

Planning for the Unexpected

Why the Chemical Distribution Industry Is Becoming an Even More Important Chemical Value Chain Partner

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 chains of these sectors, distributors are critical partners for global corporations as well as for SMEs. This role has become particularly obvious and relevant during the corona crisis. But distributors themselves also face many challenges in the aftermath of the pandemic. CHEManager asked Dorothee Arns, Director General of FECC – the voice of the chemical distribution industry in Europe – about the current challenges, market trends and her vision for the sector’s future.

CHEManager: *Mrs. Arns, the Covid-19 pandemic is not yet over, but after two years of operating in a pandemic environment, what impact did the corona crisis have on the industry?*

Dorothee Arns: By and large, the distribution sector navigated the pandemic rather well and – overall – succeeded in adapting quickly to the rapidly changing conditions. The picture is, of course, not homogeneous, but depends to a considerable extent

on the level of segmental and regional diversification of the respective distributor and the product portfolio. On one hand, we could observe that all applications needed to contain the virus spread, for example disinfectants, pharmaceuticals, chemical building blocks for personal protective equipment, were constantly in extremely high demand. On the other hand, other segments which were significantly impacted by lockdown measures during infection peak times faced suspended demand



Dorothee Arns,
FECC

first and afterwards huge catch-up effects when the closures of service sectors were lifted. In any case, and despite all the challenges chemical distributors proved to be a reliable, trusted partner for all their stakeholders and were able to meet all their commitments at any time. For our sector itself—as well as for the entire chemical industry—it was a good opportunity to showcase in re-

ality how much the chemical distribution business can contribute to solving societal challenges.

What, in your opinion, are the most important lessons learned from the past two years?

D. Arns: In my opinion the most important lesson learned is to constantly “plan for the unexpected”, which means develop plan B options for the case that the traditional solution does not work out anymore. What we have seen starting with the pandemic, followed by a series of unprecedented supply chain disruptions triggered by different causes and now with the Russian war in Ukraine, is that our traditional ways of working and making business do not necessarily apply anymore. For decades, all industries, not only chemicals, have optimized their business models with ever shorter lead times, less inventories and increasing reliance on certain structures and processes without buffers. Relatively stable geopolitical times meant relatively stable supply chains, apart from ad-hoc emerging issues, such as sudden force majeure situations; as a consequence, supply reliability was, by default, taken for granted.

What we now see is how vulnerable our business models and processes are and that external shocks in some parts of the world—even if far away—can have massive knock-on effects on entire supply chains. Availability of products—from raw materials, semi-finished products, spare parts up to energy—is more and more becoming THE critical issue, supply chain excellence, flexibility and ample global networks are converting more and more in key factors for success.

How will the experience of global supply chain interruptions change the sourcing or operating model of the chemical distribution industry?

D. Arns: Well, not only in chemical distribution, but for all economic players world-wide the crucial task is to check and challenge their individual business models and company





processes to make them as future-proof as possible in rapidly changing geopolitical and other framework conditions.

Distributors are anyhow used to respond flexibly and agile to ever-changing market conditions and to use their extensive networks worldwide to find good solutions for their customers and principals. This is part of their DNA and the value added they bring to the supply chain.

Most likely this kind of diversification in terms of sources, segments, applications and products will be further extended, long-distance global supplies will be complemented with more regional or local supplies, and inventories—especially for critical substances—are likely to increase to buffer unexpected shortfalls. Some business models, above all those based on single-suppliers, just-in-time deliveries and a low level of diversification in general are likely to be phased out for the sake of enhancing the resilience against external shocks.

After the pandemic, what will be the most important short- and long-term challenges facing the sector?

D. Arns: Actually, the short- and long-term challenges for our sector are pretty much the same as before Corona. The pandemic has “just” further enhanced the urgency of previously existing topics, such as sustainability, and accelerated the speed of ongoing developments, such as digitalization. Additionally, as explained beforehand, the new challenge of supply chain resilience needs to be dealt with—not only short-term, but also long-term.

And if all this were not enough, the Russian war in Ukraine is now threatening Europe’s energy supplies, apart from its massive impact on global food chains. A potential embargo of Russian gas at this point in time would put the entire chemical industry under massive pressure. It would also have a domino effect on Europe’s entire industrial base, because the chemical industry is the

“industry of industries”, that means enabler of many downstream segments.

It goes without saying that this is a minor issue in comparison with the humanitarian situation of the Ukrainian people. However, such a step must be well thought out and prepared, which is not the case yet. Even with more lead time, this change could belong in the range of the biggest challenges ever for Europe’s chemical industry, and sustainable solutions to this issue remain unclear at the moment.

How do chemical distributors support the goal of transforming the feedstock base of as many material value chains as possible?

D. Arns: Indeed, FECC members take their environmental responsibility very seriously and are committed to deliver on the targets of the European Green Deal and the United Nations’ Sustainable Development Goals. Just,

reality tells that chemical distribution per se is a relatively small sector in a sandwich position between the downstream user industries and the chemical manufacturers. This means the whole chemical supply chain can only solve the issues together in a cross-sector cooperation, and distributors are fully prepared to play their part.

This is also why the sector welcomes the many initiatives from European petrochemical producers to further diversify and transform raw material streams, for example by applying chemical or mechanical recycling or mass balance approaches. Some of the FECC members have also successfully pioneered a cross-industry pilot project in Denmark to use chemical waste as a resource, which is not only a practical implementation of the circular economy, but could also be a further step to reduce the environmental footprint in general and save emissions in particular. There is for sure more to come in this respect.

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The circular economy is a crucial factor to reach carbon neutrality. Chemical distributors play an important role in the chemical/plastics value chain. How will the circularity trend, that requires closed-loop collaboration along value chains, change the way the industry operates?

D. Arns: Chemical distributors are closely monitoring the developments, which will affect all operations, as distributors are placed in the midst of all value chains. Some facets of the circular economy, for example resource efficiency, reuse of material or recycling have already been in place in our sector.

What is new in the regulatory concept is the target to fully deviate from linear business concepts towards circularity, wherever possible. Apart from the intensified cross-sector cooperation this approach will require a lot of innovation in all parts of the value chains and significant investments in new solutions and new infrastructure—on top in times of increasing uncertainty.

Where the distribution sector per se can make a big difference is when it comes to our own operations and to advising our customers on circular economy principles and how these could practically be implemented in every-day-operations. This is already happening and will be further intensified.

Do you think that carbon neutrality and circular economy are chances to enhance the role of chemical distributors in the chemical value chain? Or will distributors rather have to fear a declining importance due to these trends?

D. Arns: Based on what we discussed before, there is a growing role for distributors and a lot of opportunities to tap. FECC has informed and instructed our members of the practical implications of the circular economy already at a very early stage, facilitated the best-practice exchange with concrete examples and also compiled ample circular economy guidance material for distributors in close cooperation with our colleagues from the Danish National Distributors' Association Kemi & Life Sciences. The underlying target was to give our members as much time as possible to prepare for the new developments. Distributors significantly rely on early scouting and identifying market trends. Then their inherent agility allows them to adapt rather quickly to

new conditions and develop new business models. Hence, I am confident that the role of chemical distributors will enhance rather than decline.

Another transformation that has been particularly accelerated by the pandemic is digitalization. How digitalized is the chemical distribution industry today, and which are the biggest challenges of the digitalization that still need to be tackled?

D. Arns: The pandemic has certainly accelerated digitalization, which had already been high on the agenda before. Still the level of digitalization differs individually from company to company and largely depends on the overall business strategy. Nevertheless, this development will gain more momentum, especially when more and more young talents come on-board, who are even more used to work with digital tools than their predecessors were.

Since chemical distributors are active in all chemical segments and

fulfill all chemical supply chain functions, the sector regards itself as ideally placed in the midst of all value chains to pilot innovative digital solutions, and that is what we are doing, also in the competition-law-sound framework of a European association as FECC. Moreover, at FECC we have the pleasure and the benefit to count a series of well-renowned digital

“Our traditional ways of working and making business do not necessarily apply anymore.”

solution providers as our members, and these companies are demonstrating on an every-day basis how much can be achieved via digitalization.

The top challenges—from today's point of view and not only for small- and medium-sized enterprises—are

certainly cybersecurity, the compatibility/standardization of data across sectors and industries, and the protection of confidential business intelligence. The latter is of particular but not exclusive relevance for specialty chemicals' distributors with own recipes. Last but not least increasing digitalization goes along with the requirements for new digital skills in addition to those which are already in place.

The race for young talent will intensify in the coming years, and not just because of digitization. Will the multifaceted transformation just discussed help to attract more young people to the chemical distribution sector?

D. Arns: Possibly the transformation will play its role, too, but most likely it will be even more important for chemical distributors to showcase the solutions they are actively contributing to solve the societal mega challenges. Here the pandemic can serve as a good example. Existing production and distribution lines were switched at a fast pace to make more of the much-needed products available and FECC members donated them in vast quantities to nursery homes, hospitals, schools and kindergartens in their surroundings.

These days it is not enough to offer highly qualified, well-paid and secure jobs to attract young talents. Additionally, young people are looking more and more for a purpose and a job where they can make a meaningful difference for society and the environment. This is definitely what chemical distribution can offer. With that in mind I am sure that the chemical distribution sector has many compelling stories to tell.

Weighing the risks and the chances of the topics just discussed, what is your vision of the future of the chemical distribution sector?

D. Arns: The vision of the future is for the chemical distribution sector to continue playing a vital, vibrant role in the chemical supply chain by offering value-adding, sustainable solutions to our business partners and acting as a reliable, trustworthy, constructive dialogue partner for all stakeholders.



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