**What future for SME distributors?**

***Dr Evripidis Lampadarios*** *of* ***Leeds Beckett University*** *reviews the factors critical to SMEs’ success in the European chemical distribution industry*

Chemical distributors are a fragmented network, positioned between chemical producers and their customers, adding value through an extensive range of services to both customers and suppliers, such as managing complexity, reducing trade-related risks and costs, accessing markets, providing financing and support, etc.

Chemical manufacturing companies increasingly realise the value of chemical distributors as value chain partners and are implementing structured distributor management functionalities in their organisations. In fact, every sector of the manufacturing base relies on distributors for prompt availability of chemicals in a variety of grades and package sizes to produce their products**.**

Chemical distribution companies are often small and medium enterprises (SMEs) with local and regional coverage. SMEs have, without a doubt, a strong presence in the European chemical distribution industry and thus play an important role in its overall growth and performance.

According to the European Federation of Chemical distributors (FECC), its members - mainly SMEs - create value in the chemical supply chain by meeting the demands of over 1 million downstream users ranging from over all branches of the industry, with their specific needs and diverse purchase volumes.1 Figure 1 details the services that chemical distributors offer to customers and suppliers.

**Figure 1 Services offered by chemical distributors to suppliers and customers**

The European chemical distribution industry is a mature, well-established, significant part of the chemical industry worth €168 billion and corresponding to approximately 10% of the market value of all distributable chemicals.2 It exhibits strong consolidation trends and regulatory requirements resulting in the overall reduction of the number of companies present, increasing the pressure on SMEs even more.

Even though there is extensive literature on SMEs and success factors in a wide range of settings, i.e. different countries and industries, there is very limited bibliography and academic research regarding the European chemical distribution industry. Similarly, very little is known about SMEs in this specific industry, their *modus operandi* and any factors contributing to their success and/or failure.

In fact, due to the wide variety of functions performed by these companies and confusion with other types of trading in the industry, there is still no universally agreed definition of a chemical distributor.3 To date, apart from some attempts by industry consultants like Districonsult and the Boston Consulting Group (BCG), there have been only two academic studies on critical success factors for SMEs in the chemical distribution industry.

Hornke’s study, conducted in 2011 and based upon 62 participating companies operating in Germany, Austria and Switzerland, identifies five critical success factors:

* Employees and employer qualifications
* Enlargement, diversification &specialisation of portfolio
* Enhancement of services
* Focusing on specific regions
* Expansion of international sales4

My own more contemporary and country-specific study established a positive relationship between eight factors and SMEs success in the UK chemical distribution industry. Regulatory compliance, entrepreneurial orientation, customer relationship management (CRM), market and product development, prior work experience and management skills, human capital, economic environment and strategic planning are, in order of importance, the critical success factors for the industry.5

Findings strongly suggest that success is a multi-dimensional phenomenon, where both firm-internal and firm-external factors need to be optimal simultaneously. There are also considerable variations between SMEs in this industry based on their size, suggesting that they are not a homogeneous group and different strategies are needed for different-sized businesses.

Given that is no generally agreed theoretical framework for carrying out research in this field, a conceptual framework based on the business literature and industry sources has been developed (Figure 2). This framework has been designed specifically to aid research relating to SMEs and so may not be considered useful where larger businesses are being investigated.

A number of factors have been identified and a positive relationship with SMEs success in the European chemical distribution industry is proposed, based on an extended literature analysis. These are considered in order below.

**Figure 2 SMEs success factors in European chemical distribution industry**

**Factors for success**

Developing and maintaining contacts for trading and business development purposes has a strong effect on firm performance and is generally accepted as an important strategy to help SMEs survive and prosper. One of the key advantages of small businesses in the distribution industry is the strong relationships they develop with customers and the good local **business networks** they built up allowing them to concentrate on niche markets and applications that larger companies find more difficult to service.

Especially in the speciality distribution, a well-established sales network that facilitates the distribution of goods to local customers while reducing cost and complexity offers SMEs a strong differentiation point.2

More formal methods of networking, such as participation in joint ventures and strategic alliances, further assist a firm’s growth by providing access to a broader base of resources, managerial talent and intellectual capabilities, reducing costs and risks, entering international markets, learning new skills and coping positively with rapid technological changes.6,7

Another factor is **company size**. According to BCG and Districonsult, the future favours medium-sized local champions and large international players, while small distributors face increasingly challenging conditions.8,9

In order to survive and thrive, companies must either be big enough to cover large geographical areas and large parts of core industrial areas or they must concentrate and specialise in certain industries that allows them an expert approach with high focus. Any distribution companies lacking the required critical mass and sufficient volume must either partner with competitors or seek an acquisition or merger.

Jung *et al.* further argue that speciality distributors need to target both organic and inorganic growth in order to address regional and product gaps in their portfolios. Therefore, the size of the company is an important factor in chemical distribution and potentially affects business success.2

Satisfying customers’ needs, offering a good service and expanding one’s services is the cornerstone of success for chemical distributors, especially as customers’ demand for reliability, speed and flexibility has increased significantly. Distributors have to build up a trusting atmosphere and a close relationship to get problems solved and challenges managed.

**CRM** also includes supplier management as this is a central business factor. Finding and securing new suppliers is a difficult task and as a result, it is important to install and develop relationship management across hierarchy levels and build up a network within the supplier organization.

Equally important in the success of SMEs in the distribution industry is managing and maintaining a close relationship with current suppliers and establishing platforms to provide regular feedback, market and product intelligence to them.2

**Financial resources** are vital. SMEs operating in the chemical distribution industry require significant investments and capital expenditures to remain financially sound, maintain their current position in the market, cope with increasing regulatory compliance costs, strengthen against acquisitions, acquire companies and finance their expansion into new markets.

BCG argues that SME distributors need to ensure their survival by establishing financial stability first.8 Once their viability is assured, they can differentiate themselves and build market share through specialisation - for instance, developing a differentiated offering in a specific niche, with local expertise, value-adding services, and real adaptation to supplier needs.

**Human capital** is becoming a challenge for chemical distributors in Europe and there has been increasing focus on employee qualification and retentions programmes. A strong expertise regarding products and applications is essential to drive market development. In fact, distributors who truly understand their products and formulations are in a position to provide better technical sales support and establish stronger relationship with their customers.

There is also a well-documented growing shortage of highly skilled workers. Thus, getting the right people and keeping them is becoming a challenge and a critical success factor for small-medium sized chemical distribution companies as they lack the resources to compete with larger distributors and offer less secure employment. 8,10,11

SMEs above all companies have to expand to other markets to grow and thrive and as such a well thought-out **internationalisation** plan is required. With a shrinking manufacturing base in Europe and as a result of customer internationalisation, SME distributors increasingly need to extend their networks and offer their products and services in a wider geographical area.

However, surviving in the internationalised environment entails risks and can generate losses. SMEs need to realise that success in the home countries does not guarantee success internationally. Similarly, due to the well-established restrictions in resources, a viable growth solution is the formation of international partnerships and/or collaborations with distributors in different countries.8,12,13

**Market & product development** is also crucial. Choosing the right product portfolio that reflects market trends and customer needs and marketing those in carefully selected markets and industries is imperative to the success of any distributor and is widely recognised as a critical success factor. Focusing on product categories, industries and applications provides good prospects to SME distribution companies.4

Distributors with deep knowledge of local market demands are more likely to excel at category management and develop a full portfolio of the chemicals needed to establish a strong presence in related market segments.2 The need for value-adding services remains strong in the future and successful companies have to continuously enlarge, diversify and specialise their portfolio and choose markets.

Likewise **strategic planning;** chemical distribution is a very attractive industry but only strong and focussed companies with a forward-looking strategy and mind set will thrive. Distribution companies must actively plan to address current and future challenges, for instance achieving growth, acquisition planning, succession planning and supplier management, so as to compete effectively and survive in the market.

Strategic planning should also be used to anticipate new trends and handling challenges, as it is indispensable to know the development of society, needs and infrastructure in a market; for instance, in light of an ageing society, distributors need to react to an increasing requirement for health, cosmetics, nutraceuticals and pharmaceuticals.8

Process quality and IT excellence form another integral part of strategic planning and critical to the success of chemical distributors. The use of technology streamlines logistics, reduces overheads, provides a cost advantage and further enables distributors to share commercial and marketing data with their suppliers.2,8

**Conclusion**

This paper raises serious concerns regarding the lack of academic research on the European chemical distribution industry, the SMEs operating in it and, most, importantly the factors contributory to their success and consequently makes an attempt to address this gap.

The set of factors identified can be further used by stakeholders (i.e. government, policy makers, SMEs owners/managers, practitioners) to improve their strategy formulation and decision-making process in order to support chemical distribution SMEs being successful and equally strengthen them against failure.

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Contact:

Dr Evripidis Lampadarios

Associate Lecturer in Strategy

School of Strategy, Marketing & Communication

Leeds Beckett University

Tel: +44 7776 146471

E-mail: e.lampadarios@leedsbeckett.ac.uk

Website: [www.leedsbeckett.ac.uk](http://www.leedsbeckett.ac.uk)