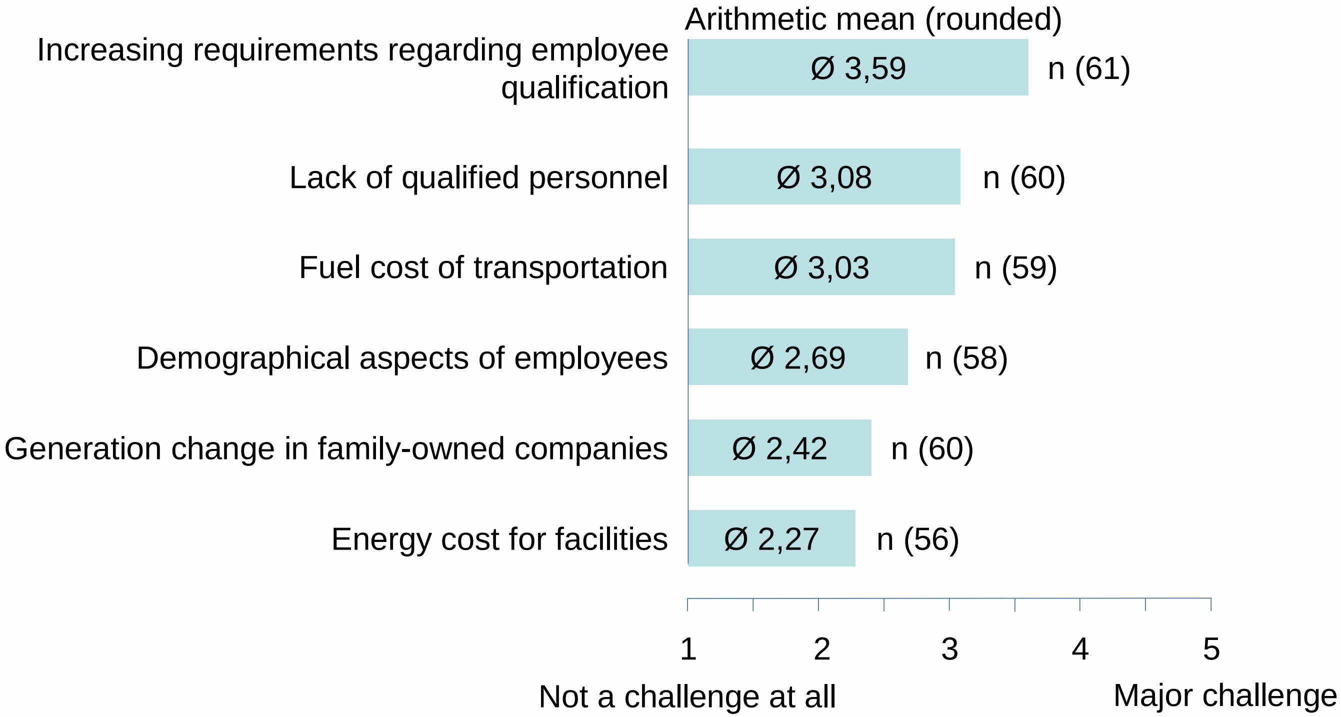
- Function/ Responsibility of the Respondent
- Role of Chemical Distributors
- **Challenges and Key Success Factors of Chemical Distributors**
- Classification of Respondents

Contact: Grosse-Hornke Private Consult

Challenges for the chemical distributors

grosse-hornke
Private Consult

Question: Do the following issues currently represent a challenge for your company?
(n=62)

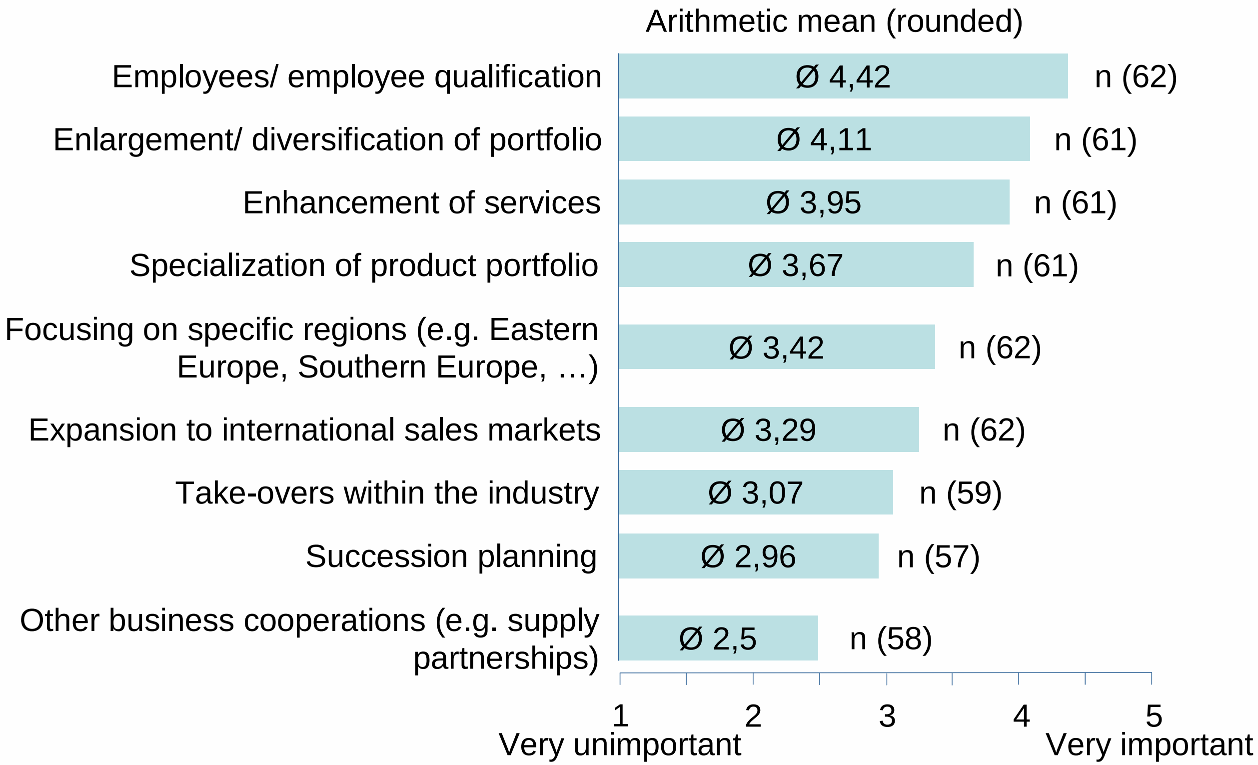


Growing requirements regarding employee qualification as well as a lack of qualified personnel challenge many chemical distributors.

Key success factors for chemical distributors

grosse-hornke
Private Consult

Question: Which factors do you regard as important for a successful future of your company? (n=62)

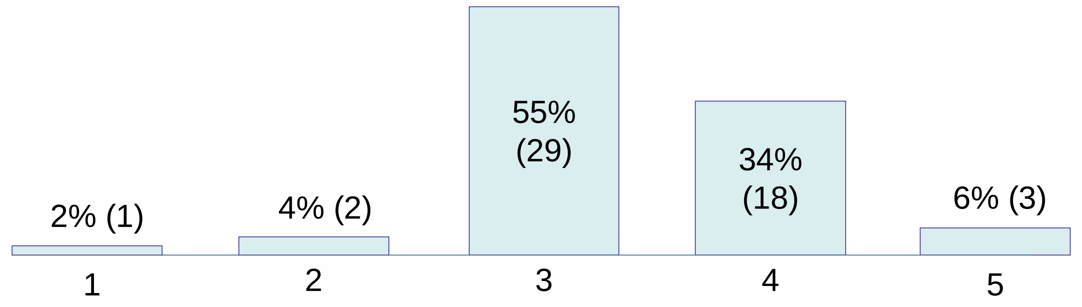


The majority of the study participants assesses employees or employee qualification as a key success factor with high relevance.

Development of M&A activities

grosse-hornke
Private Consult

Question: How do you evaluate the development of M&A activities for the German chemical distribution industry in the next two years?



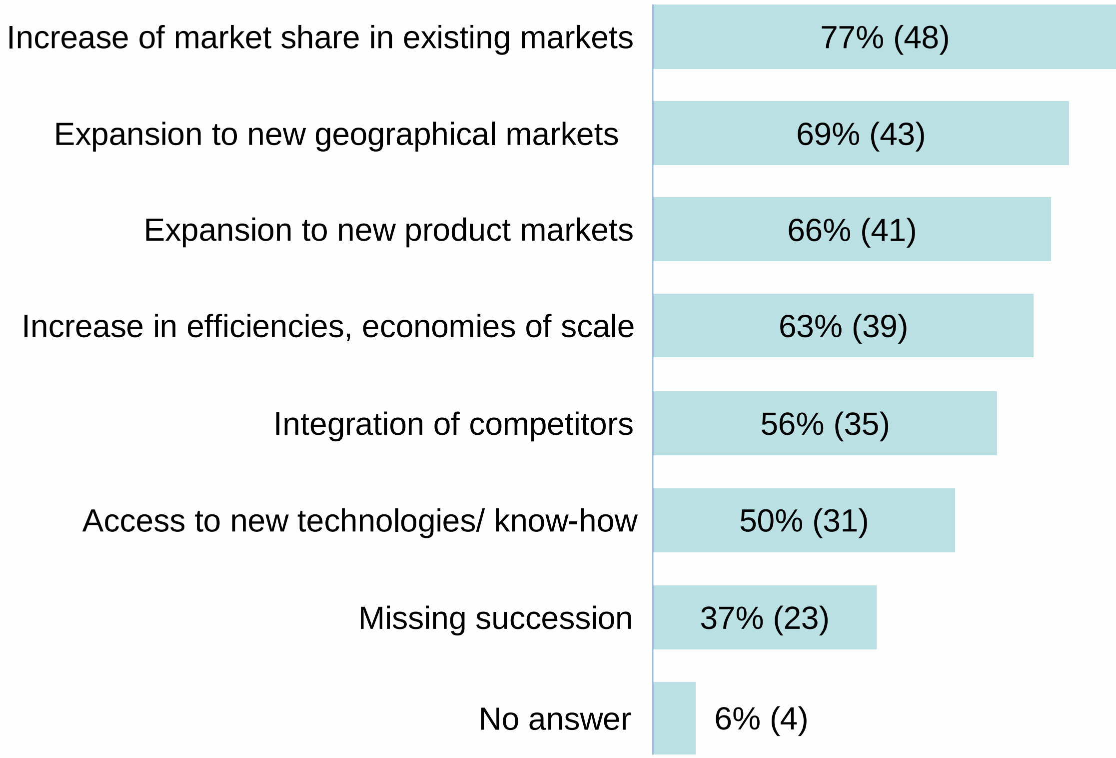
("1" = strong decrease, "3" = constant, "5" = strong increase)

A majority of study participants assumes constancy (55%) and slight increase (34%), respectively, of M&A activities in the future.

Reasons for M&As

grosse-hornke
Private Consult

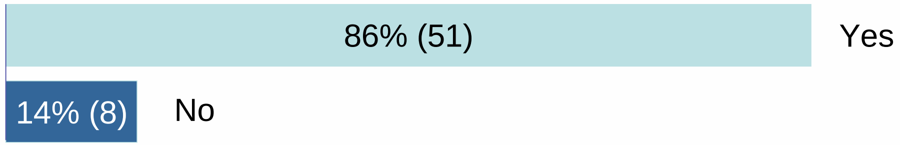
Question: Which are the primary reasons for M&As?
(Multiple answers allowed, n=62)



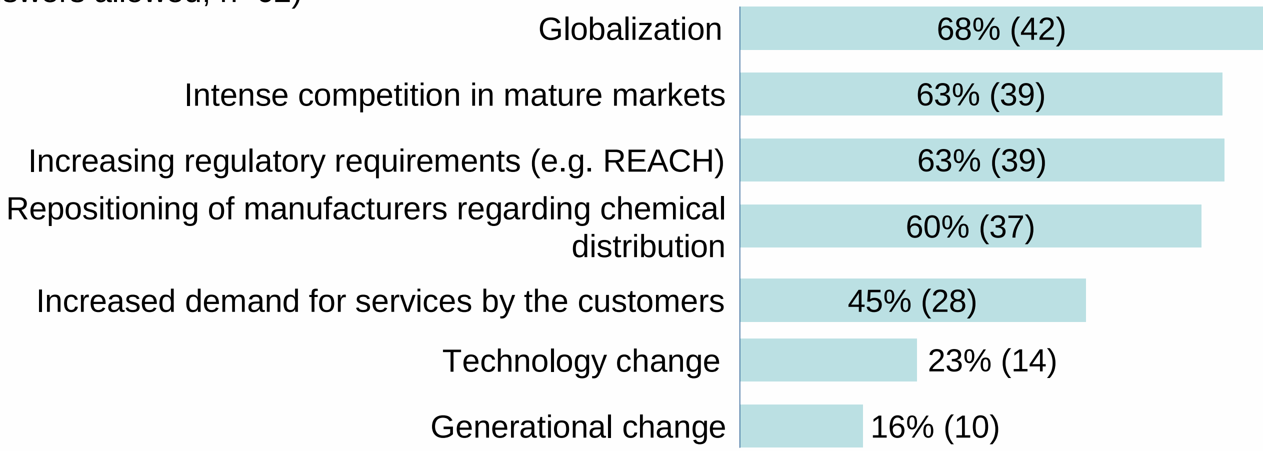
Growth as major reason for Mergers and Acquisitions

Factors for an industry change

Question: Do you agree that a strategic change has occurred in the chemical distribution industry during the last two decades? (n=59)



If yes, what did cause the industry chance in your opinion?
(Multiple answers allowed, n=62)

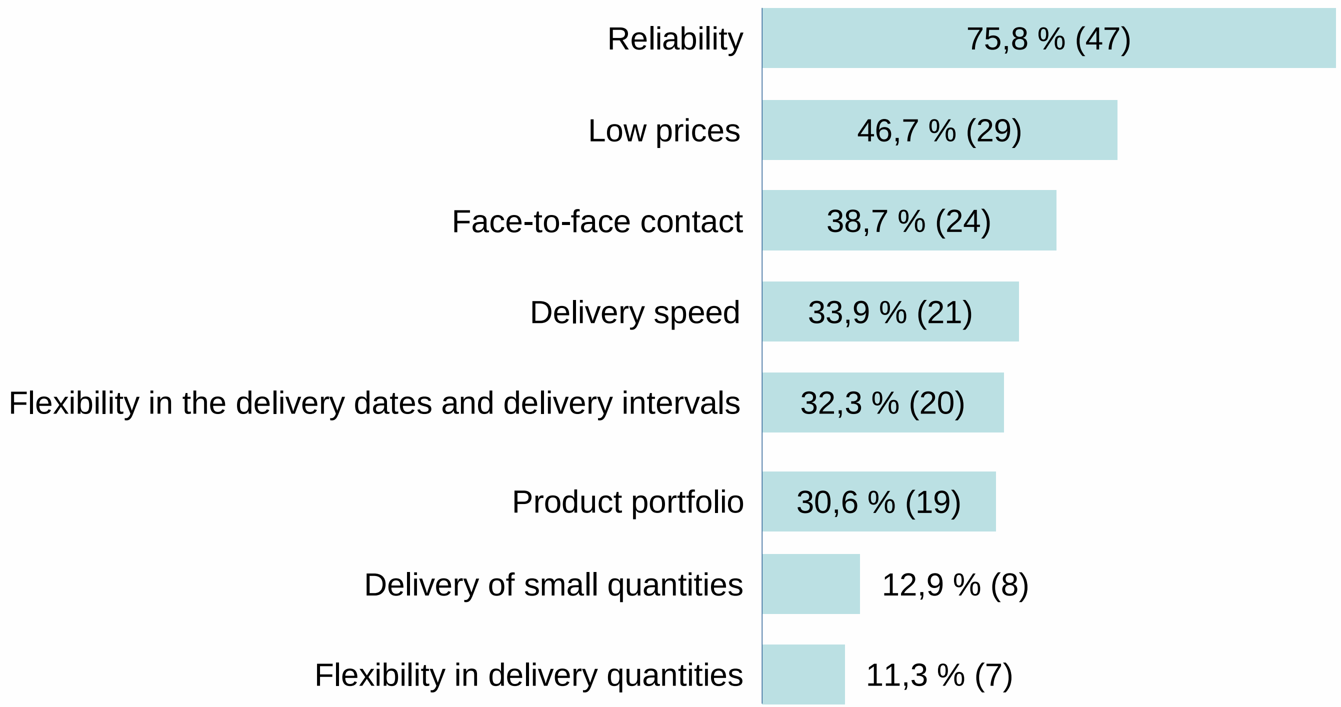


Globalization, intense competition in mature markets and increasing regulatory requirements were identified as key reasons for the industry change for chemical distribution.

Characteristics for a successful cooperation with customers

grosse-hornke
Private Consult

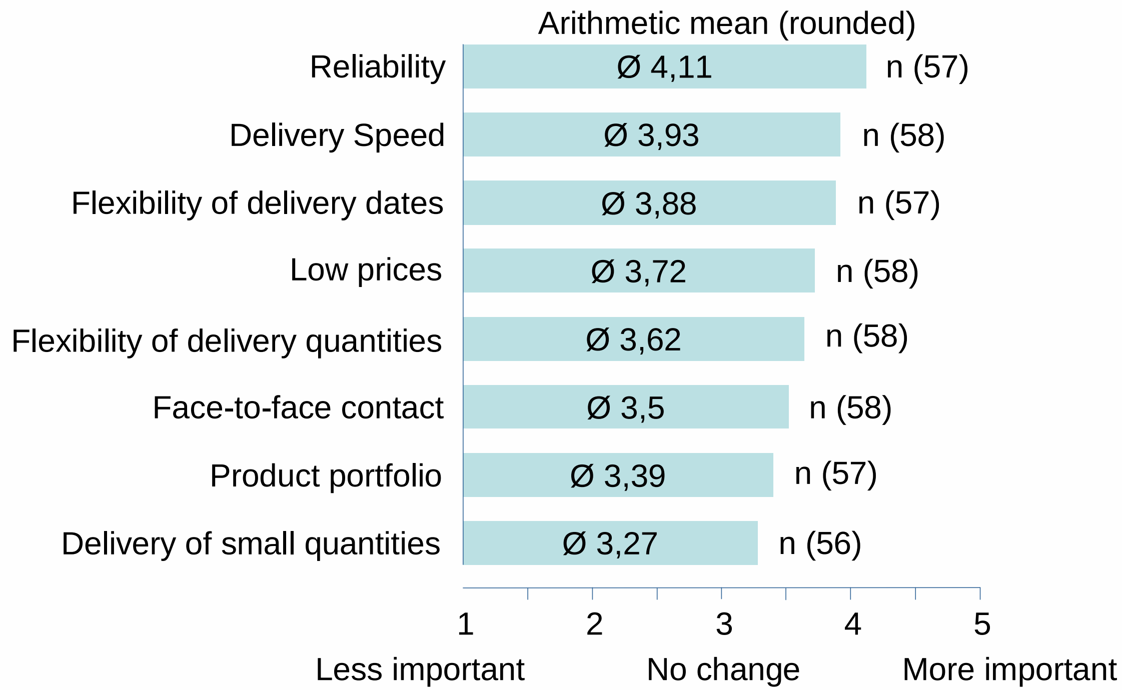
Which characteristics appreciate your customers most?
(maximum three answers, n=62)



Chemical distributors think that their customers pay particular attention to reliability (76%). In contrast, low prices (47%) and face-to-face contact (39%) are considered as less relevant.

Evolvement of customer requirements

Question: How the customer requirements have changed during the last five years?
(Multiple answers allowed)

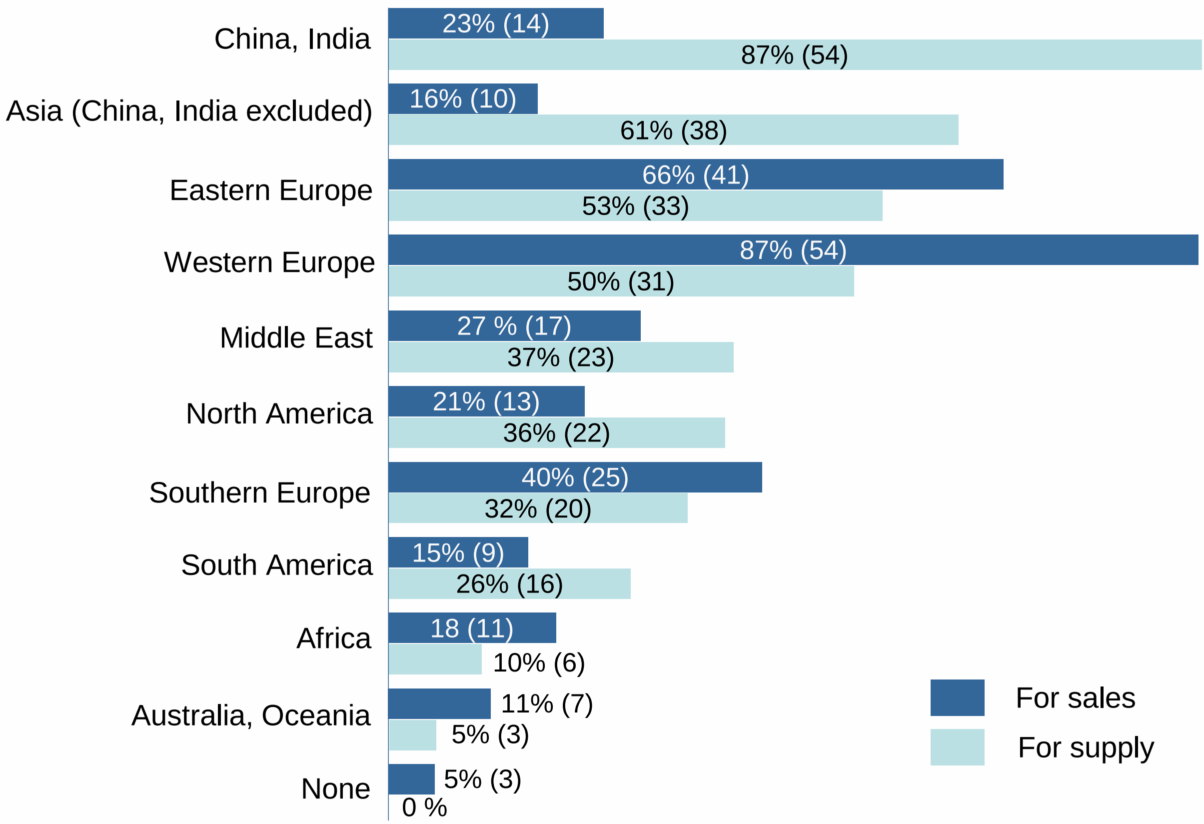


Characteristics such as reliability, delivery speed and time-related flexibility gained significance for the customers in the past five years.

Potential markets for chemical distributors

grosse-hornke Private Consult

Question: Which markets are attractive for your company in the future? (n=62)

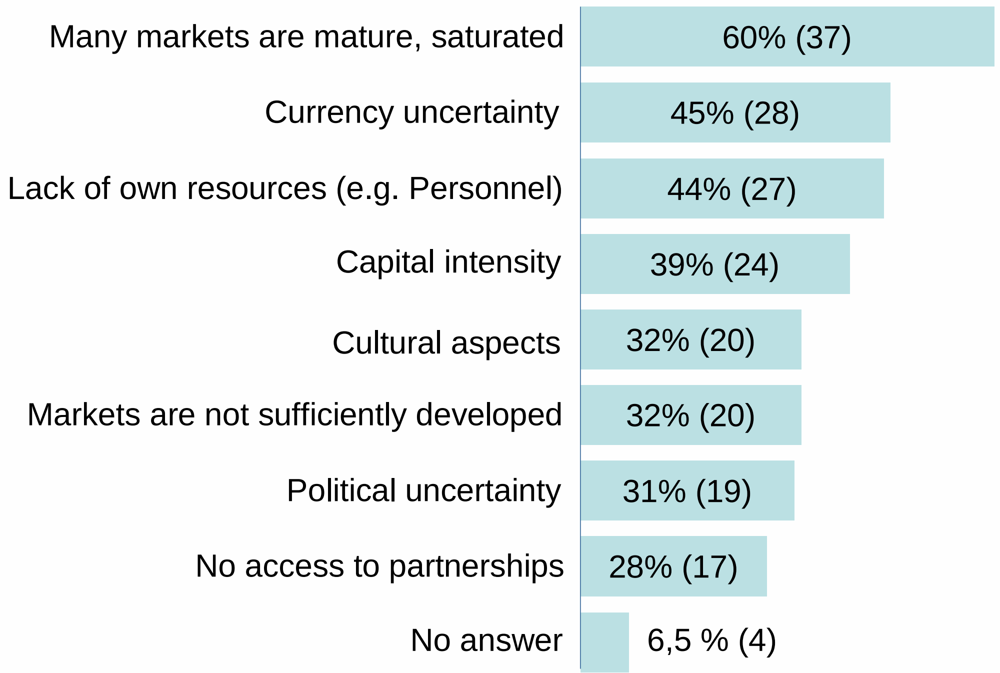


The study results clearly show the increasing relevance of Asia as a procurement market. China and India in particular are perceived as attractive supply markets in the future by 87% of participants.

Entrance barriers of attractive sales and supply markets

grosse-hornke
Private Consult

Question: Which problems do you see for entering an attractive market?
(Multiple answers allowed, n=62)

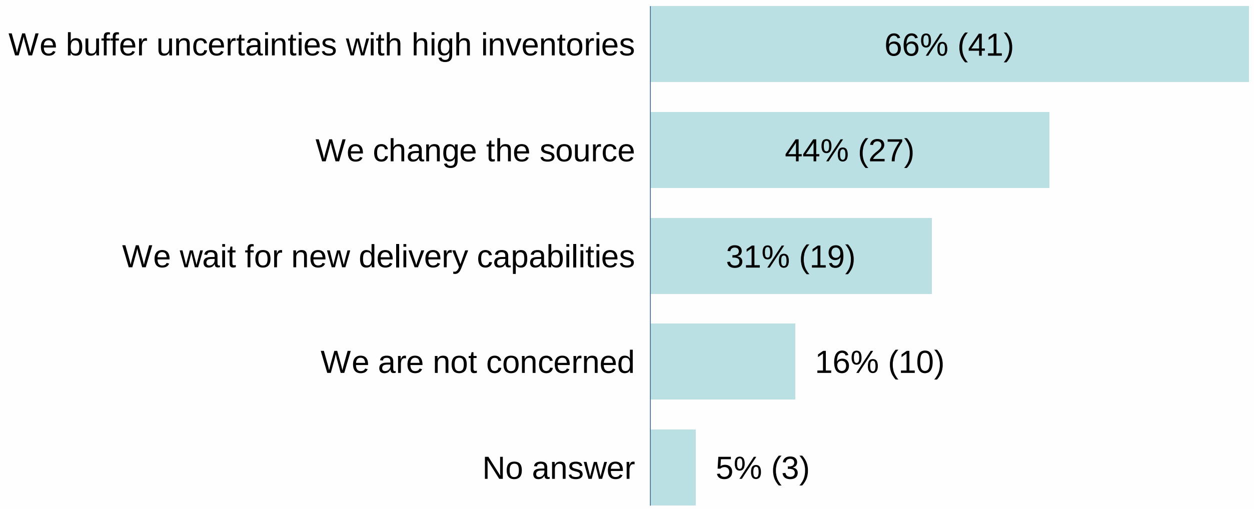


As entrance barriers to sales and procurement markets the respondents have ranked market maturity (60%) as most important problem, followed by currency uncertainty (45%) and lack of own personnel resources (44%)

Management of delivery shortfalls

grosse-hornke
Private Consult

Question: How do you deal with delivery shortfalls of the chemical manufacturers?
(Multiple answers allowed, n=62)

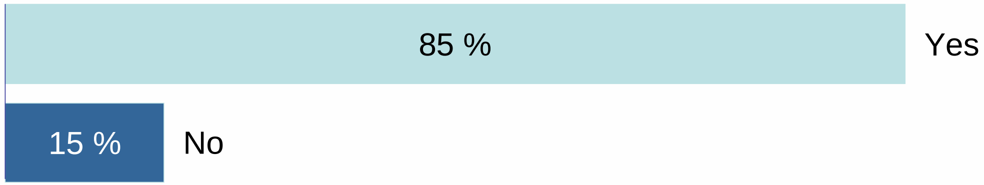


The majority of the respondents (66%) uses high inventories to prevent themselves from delivery shortfalls.
44% of the participants consider changing the manufacturer in the case of a delivery shortfall.

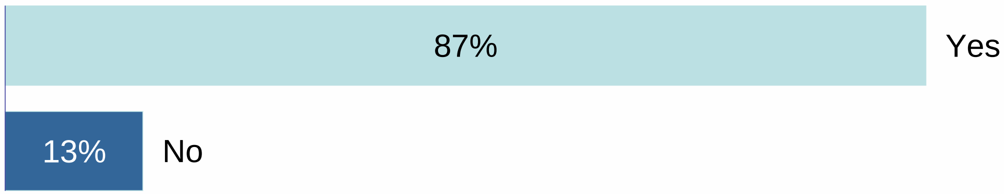
Impact of the raw oil price increases on the product pricing

grosse-hornke
Private Consult

Question: Do you pass price increases (of raw material) to your customers in the short term?
(n=61)



Question: Do you pass price increases (of raw material) to your customers in the long term?
(n=60)

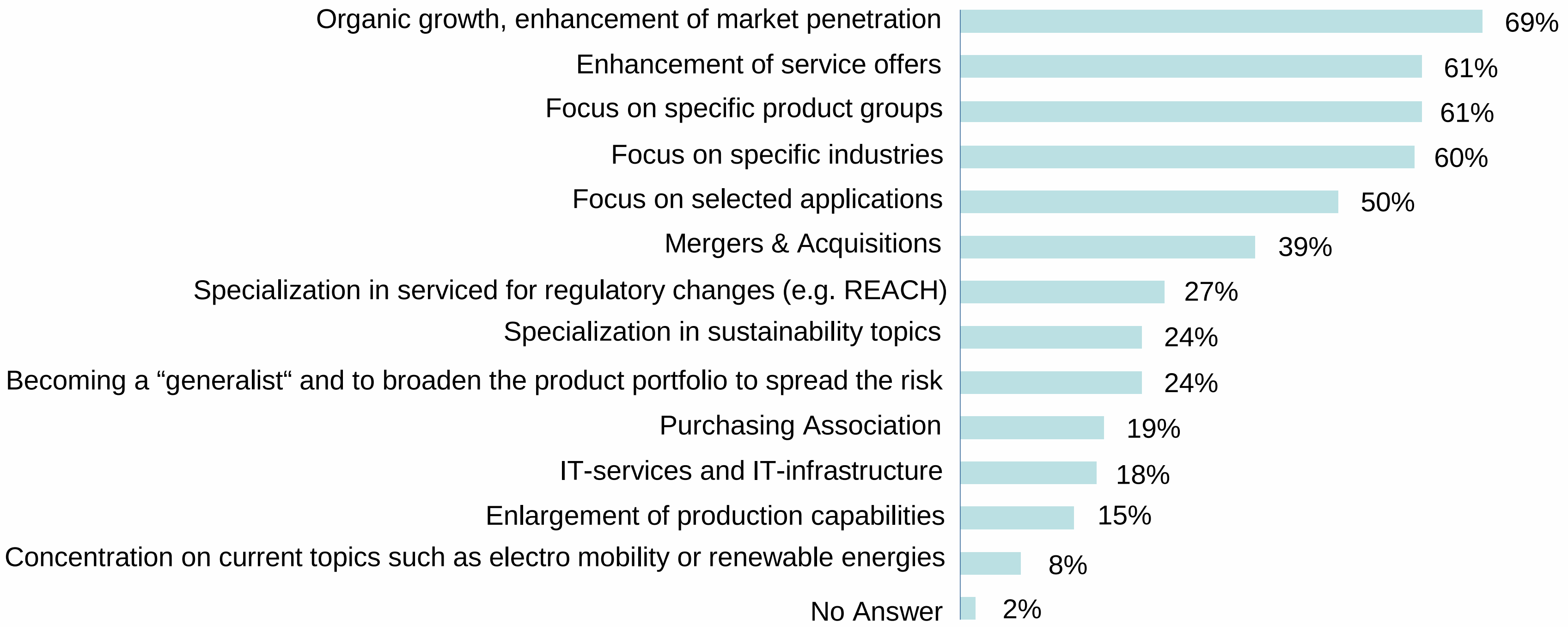


Price increases of raw materials are passed to the customers in the short and long term.

Development potentials of chemical distributors

grosse-hornke Private Consult

Question: Where do you identify development potentials for your company?
(Multiple answers are possible, n=62)



Growth opportunities for 2012 are identified by the respondents in organic growth/ enhancement of market penetration (69%), enhancement of service activities (61%), focus on specific product groups (61%), focus on specific industries (60%), as well as focus on selected applications (50%).

Agenda

grosse-hornke
Private Consult

Status Quo and Study Overview

Results: Overview

Results of the Online Survey

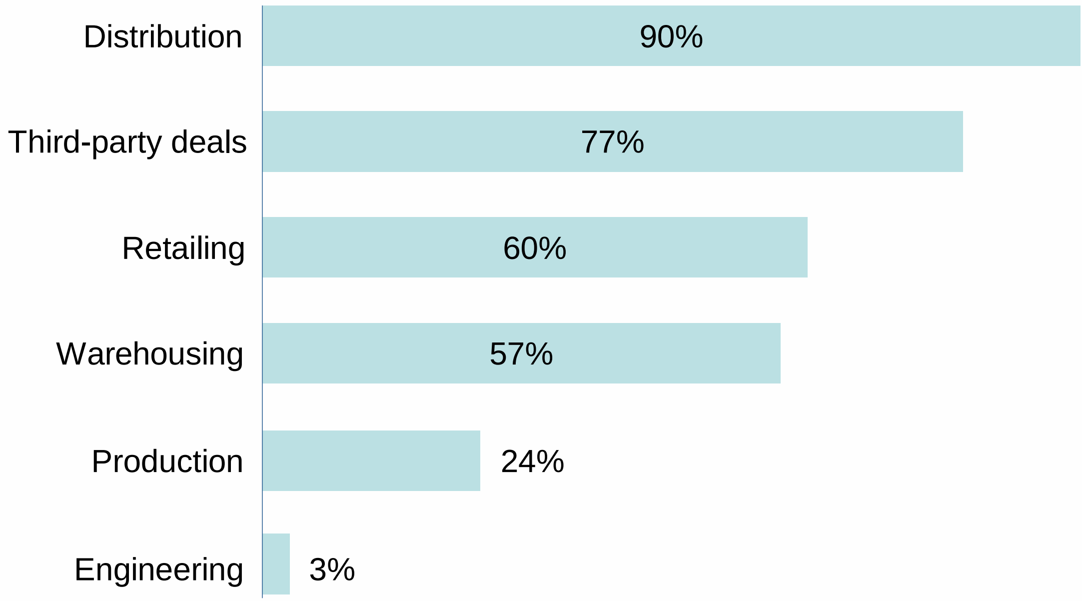
- Function/ Responsibility of the Respondent
- Role of Chemical Distributors
- Challenges and Key Success Factors of Chemical Distributors
- **Classification of Respondents**

Contact: Grosse-Hornke Private Consult

Field of activities of participating companies

grosse-hornke
Private Consult

Question: What is your company‘s field of activity?
(Multiple answers allowed, n=62)

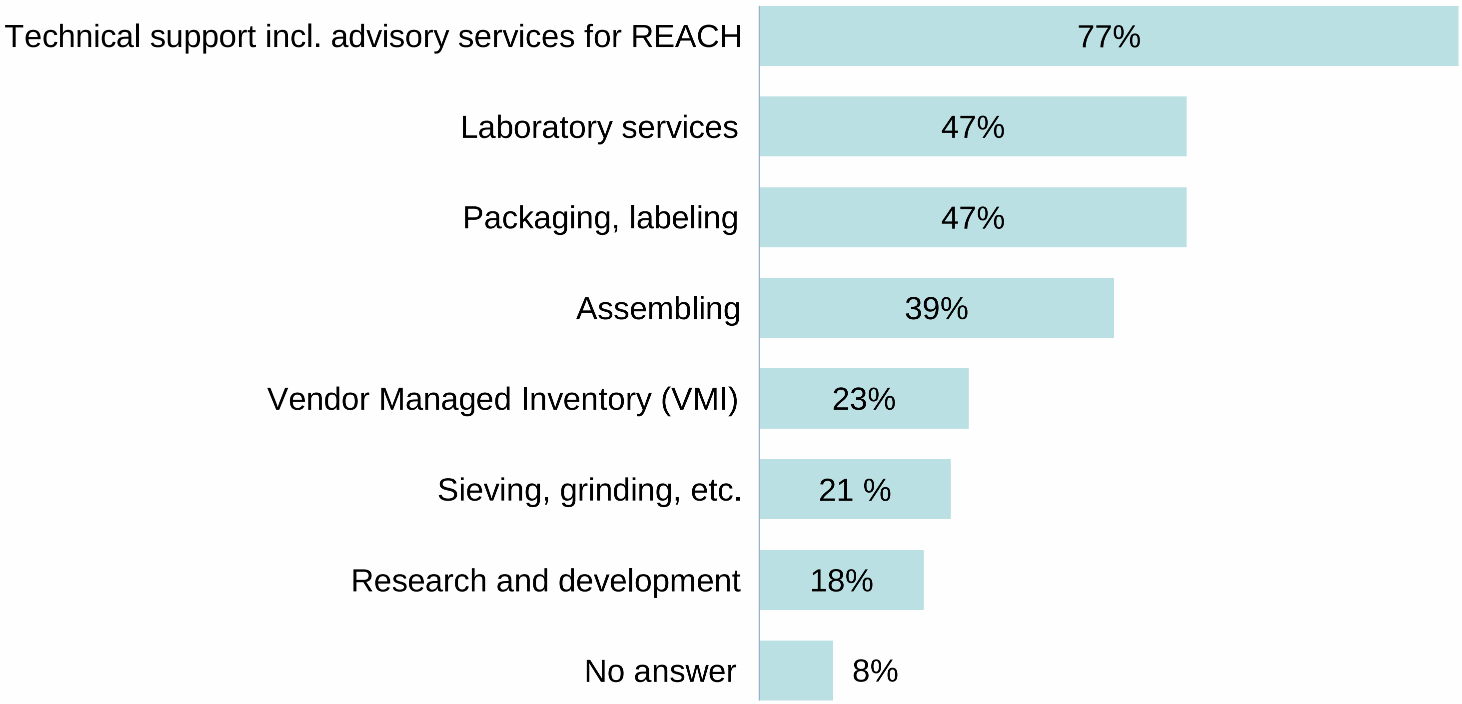


The study participants clearly represent the chemical distribution industry (90%). At the same time, many participants also do business in distribution-related fields of activities such as third-party deals, retailing and warehousing.

Service offer of chemical distributors

grosse-hornke
Private Consult

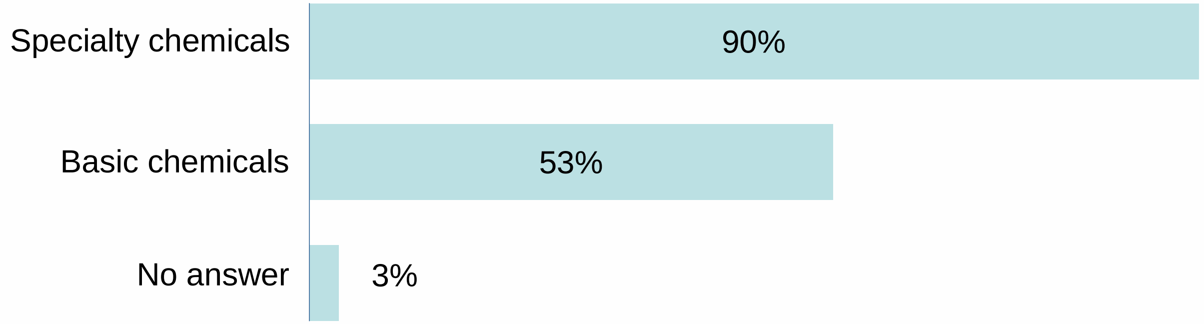
Question: Which services are offered by your company in addition to your core business?
(Multiple answers allowed, n=62)



The majority of companies (77%) offer technical support (incl. advisory services for REACH), laboratory services (47%), packaging/ labeling (47%), and assembling (39%) in addition to their core business

Product portfolio of study participants

Question: Which products does your company offer?
(Multiple answers allowed, n=62)

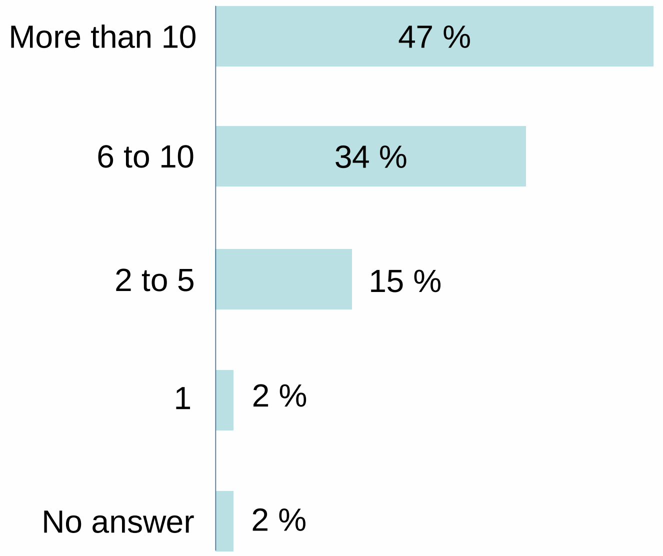


The study participants distribute in particular special chemicals (90%) as well as basic chemicals (53%).

Number of customer industries for chemical products

grosse-hornke Private Consult

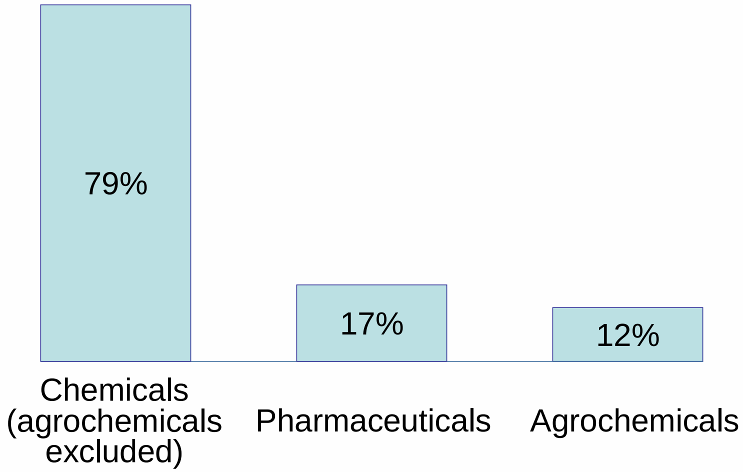
Question: How many industries does your company supply with chemicals?
(n=62)



Approximately half of the participating companies supply more than 10 industries with chemicals.

Business segments of study participants

Question: How is your business allocated (on a value basis) among the following three business segments?
(Multiple answers allowed, n=62)

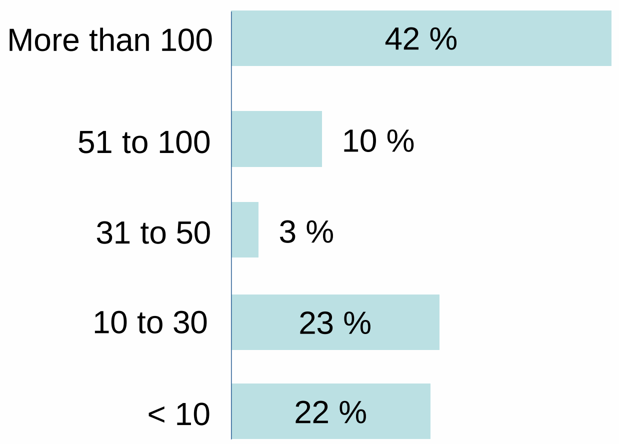


Key business segment of study participants is chemicals (79%).

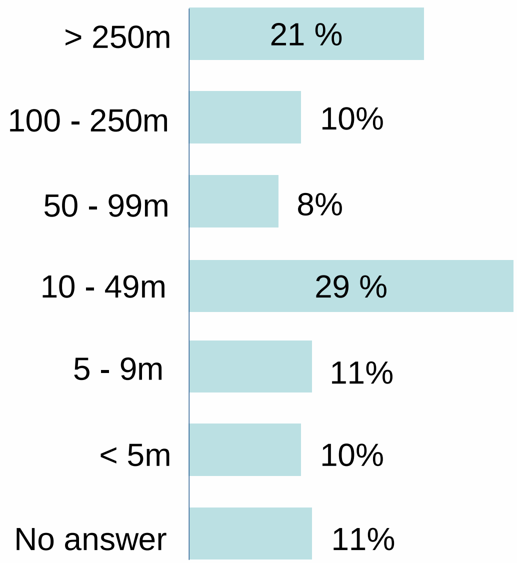
Size of participating chemical distributors

grosse-hornke
Private Consult

Question: Number of employees of your company in 2010? (n=62)



Question: Revenues generated by your company in 2010 (in €)?
(n=62)

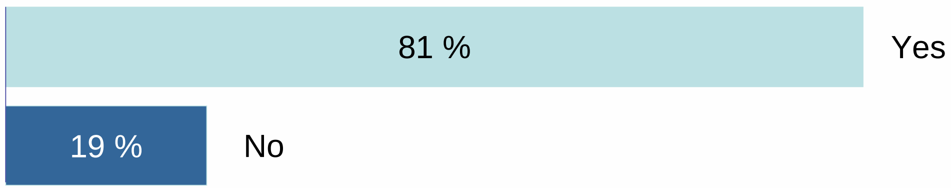


42% of the study participants represent companies that employ more than 100 employees. 21% generate revenues higher than €250m (in 2010).

Ownership structure of participating companies

grosse-hornke
Private Consult

Question: Is your company family-owned?
(n=62)



The majority of study participants represents companies, which are family-owned.

Agenda

grosse-hornke
Private Consult

Contact

grosse-hornke
Private Consult

Dr. Matthias Hornke, LL.M.
Grosse-Hornke Private Consult
Am Dornbusch 54
48163 Münster

Tel.: +49 2501 59435-10
Fax: +49 2501 59435-11
mobile: +49 172 6814074

email: matthias.hornke@grosse-hornke.de
www.grosse-hornke.de

Internet (www.grosse-hornke.de)[1]