Why digital marketplaces deserve a chance in chemicals
Customer proximity is a well-established mantra of the chemical industry. Sentiments such as “being close to the customer,” “understanding the customer needs” or “offering unique value propositions” have dominated marketing and sales discussions in the industry for decades.

However, a closer look at the go-to-market strategies of most chemical companies shows that the predominant channels are key account managers, sales representatives and third-party distributors. Digital interactions and fulfillment models, e-commerce and digital value propositions exist only as proof-of-concept, pilot or niche channels.

COVID-19 put the digital customer interaction capabilities of the chemical industry to their first test. It disrupted traditional channels centered on the physical interaction of sales reps and key account managers, and shocked companies into digital. Most chemical companies were able to use digital tools such as Microsoft Teams, Skype, Google Meet or Zoom to interact with customers, and online sales picked up volume.

So, did companies pass the test, and can the chemical industry continue to evolve its customer interactions over time? That depends on whether they embrace further digitalization.
Digital marketplaces—another channel or market disruptor?

Generally, true market disruptions are triggered by new entrants and not from incumbents. In the chemical industry, the last decade saw a massive surge in the number of digital marketplaces (see Figure 1). This term covers distinct models that often evolve over time, for example: sell-side platforms, buy-side aggregators, shopping mall operators, catalogues, comparison sites, product search specialists, and even online distributors that take ownership of products. Many of these marketplaces initially focused on the Chinese market for chemicals, but in recent years an increasing number of digital marketplaces started to address the European and U.S. chemical markets.

Figure 1: Surge in digital marketplaces for chemicals, 1996 - 2020

It is reasonable to question whether these marketplaces are a true disruptor or just another channel. Admittedly, their track record is mixed. Many third-party digital marketplaces were short-lived, unable to scale beyond the very small customer segment or develop a differentiating value proposition. Furthermore, consortium marketplaces of asset-backed chemical companies struggled with a range of issues, from governance and alignment on operative directions to funding.

One may see this as a failure of the marketplace business model, but that misses the point: these startups push the boundaries of the chemical industry, test preferences and uptake of customers for different sourcing and engagement models, and set new standards for facilitating the needs of both buyers and sellers.

In the end, with unmet customer needs and a high cost of sales, the €3.35 billion global chemical industry\(^1\) represents a huge opportunity for digital marketplaces.
Chemical customers want more digital buying experiences

The Accenture 2020 Global Buyer Values Study revealed that it is important to customers of the chemical industry to have digital interfaces and experiences that make it easier and more intuitive to interact—but chemical companies underestimate the importance of these values. Furthermore, few chemical companies have managed to set up an effective, proprietary online marketing and transaction channel over the last few years. Early examples of successful web shops, such as those established by Dow Corning and Sigma Aldrich, have not been broadly imitated across the industry. Instead, outsiders (e.g., Knowde, MOLBASE, CheMondis), distributors (e.g., Univar, Brenntag, Chembird) and established e-commerce giants (e.g., Alibaba, Amazon Business) have taken the lead and set new standards for digital interactions.

The requirements for a seamless digital experience are clear and include the following:

**Search**
Easy to use; user friendly; product and formulation search; comparison and support

**Request**
Automated; interactive; information retrieval supported by artificial intelligence to provide an amiable experience

**Quotation**
Real-time price quotation and negotiation

**Delivery date**
Real-time availability to check and confirm delivery date and interactive management of date changes

**Confirmation**
Real-time order confirmation, including price and delivery date

**Fulfilment**
Reliable delivery as promised

Yet, few chemical companies are meeting these requirements. Those that own inventory and production assets may seem to be in a privileged position to integrate the customer front-end and the asset back-end into a seamless digital experience for customer interactions. However, they are constrained by legacy enterprise architectures, siloed data and breaks in end-to-end processes. Often, chemical distributors face even greater challenges in their enterprise architectures because a series of acquisitions could have resulted in multiple ERP instances, non-harmonized master data, scattered process landscapes and fragmented digital initiatives.
Free from such technical debt, new entrants like Knowde, MOLBASE and CheMondis have built third-party digital marketplaces deploying cloud, product information and data structures, process automation, artificial intelligence and user-experience design. They have built these capabilities at speed and scale, and they offer a clearly differentiated customer experience and value proposition.

Considering how chemical companies traditionally go to market, current channels are at risk of disruption. That’s because there is limited scalability to commercialize new offerings, pursue new customers or access small customer segments—despite a relatively high cost of sales of 4 to 5 percent.3

In addition, each existing channel appears to be on an inevitable path to change for the following reasons:

- Digitalization will lead to a step-change reduction in the sales rep channel and to new business models for the distribution of chemicals;
- Artificial intelligence and automation will take in-house sales to a new level of effectiveness; and
- Collaboration and digital experiences will upgrade the key account channel.

How chemical companies can avoid disruption

To avoid disruption, the strategic choices for chemical companies seem clear:

1. Reinvent the sales and marketing function by deploying cloud, digital technologies, artificial intelligence, automation and experience design at scale; or

2. Partner with a digital marketplace to access new capabilities at speed and catalyze the transformation of current approaches to sales and marketing.

Regardless of which option a company selects, it is important for the entire chemical industry to ignore the hyped discussion on the advantages and disadvantages of third-party digital marketplaces. Rather, digital marketplaces should be welcomed as innovators that offer additional channels to reach and engage with customers—something that any chemical company should see as beneficial.

Digital marketplaces should also be closely watched as they redefine the boundaries of customer experience, interactions and transactions, and set new standards in terms of user experiences, process efficiency, data integrity, open standards and engaging marketing. The best of these marketplaces does not simply "digitize the old world" but rather modernizes and accelerates the way buyers and sellers interact. Like it or not.
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