Brexit’s effect on the surfactant supply chain: a distributor’s perspective

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Overview of the UK surfactant market
Key end product industries
The 'distribution' phenomenon
Routes to market
The ‘Brexit' effect
Key success factors for market development
Adapting to the changed landscape and preparing for future shocks
UK Surfactants market

- Well established & mature
  - ...but still highly fragmented
  - ...hence strong consolidation and high M&A activity
- Increasing environmental and regulatory pressures
- Few large UK manufacturers with strong presence of converters
  - ...manufacturing centre has moved outside the UK
- Increased global direct competition from Europe and Asia
- Manufacturing focus and investment towards high value applications and niche markets
- Development and innovation relatively strong with R&D centres remaining in the UK (for the time being...)
- North East, North West, Yorkshire, Humber and Scotland regions main manufacturing areas
- Strong presence of distributors – Large multinationals (LMNEs) and a very interesting mix of SMEs
Key end product industries

Traditional

- Household/I&I
- Metalworking & Lubricants
- Textile, Leather & Paper
- Agrochemicals
- Coatings
- Plastics
- Food
- Water treatment
- Oilfield
- Construction

Specialised

- Pharmaceuticals
- Nutraceuticals
- Aerospace
- Electronics
- Personal care

Medium to long-term trend:
- decline in the manufacture of large volume–low margin chemicals
- specialisation within the manufacturing sector
- increase in the importation of bulk chemicals and fuels
- Increased associated storage and distribution

(Chemistry Growth Strategy Group, 2014; Health and Safety Executive, 2014)

Even in traditional markets the focus is on specialised/niche /high tech applications
The ‘distribution’ phenomenon

Manufacturers need to reach their customers / markets but:

- Increased competition due to globalisation
- Environmental and regulatory requirements
- Differences in the composition of the customer/industry by country
- Need to supply a wide range of products in differing quantities to a hugely diverse customer base
- Customer fragmentation
- Presence of small customers
- Lack of infrastructure and processes to handle low volumes or a high diversity of products
- Local presence required

...not an easy task...need for a ‘middleman’
The ‘distribution’ phenomenon

Chemical Distributors

- Reduce complexity and costs
- Alleviate environmental / regulatory pressures
- Value-adding services (repackaging, blending)
- Market reach (customer and industries)
- Market information / Local knowledge
- Reduce trade related risks
## Routes to market

<table>
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The ‘Brexit’ effect

- needs to be investigated as a **phenomenon** and not as a singular event
- Despite continuous speculations on the effect so far very few aspects have become **visible** to the public and industry alike.

**Uncertainty** is the only remaining constant as the UK moves into uncharted territory.
- Speculations and scenarios causing **destabilisation** of supply affecting **routes to market**
## Routes to market (Brexit effect)

### Manufacturers / Converters

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Focus on distributors to deal with **uncertainty** and a means to **reduce / mitigate risk**.

- **Distinction between MNEs and SMEs** (< 250 employees, < EUR50m turnover, < EUR43m annual sheet)
- **UK distribution: 75% LMNEs vs 25% SMEs** (Chemagility, 2015)

- **With market:**
  - moving towards specialised / niche applications
  - more technically focused
  - fragmented
  - (potentially) smaller volumes
  - requiring flexibility and adaptability
  - quick responses
  - low cost /overheads......

- Brexit and industry conditions seem to be favouring SMEs...
Key success factors for SMEs

...based on academic research (Lampadarios, 2016)

Aim: Identify CSFs for SMEs in the UK Chemical distribution industry

Target group:
- SMEs as defined by the European Union; located in the UK
- not part of a another organization or belonging to a larger corporation
- no manufacturing activity and capability

Population: 180

Key informants: Owners and Senior managers (CEOs, MD, Directors)

Twenty two (22) factors critical to small business success identified and their impact was investigated.

Categorised in:
- entrepreneurial (relating to the personal characteristics of the owner/manager)
- enterprise (relating to the firm)
- business environment (external) factors

Survey strategy, self-administered questionnaires.

Response rate 65.5%.
Main findings

- Success is a multidimensional phenomenon, both firm-
  internal and firm-external factors need to be optimal simultaneously.
- Strong interrelations amongst the success factors
- Flexibility and adaptability required
- SMEs are not a homogeneous group - different
  strategies are needed for different sized businesses.
- Variations in all enterprise and business environment
  CSFs i.e. customer focus, formal vs informal strategy, sources of finances, HR
  management, market orientation, regulatory strategy.
Critical Success Factors (CSFs)

Enterprise factors:
- Customer relations management (MR: 2028)
- Market and product development (MR: 1938)
  - Human capital (MR: 1800)
  - Strategic planning (MR: 1643)

Entrepreneurial factors:
- Entrepreneurial orientation (MR: 2036)
- Prior work experience and management skills (MR: 1812)

Business Environment:
- Regulatory compliance (MR: 2047)
- Economic (MR: 1651)

SMEs Success
UK chemical distribution
Entrepreneurial factors
- Entrepreneurial Orientation
- Prior Work Experience and Management skills

Enterprise factors
- Customer Relations Management
- Market and Product development
- Human Capital
- Strategic Planning

Business Environment factors
- Regulatory compliance
- Economic environment
Regulatory Compliance

- Unavoidable
- Compliance strategy needed
- Human and financial resources
- Adjust portfolio
- Utilise available support (ECHA, Chamber of Commerce)

...yet new opportunities outside EU: internationalisation
Customer Relations Management

- Remember...distributors do not manufacture products...it is all down to the ‘service’ element
- Closeness to customers
- Quick response times
- Easier to maintain than finding new
- CRM management systems
- Suppliers management
  - they are customers too and should be treated equally well
  - source not only of products but innovation
  - ‘take advantage’ of capabilities
  - reinforce relationship and increase level of integration
Market & Product development

- Critical in success...even more so with ‘Brexit’
- Lack of manufacturing capabilities...
- Category management excellence (niche, specialise, differentiate, offer USPs)
- Constant awareness of new technologies, markets and competition
- Increase exposure with existing suppliers
- Identify new products and markets...Internationalisation
- Networking: formal arrangements (i.e. joint ventures, alliances and distribution agreements) to informal networking (i.e. business clusters, business incubators, entrepreneurship clubs)
- ‘All around’ employees
Customer facing and driven industry....people do matter

Education, business qualifications, work and industry-specific experience, business contacts, relevant skills and training

Commitment and investment required to increase the above

Developing vs Acquiring

Technical expertise key into niche / specialised markets (consider UK skills shortage)

Capitalise sources of knowledge (universities, associations, government funded programmes)

How about SME owners/managers and their development?
Strategic Planning

- ‘Strong and focussed companies with a forward-looking strategy and mind-set will thrive in the UK chemical distribution industry’
- All SFs are integral parts of planning
- Formal vs Informal.....does it matter?
- Throughout the life of the business
- Improve business planning skills
Thriving under ‘Brexit’

- Flexibility
- Adaptability
- Understand and utilise distribution options
- Explore new opportunities
 References

Thank you!

Any questions?