

Upgrade sales in the digital market

Leveraging digital marketplaces supports accelerating growth. It will help to cater to mid- and small-size customers much more efficiently and free up resources



Hybrid, multichannel sales models combining multiple platforms will be the new reality

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Digital marketplaces are rapidly gaining importance in the chemicals space. They provide a unique opportunity to get closer to customers in a cost-effective manner. Unlike industry-vertical players like Chemondis and ChemBid, ecosystem market players like Alibaba and Amazon Business seek to take over the customer interface. Faced with these dynamics, how can chemicals suppliers reshape their sales models to better serve their customers and retain control?

Since 2015, more than half of all B2B buyers are millennials with little hesitation of buying and selling online. Taking into account that in a typical B2B buying journey up to 70% of the time is spent on product search and quoting

activities, it is not surprising that market players like Amazon and Alibaba are gaining importance. Today's buyers expect B2B-like buying experiences, and suppliers are taking steps to provide it. BASF, Solvay and Covestro, for example, recently opened virtual storefronts on Alibaba's wholesale platform, 1688.com.

The availability of real-time data intelligence has improved dramatically over the last decade. It has increased the transparency along the value chain, supported the management of complexity, and altogether enabled a new level of achieving scale. In addition, it has fuelled the emergence of various types of marketplaces, from single-seller proprietary e-Channels to multi-seller online platforms and ecosystem-players (see table).

Whereas traditional chemical distributors offer a "one-stop shop" from lead to quote to order to cash, including inventory, financing,

customs clearance, and logistics, players like Alibaba provide an ecosystem connecting buyers, sellers, and service providers along the supply chain. Unlike Amazon, Alibaba has no own sourcing, inventory, or logistics. Instead, it is focused on network coordination and data intelligence. All new intermediaries provide direct access to customers, more options to communicate product and service values, and more customer insights. Their business models are built around higher efficiency in matching buyers and sellers using Machine Learning algorithms than traditional intermediaries or direct sales.

Their market potential is huge. Take the global chemicals market, which accounted for €3,475bn in sales in 2018 with some 60% in commodity, base, or bulk chemicals. Around 10-15% of these volumes were sold through agents, traders, or distributors. This leaves €200bn-300bn in sales for platforms to tap into and a multiple thereof as an upside from replacing the field sales force. Over 70 marketplaces for chemicals in China and more than 10 in Europe and North America are ready to scale up their businesses. Regulatory, product quality, logistics, and financing challenges might still exist. But there is no doubt that these will be overcome sooner rather than later.

WHEN TO USE DIGITAL MARKETPLACES

Given the experience of ecosystem players in scaling their platforms, building another one is likely to fail or end up as second best. But when can the existing online platforms help you to advance your business?

■ **"Lean and reliable supply" business:** Your customers ask for a competitive price and reliable supply with some flexibility in logistics. There is no need for special technical skills, field tests, adjustments of formulations, or detailed knowledge about end-use applications or joint research and development (R&D) projects. An adhesives supplier found out in customer interviews that more than 60% of its volume was sold to this type of customer. Sales via digital marketplaces makes sense for those customers.

■ **Standardised products:** Both high-volume basic chemicals as well as low-volume fine

DIGITAL MARKETPLACES

Type	Value proposition/ competitive advantage	Approach	Typical target customers
Online shop	Improve ease-of-doing business at low cost-to-serve, low price and with chemicals expertise	No-frills approach; standard products; streamlined workflows	Price-sensitive/transactional buyers; smaller customers (tail-end)
Dow Xiameter, Evonik C4Connect, Covestro Asellion			
Manufacturer marketplace	Increase closeness to customer and optimise procurement process with one-stop shop	Cross-manufacturer product portfolio; price statistics; product alerts	Wide range of buyers and sellers
LANXESS CheMondis			
Independent marketplace	Independent from specific manufacturer	Meta search engines across portals	Wide range of buyers and sellers
ChemBid, Molbase/Tencent			
Ecosystem players	Connect suppliers, buyers, and service providers to maximise matching efficiency	Network coordination and data intelligence	All market participants, including service providers
Amazon Business, Alibaba.com			

SOURCE: Simon-Kucher

chemicals are standardised in structure with CAS numbers and with pre-defined grades, delivery form, and packaging. They are perfectly suited for online sales on a digital marketplace as a “one-stop shop”, replacing traditional offline distributors, and improving intelligence on market price levels.

■ **Non-key accounts:** Large industrial customers are at the core of customer relationship management in chemicals. Account managers maintain continuous contacts to plan for reliable supply, to secure the baseload, and to drive joint projects. For all other customers, personal relationships will be replaced by self-service tools. This is the result of a Simon-Kucher study. The benefits of digital marketplaces increase the more fragmented the customer base (which explains the strong growth of chemical online sales in China).

■ **Guaranteed access to customer data:** A marketplace becomes more effective the more value chain steps it covers and the more data it owns. It allows for better demand predictions, new value-added services, an optimised virtual storefront and differentiated pricing. A supplier becomes more effective the better the customer experience via the platform. Information on popular keywords and click or conversion rates

is not sufficient. Let’s take the case of Amazon in online retail. Sellers require a paid subscription to the Analytics Premium Package to access data on customer demographics and buying patterns. Suppliers need this information to optimise their sales model and stay ahead of the competition, both online and offline.

■ **High digital maturity:** The digital maturity of the commercial organisation and its support functions in finance, supply, and customer service is a pre-requisite to any move here. However, low digital maturity remains a short-term limitation only to the adoption of digital marketplaces. Large economies like Brazil and India are rapidly advancing and paving the way. China is already at the forefront. There is little room for (too) slow movers.

BENEFITS OF UPGRADING SALES MODEL

The benefits of digital marketplaces for your sales model are twofold - they help you optimise cost-to-serve and help you to accelerate growth. Starting with the cost-to-serve, let’s assume that SG&A costs are below 4% of sales in upstream chemicals and 5-7% further downstream. Commissions range from below 0.5% to about 5% of sales on online platforms like Alibaba, depending on the service level.

Additional “pay-per-click” fees are needed for advertising to generate traffic. The potential cost savings are huge.

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According to a Simon-Kucher study, 69% of companies expect that the role of personal relationships will increase for large accounts. Shifting resources to these accounts and saving resources for mid- and small size accounts will help to develop business with key accounts. Beyond this, sales via digital marketplaces enlarge the accessible profit pool, serving also the distributors’ customers directly.

Which marketplace is best suited for your business depends on who can best enable your growth as a supplier.

Ecosystem players like Alibaba and Amazon have a head start in the race to become the #1 technological platform. Actively managing the customer relationship requires suppliers to get involved. Rather than just handing over to distributors, they have to secure their access to customer data to develop their own sales model instead and improve the customer experience.

Digital marketplaces offer broad opportunities for your sales model. Hybrid, multichannel sales models combining direct sales, distribution, and online platforms are not only an option going forward, they will be the new reality. Get ready and be prepared! ■

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QUESTIONS TO BE ANSWERED WHEN LEVERAGING DIGITAL MARKETPLACES

- **Offering:** Which products and variants should be covered? Which service level is provided? Which customer segments should be targeted and addressed through an online platform? What are the resulting customer benefits?
- **Pricing:** How often does the supplier adjust prices? Which contract standards and terms apply? How do prices differ by volume, location, or INCO term? Which risks and opportunities arise from increased price transparency?
- **Customer journey:** Which elements should be integrated from pre-sales calls or visits, quoting, closing, and contracting? How can the marketplace improve the customer experience in ordering, distribution, and invoicing as well as customer feedback and complaints?

- **Processes:** Which adjustments to current processes are needed? Which legal and regulatory aspects need to be checked? How are roles and responsibilities assigned? What are organisational implications for sales and customer service functions?
- **Migration:** How are benefits and changes communicated internally and to existing customers? When and how are customers transferred under the new sales model? How are non-active and indirect customers targeted? What is the back-up plan in case of logistics issues or the platform exiting a geographic area?