

Trust and Transparency: *Supplier Relationships in the Chemical Industry*

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At the start of the 21st Century, companies in the chemical industry are facing ever-increasing financial, environmental, and social pressure. Leading industry experts contend that we must derive more value from knowledge and services and less from materials and energy.

During the high-tech boom of the 90s, pundits heralded the demise of middlemen in B2B sales environments. The term “disintermediation” was coined to describe this phenomenon. More recently, with demand lagging, producers focused on cutting costs. In many cases, this meant cutting sales staff. At the same time, considerable consolidation occurred among both producers and distributors. Over the last year or two, however, worldwide demand for chemical products has grown appreciably.

So, at the beginning of 2005, it appeared to us that market forces were shaping a new reality for the chemical industry. To more fully understand how producers and their distributors work together today to bring chemical products to market, we decided to ask them how it is working and how it might be improved. The survey we conducted in mid-2005 included more than 30 companies, divided more or less evenly between chemical producers and distributors. We spoke to everyone from field sales reps to CEOs.

Most would agree that North America is a mature market for chemical products. Companies are often focused primarily on business retention or gaining share from competitors. This means that volume growth potential for established products will be limited, not to mention growth in profits. For many producers, the best opportunities for growth lie in identifying and seizing new applications, new products, and/or new market sectors. These tend to be small targets at the outset, often below the radar of a producer’s direct sales force. So, how will they do this?

Our investigation focused on four major areas of customer-facing performance:

- The producer-distributor relationship
- Information flow between producers and distributors
- Marketplace strategy
- Environmental stewardship

The Producer-Distributor Relationship: How Important Is It to Producers?

First of all, we wanted to know to what extent chemical manufacturers continue to rely on distributors. We found that among those with an established

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market presence, an average of 40% (as high as 70–80% and as low as 20%) of sales revenue comes from distributor sales. Companies whose products are newer to market reported distributor sales of between 10–20%.

Furthermore, the importance of distributors for producers, in their own minds, seems to be increasing. A senior sales executive from a leading producer recently asked his assembled sales staff who was their most important customer. After a number of large customers were named, the executive corrected his colleagues: "Distribution is our biggest customer."

Among the reasons cited for increased reliance on distributors were:

- The cost-effectiveness of distributors, even for large customers versus direct sales staff
- Higher margins (versus direct sales) through distributor sales
- Reduced credit risk; improved cash flow

- More foot soldiers on the street; more access to more customers

Good Relationships Are Made—Not Born

When we asked both distributors and producers what was most important in a good relationship, we heard somewhat different answers based on the type of products being sold. When the products were described as commodities, the most important factors for suppliers were appropriate logistical scale and efficiency coupled with a "local face." In this type of relationship, apparently not much else had importance if these elements were in place, according to those we interviewed.

On the other hand, when the products were called "specialty" or where they require selling described as highly technical, the story was much different. Both distributors and producers used words like trust, transparency, and openness to describe the most important elements of their relationships. When discussing this kind of relationship, many distributors made the distinction between producers who were "suppliers" and those they called "principals" or "partners." Along with trust, an essential element for both parties in a specialty products

context was technical competence. Producers want their distributors to have enough technically competent sales staff and distributors want their principals to be staffed with technically competent and responsive distributor managers. *Table 1* summarizes the expectations of each side, respectively, in a specialty chemical relationship.

Information Flow Tells How the Relationship Goes

Based on what everyone says they want, one would expect to hear about robust, efficient, and systematic sharing of information—in both directions—between producers and their distributors. Too often, we found, this is not what happens. To be sure, we did learn about a few producer/distributor partnerships where expectations are aligned and where relevant information flows powerfully as the lifeblood of the relationship.

Information Availability: Are We Getting Any?

Everyone we interviewed told us that the consistent availability of timely and accurate information was vital to the success of their enterprise. Our respondents fell into three camps based on how they felt

Table 1—What Do We Need? Expectations Are Not Always Aligned

Producers Want . . .	Distributors Want . . .
Trust and Transparency	
<ul style="list-style-type: none"> • Enough time for my line • Full disclosure of sales information • Consistent market feedback 	<ul style="list-style-type: none"> • Respect for distributor territory • Turnover of leads and contacts • Distributor role valued by producer management
Competency	
<ul style="list-style-type: none"> • Broad access to the "right" customers • Technically competent distributor sales staff 	<ul style="list-style-type: none"> • Consistent strategic direction • Responsive technical support
Sales Performance	
<ul style="list-style-type: none"> • Volume growth • Gross profit growth • Target (new) account growth 	<ul style="list-style-type: none"> • Distributor gross profit growth • Sales (margin) support • Responsiveness

Source: Team Chemistry LLC Chemical Distributor Survey 2005

about the quality of the information they receive: those (few) who are getting what they need consistently; those who mostly get what they need; and those who say they are happy to get whatever they can (usually not enough).

With a few notable exceptions, nearly everyone is resigned to getting whatever they can get, in whatever format they can get it. Many described their information exchange system as being informal and on a "need basis." Almost nobody feels they get enough of the right information on a consistent, timely basis.

Distributors described an unwillingness to share openly with the producers they represent, fearing the potential loss of customers to producers' direct sales force or of the whole line to a competing distributor. Both sides are often reluctant to even ask for sensitive information such as distributor pricing or producer margins. This "don't ask, don't tell" atmosphere is symptomatic of a common lack of trust between producers and distributors in today's volatile marketplace. The complexity, scale, and volatility of the current market climate calls for a new system of information exchange between the participants.

Information Exchange: How Do We Get It?

Today we have a more acute demand for information exchange to

drive specialty sales. We are obliged to do this with a leaner sales staff. We ask, then, wouldn't it make sense to invest in technology-based information systems to enhance efficiency and speed-to-market? Based on our survey, only a few producers and distributors have begun to incorporate efficient information exchange systems into their partnerships. Most are still using only the traditional tools they grew up with, email being the sole recent addition. Face-to-face meetings, the telephone, and informal email requests and reports bear the lion's share of the information exchange burden. People described a panorama of continually changing representatives and management personnel, consolidation, and client hand-offs against a backdrop of thin staffing levels and intense competition. No wonder traditional information tools are not up to task. Yet in most cases they are the only ones being used.

In a very few cases, forward-looking players are beginning to employ technology-enabled information tools that provide a more efficient and complete information flow, benefiting all players in the partnership.

Information Equity: So What Do We Get?

In general, distributors think they are giving more than they get—and giving more than most producers think they are getting

from those distributors. The producer usually tells the distributor what information they require, and the frequency in which they expect to receive it. In most cases, the distributor sets the format in which sales and market data is packaged for transmission to the producer. Delivery is frequently not as timely as the producer would like, according to managers with whom we spoke.

On the other hand, some distributors are just happy to get a phone call returned or an email answered by the producer's manager. In many cases, expectations are very low. Far too many managers, stretched too thin, have "trained" their distributors to settle for sub-standard responsiveness.

Table 2 summarizes the types of information and exchange activities currently in use among the companies we interviewed. They are ranked in descending order of frequency of use. All distributors provide volume reports, only a very few provide a rolling forecast. All producers respond (sometimes too slowly) to ad hoc requests for support, only a few provide web-enabled support or conduct distributor councils.

Marketplace Strategy: Where Do We Want to Go?

In a market environment where technical sales are the order of the day, strategic direction would seem to play a crucial role in gaining or improving market advantage. We asked both distributors and producers a series of questions related to strategy, how it is formulated and disseminated, and how performance is evaluated. Specifically, we wanted to learn:

- If distributors receive clear strategic direction from the producers they represent
- Whether distributors play a role in forming strategy in partnership with producers

Table 2—How Is Information Exchanged?

Producer Gets from Distributor	Distributor Gets from Producer
Monthly sales volume report	Ad hoc response to request for support
Call reports	Joint customer calls
Requests for support (price, technical)	Quarterly sales review
Target account progress report	Tech data sheets
Competitive intelligence	End-use applications info
Rolling forecast	Web-enabled support data
Annual meeting	Annual meeting
Distributor council	Distributor council

Source: Team Chemistry LLC Chemical Distributor Survey 2005

- How performance is measured—what is measured, by whom, and whether it is shared between producers and distributors

Strategic Clarity: Who's on First This Week?

Several distributors said they get clear strategic direction from the producers they represent. Sadly, this group was in the minority. Most distributors reported they lacked clear strategic direction. Many attributed the lack of clarity to the constant turnover of producer managers, describing this as a "flavor of the month" situation, leading to new strategy fatigue for the distributor sales force.

The impact of this perennial change is particularly acute due to the way that strategy is typically communicated by producers. Three primary methods for communicating strategic direction were described:

- Annual meetings involving distributor management and/or sales managers
- Occasional attendance at distributor sales meetings by a producer's regional manager
- Periodic joint customer calls conducted on a need or convenience basis

In each case, particularly in the latter two, effective communication of strategic direction is highly dependent on the quality and commitment of the producer's sales manager. Distributors listed having "a good rep" as a key success factor in their relationships with the producers they represent. The picture we began to see is one of high dependence on individual perform-

ance (the producer's rep) in a climate of musical chairs. What is wrong with this picture?

Performance Measurement: What Matters to Whom?

In order to improve performance over time, companies measure results. Top performers consistently share those results with team members (employees) so that opportunities for improvement can be acted

- Producer profit growth
- Distributor gross profit
- Distributor price responsiveness (measured by some producers)
- Information measured subjectively by some distributors, discussed informally
 - Producer rank versus other producers
 - Producer responsiveness

Clearly this paints a disappointing picture of producers and distributors failing to close the loop on the most important metrics of overall performance. Current performance evaluation methods, particularly the widespread lack of transparency, do

not contribute to enterprise-wide performance improvement.

Environmental Stewardship: Leadership and Responsibility

In the last several decades, pressure on the chemical industry to respond to environmental challenges has increased dramatically. In response to community and government urging, major producers have invested in procedures to ensure their operations comply with best practice and safety standards. For their part, distributors, through the National Association of Chemical Distributors, have initiated a program designed to accomplish the same objectives. We wanted to learn how well these efforts are aligned and how their relative success is perceived within industry circles. In the context of distribution sales, who does what and how well is it working?

Several of the largest producers described their leadership role in proper handling of the products they produce. Many, however, con-

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on. So how does the process work between the team members involved in distributor sales?

The managers we interviewed, both producers and distributors, told us how important distributor sales are to their company and to the industry. In business, we measure that which is important. If we don't measure—and share the results with our work team—we might perform at the same level or worse or better—but who will know? We wanted to see whether the relationship is essentially one-sided or a true partnership where sharing of the most important metrics takes place as a matter of course.

Here is what we found:

- Information measured objectively and shared between producers and distributors
 - Volume growth
 - New account growth
 - Business retention
- Information measured objectively—but not shared

ceded that distributors increasingly becoming leaders in this realm. Three main reasons were cited:

- A competent distributor will set procedures and record-keeping based on the most volatile chemicals they handle. Often these standards are stricter than those an individual producer would mandate, depending on the sensitivity of their own products. Setting standards based on the "worst case" product in a distributor's portfolio effectively "covers" everything else.
- Distributors tend to operate in a state or region with more attention to local standards than does a national or global producer. This local knowledge, in the hands of the distributor, ensures that a producer's products are handled according to local mandates.
- The general acceptance of the NACD-sponsored Responsible Distribution ProcessSM (RDP) certification program.

RDP: An Industry-Wide Initiative That Works

The majority of distributors with whom we spoke subscribe to the NACD-sponsored RDP program. The consensus is that the program is well-accepted across the industry and provides an effective, systematic basis for environmental stewardship. From our perspective, the RDP system, precisely because it has gained industry-wide acceptance, provides a shining example of how systematic cooperation among players in the industry can lead to better outcomes for all—producers and distributors and the customers and communities they serve.

CONCLUSIONS

While our survey captured many shortcomings in today's common practices, it also revealed opportunities for improvement based on the examples of a few exceptional relationships in the context of a rapidly changing marketplace for chemicals.

Relationships Based on Trust and Transparency Win Over the Alternative

Today's marketplace rewards—in fact demands—robust communications among players in the extended enterprise. Without open relationships, information is not shared to the detriment of those involved. We found more examples of dysfunction than of healthy relationships based on trust. A fundamental attitude shift is needed.

Robust, Multi-Directional Information Flow Is the Lifeblood of the Relationship

A changing regulatory climate is driving greater producer responsibility for raw materials throughout the chemical product lifecycle. That's the "Stick." The next generation of products will be discovered as unmet needs in the marketplace. That's the "Carrot." In each case, the key is systematic and efficient information sharing between all the parties in the extended enterprise.

Technology-Enhanced Information Systems Can Lessen the Burden on "Good Reps"

Many producers (and some distributors) have invested in enterprise resource planning (ERP) software applications. Others have implemented customer relationship management (CRM) systems.

However, in too few cases are these systems deployed across the producer/distributor/end-user boundaries. Companies that learn to team up in this fashion will gain commercial advantage over those that remain stuck in an obsolete "Us vs. Them" stance.

Measure What Matters, Share What You Measure

There is much room for improvement. Producers and distributors evaluate performance in isolation from one another. Neither looks carefully—much less shares—the metrics most important to their end-user customers. The players who will win in tomorrow's markets will measure improvement according to end-user metrics across the entire extended enterprise.

For additional information on this survey of supplier relationships, contact the authors.

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