



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

Specialised

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)

- PLASTICS
- Food
- Water treatment
- Oilfield
- Construction

Even in traditional markets
the focus is on
specialised/niche /high tech
applications

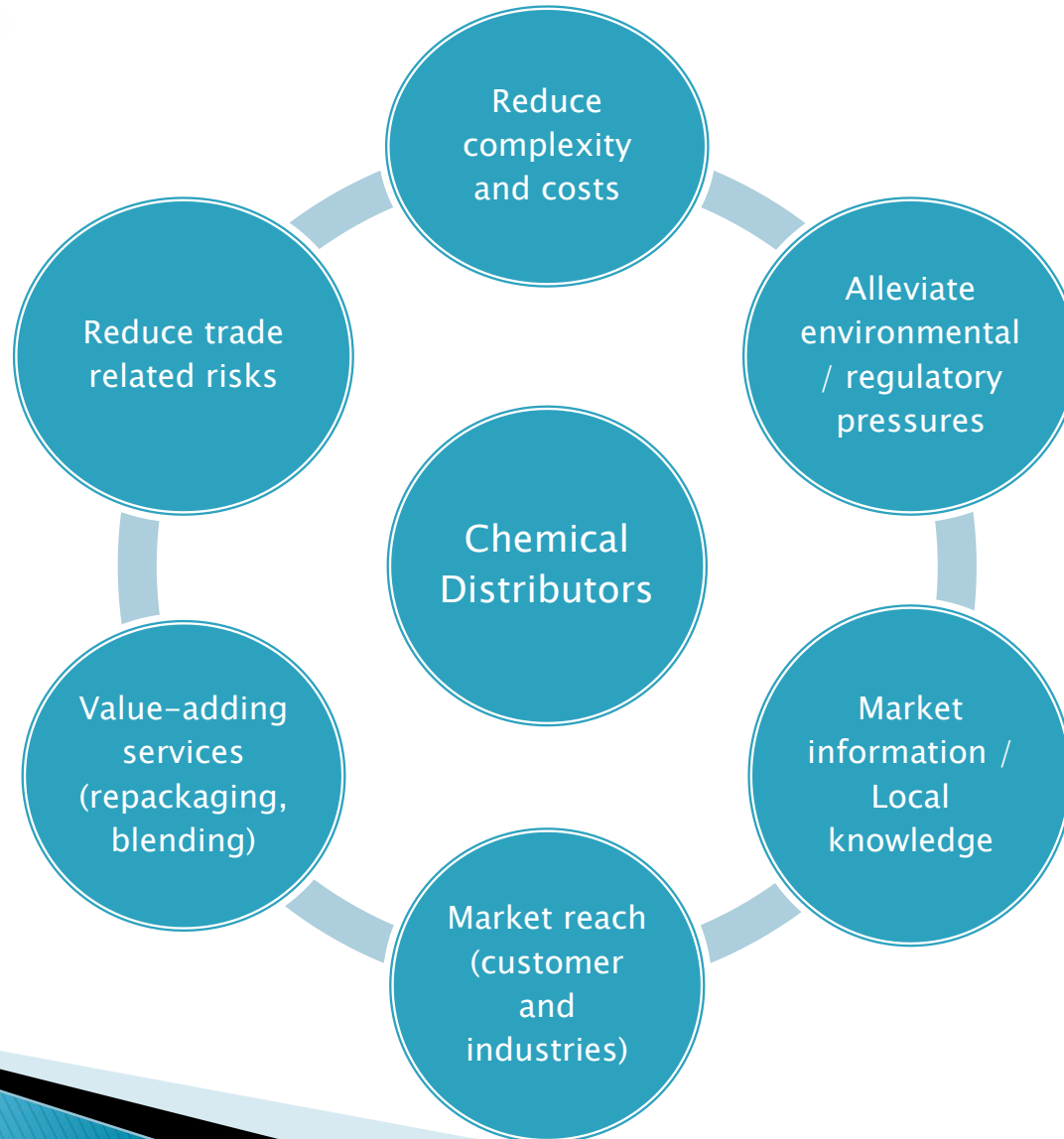
The '*distribution*' phenomenon

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



Manufacturers / Converters

Direct

Own
distributor(s)

Non-
exclusive
distributor(s)
/ Agents

Appointed
distributors
& Exec
accounts

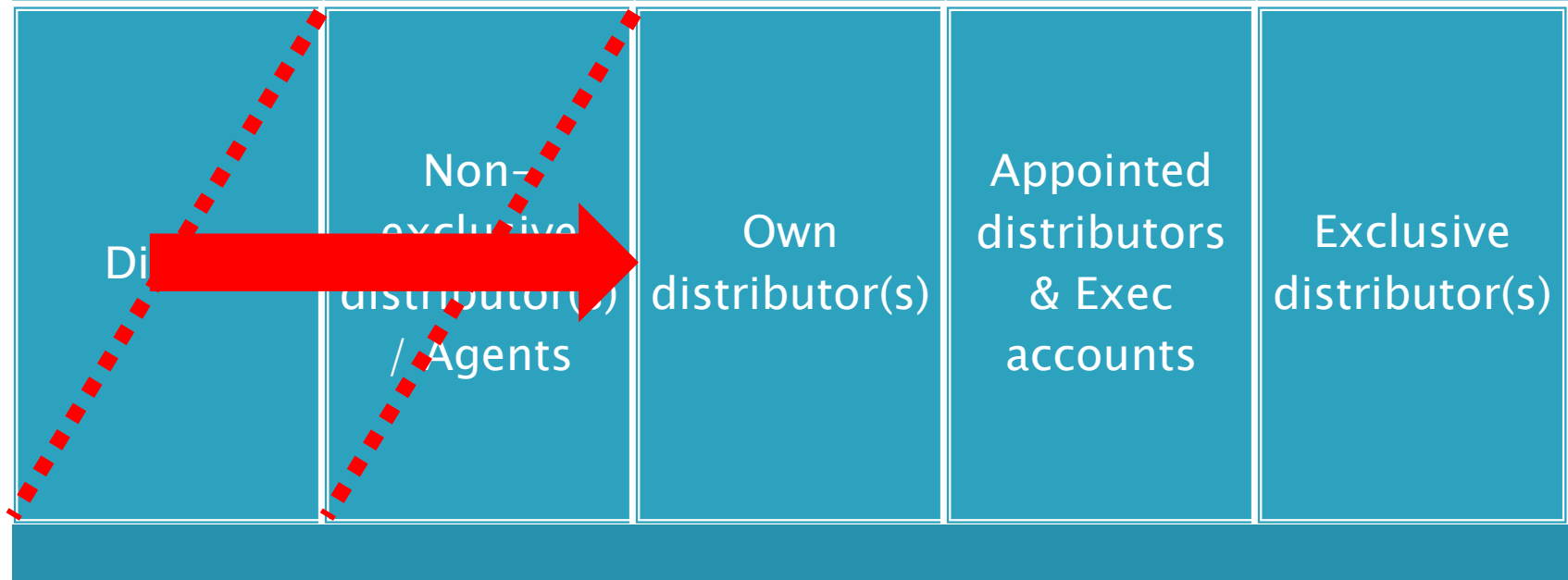
Exclusive
distributor(s)

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



LMNEs vs SMEs (in the UK distribution arena)

- ▶ 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...

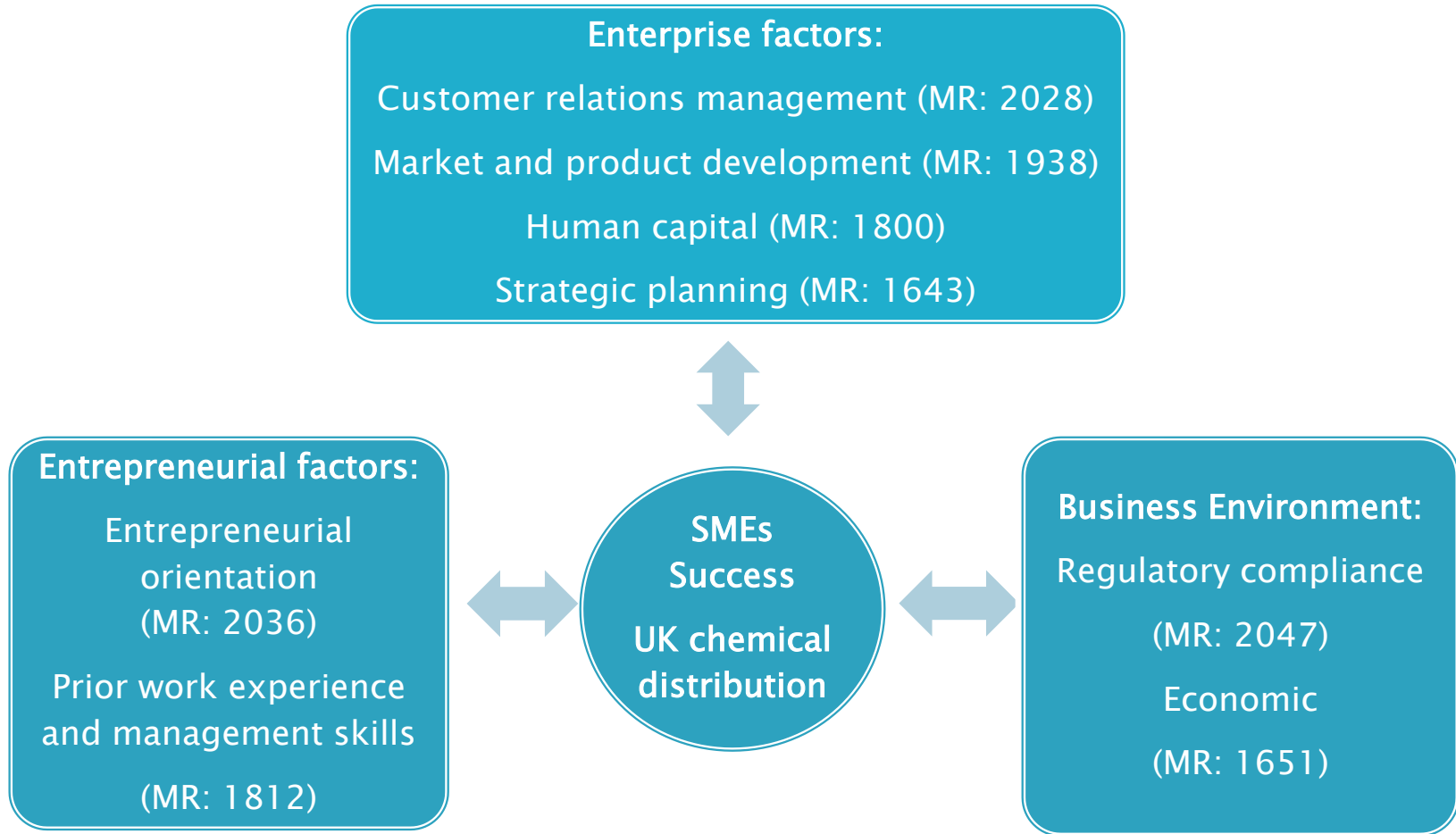
Key success factors for SMEs

- ▶ ...based on academic research (Lampadariou, 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 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.
- ▶ Categorized 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)



CSFs Explained

- ▶ ~~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

Human Capital

- ▶ 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

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Thank you!

Any questions?