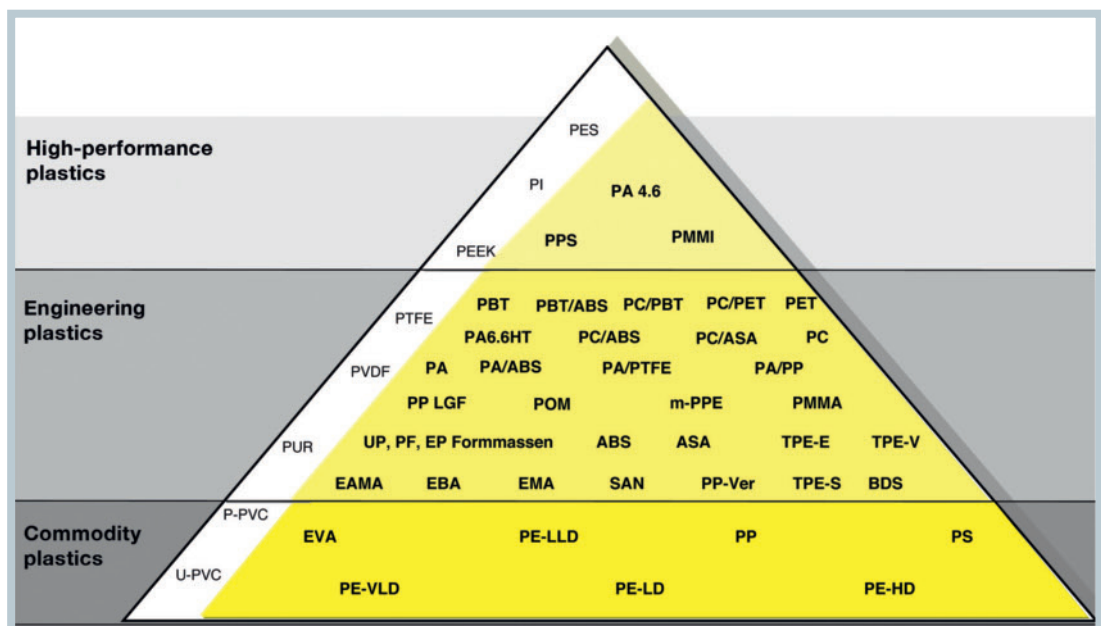


Plastics Distribution. Changes in plastics manufacturing companies have never been as great and profound as they were in recent years. Many new proprietary structures differ very significantly from the usual patterns. Consequently, in some cases, the profile of requirements to the distributor's performance has changed.

From Small Quantities to Full Product Range

Fig. 1. The current portfolio gives proof of a broad product range (figures: Ter Hell Plastic)



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What started in the seventies with the distribution of small quantities, has become a major component of not only the supply chain, but also of product development and application technology, for plastics producers and processors. Plastics producers today consider their distributors as a main factor of their own distribution concept. For the customer, the quantities he requires have long since stopped being the major factor when it comes to deciding whether to be supplied from the producer directly, or from the distributor. The decisive issue is rather, who of the two – plastics producer or distributor – is better capa-

ble of meeting the customer's specific demands.

The distributor holds agreements with various plastics producers, thus offering customers a full product range, which is a big advantage, plus proprietary compounding products. Ter Hell Plastic GmbH in Herne, Germany, is one of these distributors who have an extraordinary range of materials available for the user, to help him make a decision in favor of a material, in the development of new products, or when certain problems have to be solved (Fig. 1). This wide range of materials on offer makes it possible for the processor to select the material that best fits the actual requirements of the part to be produced. With his broad range of products offered, along with comprehensive advice for issues of application technology, the distributor is usually not only a highly estimated supplier, but also an important partner in the development of

new products, especially to medium-sized plastics processors.

Success Principle: Local Presence

One of the main prerequisites of success in distribution is close contact and personalized on-site service for the customer. A tight distribution network safeguards this. The regional focus of the representative, along with sales departments organized according to regions too, guarantees comprehensive one-stop service. Thanks to close contact with the customer, the distributor has a sound knowledge of the customer's specific situation and needs, and this is the particular benefit of this marketing structure. A crucial success factor for sales is application engineering support, which is of outstanding importance when it comes to deciding for the right raw material and its optimum application at the customer's plant.

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The Distributor's Role

While, until some years ago, producers and their suppliers only knew the conventional classification of customers according to business volumes, these limitations have recently started to dissolve. Certainly, an OEM in automotive industry often buys directly from the raw material producer. However, several other constellations can frequently be found at the market. If, for example, a producer does not define a specific market as his target market, the distributor will be in charge. In case his access to a particular market segment is better than that of the producer, then he will also assume service for major customers.

The distributor's main focus remains on supply to small and medium-sized plastics processors. If such a customer grows bigger over time, it would be careless for a producer to insist on assuming service for that customer, because of mere size. Because with all the changes that are taking place in the demanding plastics business there is one aspect that cannot be missed: A customer relationship that has grown over the years is hard to replace! Such a bond of trust should not be thrown overboard easily – especially not just to obey some arbitrary rigid rules on volume limits. And there is another aspect that needs to be considered in this respect: Even if the plastics processor has a certain size, he might wish to require certain additional services. However, these services are frequently provided only by the distributor, and not by the producer – with one of the reasons being worldwide rationalization. Such additional services might be:

- An unusual type of dispatch or packaging,
- special stock and stockkeeping,
- delivery to various production sites,
- specified quantities and ways of delivery (Fig. 2).

There is a clear division of labor between producer and distributor. The one who can best do a job, will do it. Especially over recent years, the plastics sector has seen significant rationalization waves at the large producers. They revised portfolios, reduced advice for application technological questions, and almost completely abandoned the development of special types by e.g. compounding.

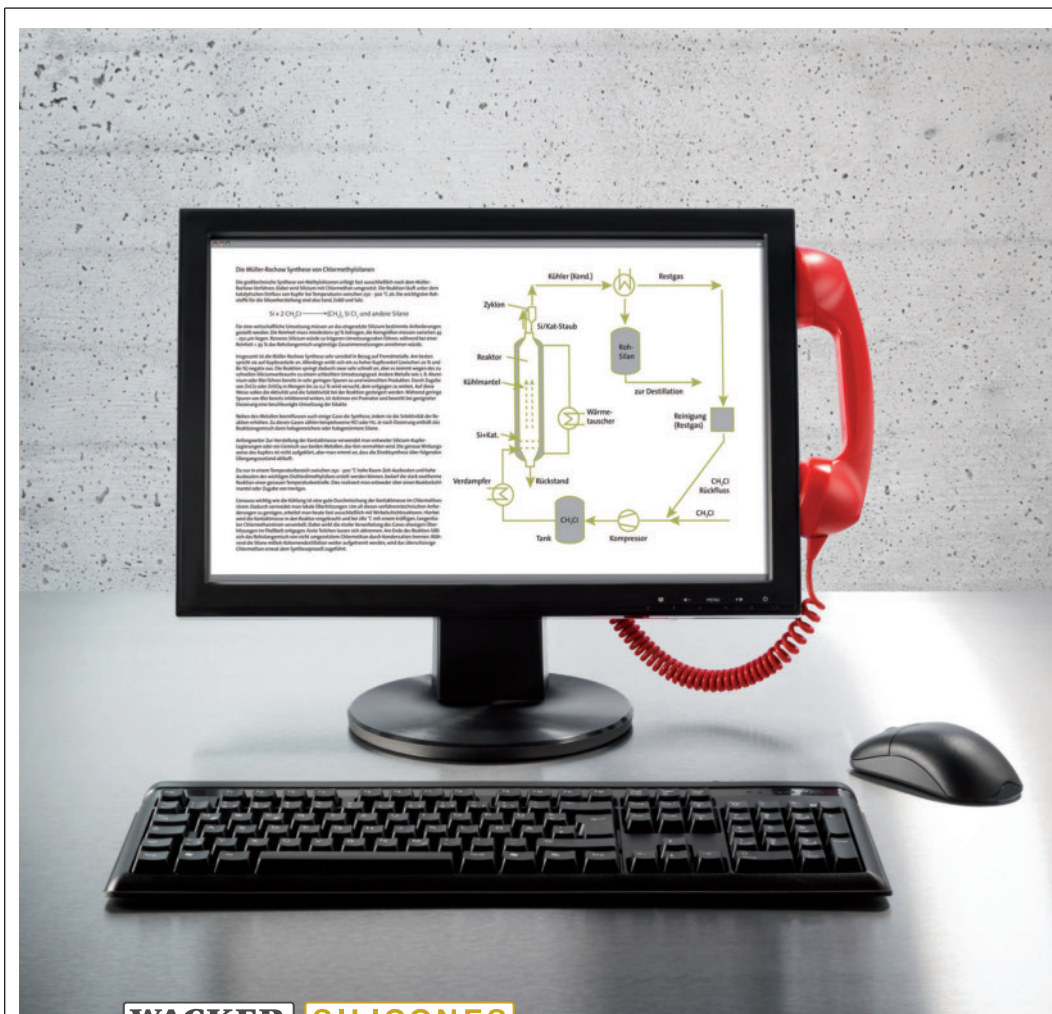
No doubt, distributors must work economically, too. The synergetic effects of a broad product range help



Fig. 2. Production and logistics facilities require much space

them achieve this target. This actually means: a representative visiting a customer does not have to go there with just

a single material. He rather has a series of different materials from different suppliers at hand. Eventually, it is important that →



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Fig. 3. The compounding of small quantities is a major complement to the portfolio

prices are competitive while markets are more or less transparent, despite additional service provided. This is because no distributor will be able to sell his merchandise at an excessive price. Only who controls costs will stand up against competitors. Often, costs cannot be reduced further, due to employees requiring decent pay for their qualification and commitment. But this also means customers will have to and will pay a fair price for the distributor's additional service.

Distribution in Europe

Most plastics producers prefer a pan-European distributor. For virtually all distributing companies in Europe it is true that they are represented very strongly in some countries, whereas in others they are not – sometimes for traditional reasons, sometimes for other causes. Certainly, this also has to do with a country's actual consumption of plastics. It is thus indispensable to maintain a strong marketing position in the large consumer countries of Europe. Ter Hell Plastic also sees a large growth potential in the countries of Eastern Europe. This is why the company distributes its merchandise, including its own compounds, there.

Compounding Indispensable

Many distributors today compound small quantities themselves (Fig. 3). Compound products are mainly required in those cases when a customer's requirements go beyond what producers offer as their standard range of products. For quite some time now, there has been a pronounced trend towards high-quality compounds. This is due to the fact that – in the area of standard products – it is

barely possible for local compounders to stand up against competitors from Asia, and even Southern Europe, for the low price they charge.

Compounders from Western Europe therefore focus increasingly on sophisticated compounds, e.g. special blends, or developments tailored to a specific customer. So as to be able to keep innovation cycles short, small and medium-sized compounding companies increasingly seek co-operation with providers of engineering services and universities. In addition to proprietary product developments, Ter Hell Plastic e.g. acquires product and production licenses from universities or others, so that the company can offer their customers state-of-the-art compounds. In this respect too, a large stock of raw materials means an advantage to the distributor. A distributor who carries out compounding himself, has expert knowledge on a wide range of polymers, thanks to many years of experience.

Thanks to information from his suppliers, he moreover obtains profound understanding of the technology in standard market materials. As a compounder he has excellent know-how in this field of development, which puts him in a position to offer comprehensive and customized product advice and material solutions, that go beyond the regular range of producers' products. Widespread opinion claims that these compounds compete with the raw materials from producers – but this is definitely not the case. Rather, they represent an important complement to the existing range of products distributed. While frequently including an interesting challenge in terms of technology, the compounding business for small quantities usually does not feature the quantities that would be necessary for the raw material producer, though.

Working together with a distributor with compounding facilities is of benefit for the processor too: if a customer starts a new product development, he will not have to get used to a new supplier, but will rather do business as usually with his old contact persons. It is understood that the processor will finally obtain a material best suited to meet the needs of his customers. This is true not only for Ter Hell Plastic, but also for a series of other distributors working according to this proven concept.

Small and medium-sized compounders benefit from portfolio reductions of the raw material producers, here. It is a known fact that they sort out those materials with quantities too low to be economic. Frequently, these quantities perfectly suit the dimensions of distributors' small and efficient compounding lines, though.



Fig. 4. Because transporting compounds to China is expensive and time-consuming, Ter Hell Plastic built up its own compounding facility on site

China: Market of the Future

For several years, demand for technically demanding plastics has been constantly growing at the Chinese Market. With this growth, China is the largest national plastics market in the world today. Therefore, international distributors must not miss this major market. This is why many distributors decided some years ago, to extend business to China.

Customers moving their production sites – entirely or part of them – to China usually triggered this step. Mainly these customers demanded that suppliers provide qualities for China as well, which are comparable to those available in Europe. As taking compounds to China is too expensive and time-consuming in the long run, Ter Hell Plastic has built up a compounding facility in China (Fig. 4). The intention is definitely not to compete with the large producers and compounders based also in China, but to focus on sophisticated niche products for the local customers from Europe and China. The compounding facility at the Changshu site, with an annual 3,000 tonnes capacity, started operation in June 2010. The

! Company Profile

The Hamburg-based Ter Group, with its Ter Hell & Co. GmbH mother company founded in 1908, is one of the leading distributors for chemicals in Europe. In 2009, the enterprise's 450 employees achieved a turnover of EUR 335 million. The **Ter Hell Plastic GmbH** subsidiary company based in Herne, Germany, is in charge of the group's plastics business.

To Ter Hell Plastic, the year 2009 was also difficult. Turnover of the enterprise focused on trade, distribution and compounding was only approx. 1 % below the figure for 2008, in terms of quantities. This is due to the fact that the company was able to achieve a considerable plus from their commodity plastics business, despite the crisis. In the area of engineering plastics, the poor market led to pronounced decreases, which also affected production.

plant is entirely new, and can be extended gradually, if demand increases. Thanks to the established technology of the plastics machines of KraussMaffei Berstorff,

the company will be able to reliably meet the high quality demands also in China.

So as to gain ground in the field of engineering plastics at the Chinese market, it is indispensable to have a marketing organization that knows its customers extremely well and which penetrates the market to a high extent. The idea thus suggested itself for Ter Hell Plastic, to start a joint venture with one of the leading distributors for engineering plastics in China, i.e. NCM Polymer Co. Ltd. The NCM company and the 100 % subsidiary Ter Engineering Plastic Trading (Suzhou) Company Ltd. will both, at the same time, be in charge of marketing for the new joint enterprise. Technical know-how will come from the headquarters in Herne, Germany. From this position, the partners expect fast marketing success for the Chinese Terez products, despite the strong competition in China. Not least does commitment in China help the distribution business in Europe: Tendencies of future developments, as well as developments in the cost for raw materials become visible at an early state, thus enabling the business partners to act early, for the benefit of the customer. →

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Medium-term Challenges

In recent years, there have been profound changes at the large raw material producers. The times of joint ventures and portfolio revisions, as well as the trend of oil producers turning into plastics producers, have not ended yet. The Ter Hell Plastic company has always worked well with its business partners. Even after significant changes, the new partners continue to work with the distributor from Herne. Some competitors did not do so well, though. They had to find new suppliers, and sometimes new customers. This is not an easy task, in view of the fact that the number of raw material producers is on the decrease. Consequently, it might be possible that there are still some shake-outs to come in the distribution segment. Some distributors may grow, while others may have to abandon the business entirely, because they failed at the market. As a result, one of the major challenges of the coming years will be open-mindedness for the new tasks posed by the partners, so as to stand up against competitors in a changed environment. We may start from the assumption that the share of distribution in overall market volume will continue to rise. This means the large producers will further withdraw from some segments of the market. It will be the distributor's job to fill this gap adequately. Management units must revise their strategies; marketing and application technology units must put themselves in a position to face these challenges.

Secure Financing

Another challenge can be seen in the financing of distribution enterprises. Their financial position must be extraordinarily sound and strong. To safeguard their own services, distributors, to some extent, have to smooth the market's credit weakness. Those companies who are not willing, or able, to do so are in danger of losing more and more of their market shares. In the authors' experience, the credit services sector still fails to fulfill its tasks to the necessary extent. In particular, refinancing of small and medium-sized enterprises is by no means satisfactory. This is why, apart from using credit insurer services, an increasing number of customers were granted uninsured credit lines by the distributor. This mainly concerns customers with whom the supplier has worked together for many years. In these cases, the company is thus prepared to run a high-

! Distribution Market Germany

Classical Distribution Market

Germany is a classical distribution market with a long-standing tradition, originating from chemical raw materials. Of the approx. 20 million t overall consumption (2009), plastics distribution amounts to between 25 and 30 %. There are roughly 6,000 plastics processors in Germany, with the majority of them being small or medium-sized companies. They usually require a variety of materials, mostly in low quantities, which, in Germany, makes this structure ideal for distributors. Such processors seek full product range with their distributor, and find it there. This facilitates purchase and makes ordering significantly more efficient.

MAJOR PLASTICS DISTRIBUTORS

■ Albis Plastic

Albis Plastic GmbH, Hamburg, Germany, is a subsidiary company of the trade company Otto Krahn (GmbH & Co.) KG founded in 1909. With a staff of 900, the Albis Group's global turnover was EUR 441 million in 2009.

■ Resinex Group

Resinex Group was founded in Belgium in 1988, and is a pan-European company today. The enterprise has more than 400 employees in Europe and Turkey. It is part of the global Ravago Group, and in 2007 reached a turnover of EUR 860 million.

■ Ashland

Ashland Inc. with its headquarters in Covington, Kentucky, USA, is very diverse, both in terms of regions, as well as product range. In the business year 2009, the distribution sector alone achieved an EBITDA of USD 80 million.

■ Biesterfeld Plastic

According to company information, Biesterfeld Plastic reached a "satisfactory result" in 2009. In spite of the economic crisis, the Hamburg-based Biesterfeld group, which includes the plastics sector, achieved EUR 655 million and EUR 20 million EBIT, which is a "good result".

■ K.D. Feddersen

K.D. Feddersen GmbH & Co. KG, based in Hamburg, is a specialist in distribution and market development for thermoplastic engineering polymers at the markets of Europe, Asia and Latin America.

■ Ultrapolymers

Ultrapolymers Group N.V., Lommel, Belgium, is a pan-European plastics distributor, mainly focused on standard plastics. Ultrapolymers Germany GmbH is part of the European network based in Augsburg.

■ Schulman

A. Schulman Inc., Akron, Ohio, USA, employs approx. 2,000 people worldwide, and owns 16 production sites in North America, Europe and Asia. In the business year ending August 31, 2009, turnover was USD 1.3 billion.

■ PolyOne

After comprehensive restructuring, PolyOne, Cleveland, Ohio, USA, was in the black again in the business year 2009. The enterprise is concerned with masterbatches, compounding and distribution, having achieved the equivalent of approx. EUR 48.8 million of net profit, while in the previous year loss after adjustment and tax effects had amounted to USD 272.9 million.

(Data collected by: Dieter Müller, Frankfurt/Main, Germany)

er risk, to support supply of the customer. This is not an easy task, as profit margins in the distribution business are on the decrease. Distributors will only achieve this aim, if organization processes are efficient, synergetic effects are utilized and business cases are carried out without delay in time.

Plastics Production in Flux

Changes in plastics manufacturing companies have never been as great and profound as they were in recent years. Many new proprietary structures differ very significantly from the usual patterns. Consequently, in some cases, the profile of re-

quirements to the distributor's performance has changed. He must therefore be very attentive, in order to react early to changed prerequisites, or, if possible, anticipate them. This calls for a high degree of open-mindedness to face the changes, to meet the wishes of the producer, and turn the possible consequences of the changes into a useful thing for the customer. ■

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