



## Marketing strategies of Specialty Chemicals: An emerging economies perspective

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### Abstract

Specialty Chemical Market segment constitute high value and relatively low volume value added chemicals. These product form and input raw material for several finished product. It also includes fine chemicals, additive, specialty polymers, adhesives, sealants, pigments, paints & coatings. This segment represents niche among the overall chemical market.

Robust growth in end user segments, government's and industry's focus towards manufacturing and value addition in emerging markets has led to global companies expanding their business in emerging markets to explore these untapped growth opportunities.

The paper explores the strategies for marketing specialty chemicals adopted by multinational corporations. It also researches the challenge and opportunity for specialty chemicals in emerging economies.

**Keywords:** B2B marketing, specialty chemicals, channel management

### Introduction

Specialty chemicals are sold for their performance enhancing properties (and are used in Paints, Personal Care Product, Home Care Product, Construction materials, Textiles Chemicals and several other Industrial application) rather than their basic chemical composition. According to a Confederation of Indian Industries study, this segment is expected to grow from \$20 billion to \$80 billion over the next decade. (Lokeshwari S.K, 2013). The specialty chemical market covers the revenues generated from the sales of high value-added chemicals, used in the manufacture of a wide variety of products, including, but not limited to, fine chemicals, additives, advanced polymers, adhesives, sealants and specialty paints, pigments and coatings.

During the last ten years, the specialty chemicals industry has experienced slower growth and lower overall profitability within a more competitive environment than in the preceding period. The predicted growth rate for the 2012–2017 periods is 1.7% for the United States, Western Europe and Japan, and 3.7% on a global basis. Major growth areas for the specialty chemicals industry are in emerging regions, primarily China and Other Asia (excluding Japan), where average annual volume growth rates of 8.4% and 4.7%, respectively, are forecast through 2017.

Growth prospects for several specialty chemicals segments—notably mining chemicals, specialty polymers (high-performance thermoplastics), emission control catalysts and electronic chemicals (IC process and PCB chemicals)—are favorable because the outlook for the corresponding end-use industries has brightened. Segments such as cosmetic chemicals, flavors and fragrances, and nutraceutical ingredients owe their auspicious prospects to rising levels of disposable income in the developing world and renewed (if less than robust) consumer spending in North America, Western Europe and Japan. (HIS, 2013)

### Objectives

- To study marketing strategies for specialty chemical firms
- To study the growth of specialty chemical firms in emerging economies.



### Scope of Study

This is exploratory research based on review of secondary data to analyze the branding and marketing strategies for chemical specialty firms. It studies the factors that influence branding in this niche B2B segment. It also undertakes to study the opportunities in emerging economies for chemical specialty firms. The economies of Brazil, Russia, India, China and Mexico have been gradually deregulated and are having strong economic indicators attracting varied investments.

### Research Methodology

The analysis is based on secondary sources of data primarily scholarly articles, news articles and survey reports by industry. A study of major American and European chemical specialty firms was undertaken. The digital database of Proquest and Ebsco was extensively referred for relevant articles on specialty chemical industry.

### Review of Literature

#### Marketing strategies for Specialty Chemicals

The top four goals of business-to-business (B2B) marketing are brand awareness, lead generation, customer acquisition and customer retention. Several traditional avenues for marketing can be used, including trade publication advertisements, brochures, press releases, direct mail, trade show exhibits, websites, online advertising, social media campaigns, and direct sales. However, Customers in Chemical specialty business have proven a willingness to switch from one chemically equivalent product to another, with little concern for the brand. (Knoth and McKenna, 2012).

Earlier the main concern of producers was to manufacture and innovate but due to increased competition and economic downturns, Chemical specialty had to adopt marketing strategies to serve their customers and mutually improve profitability (a win-win value propositions). Following have been key marketing strategies in chemical specialty industry:

#### *Corporate Branding*

Chemical firms also have to invest in branding their corporate identities to differentiate themselves from competitors, Specialty firms need to brand their corporate identity with their reputations to gain a competitive edge in selling specialty products. For example, if two companies sell the same product for the same price, the firm that has delivered products on time and offered services--**such as inventory stocking along with flexible staggered deliveries** will win a customer's business. Several firms with specialty chemical operations, however, have been successful at using their **corporate brand downstream**, including Bayer Aspirin, Sherwin-Williams paint, and 3M tape. (Walsh K, 2002).

There is potential to significantly enhance competitive position for **Specialty Chemical companies that can spot commoditization ahead of competition**. They can reposition by decreasing exposure to less attractive customers/segments and increasing exposure to more attractive segments, thereby improving the overall quality of the customer portfolio. (Coote J, Sarathy V & Haines G. H., 2004). A specialty chemical firm sustains in competitive advantage and in-turn its corporate brand & reputation with this step-change approach.

#### *Industry Consolidation*

M&A will remain a growth vehicle for chemical companies. Diversified chemical firms have been considering acquisitions in the global marketplace. Commoditization is a major drive which is forcing specialty chemical firms to consolidate.

Acquisition targets in Europe and North America will be large and aimed at expanding the acquirer's business or portfolio, such as BASF's purchase of Engelhard. Akzo Nobel, which became a pure-play specialties company earlier when it sold its pharmaceutical business Organon BioSciences to Schering-Plough and acquired ICI for £8.1 billion from the revenue proceed through sales of Organon BioSciences (\$16.1 billion). (Walsh K & Phillips K, 2008)



### ***Backward Integration***

Backward integration — the absorption into the firm of some of the tasks carried out by suppliers — is a major strategic option facing the firm. With backward integration, instead of simply paying suppliers, management must commit resources and attention (which could otherwise be devoted to the core business) to the additional tasks. (MacMillan I. C., Hambrick D. C., & Pennings J. M, 1986). In a backward integration move, International Specialty Products Inc. (now a part of Ashland Inc.) has bought out the remaining 50 percent interest in Marl, Germany-based joint venture GAF-Huls Chemie (GhC) from partner Oxeno Olefinchemie, a wholly owned subsidiary of Huls AG. The acquisition also includes Huls' acetylene production facility which supplies the joint venture with its primary raw material. (Mullin R, 2003).

### ***Channel Management***

In a tougher competitive environment, chemical manufacturers became aware of the importance of 'cost to serve'. Chemical Distributors have a sizeable market share of specialty Chemicals, which producers earlier feared, could become commoditized when sold through indirect channels. However, there is growing relevance of chemical distributors as partners of the chemical manufacturers. REACH<sup>1</sup> compliance and implementation is one of the major challenges facing chemical distributors. They will gradually need to register themselves, their imported chemicals, as well as their "in house" blends and formulations. For some specialty distributors, this may represent a significant share of their sales and an additional cost to bear, which in some instances may not be in relation with the volumes transacted. (Fermont M, 2007).

From a perspective of a Specialty chemical firm having a Distributing partner with an wider market access is a key for success and significantly reduces their gestation period to the new territories. In particular within Emerging Economies this has been a key differentiator to bring local knowledge to the table.

### ***Technically qualified sales personal***

Technically qualified sales staff is an asset for a Specialty Chemical Firms which performs an important role in lead generation and a subsequent product promotion -

Growing requirements regarding employee qualification as well as a lack of qualified personnel challenge many. The majority of the study participants assesses employees or employee qualification as a key success factor with high relevance in Sales of Specialty Chemicals. (Hornke M, 2012). A function of the specialty chemical industry's products and their manufacture is that a fair proportion of employees are highly qualified with a strong technical background. Brand ownership is frequently confined to a handful of people in marketing and communications departments. A key lesson that should be learned from other sectors is that brands, especially the corporate brand, need to be understood and owned by the entire staff, before chemical companies really begin to exploit branding to the full. (Butler S,2001)

### **Marketing in Emerging Economies**

The Emerging Markets are unique and presents its own set of challenges and opportunities. Customers in these economies look for value propositions and may not require all standard features offered in products.

The growing influence of emerging countries is forcing the petrochemical industry to restructure on a regional and global level, shifting the industry's "power center" away from the mature economies of North America and Europe toward developing markets in the east. (Bewley L, 2010)

The Netherlands-headquartered Akzo Nobel NV, which produces decorative paints, coatings, and specialty chemicals. The company reported a 5.2% decrease in revenues during financial year ended

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<sup>1</sup> REACH is the Regulation on Registration, Evaluation, Authorization and Restriction of Chemicals. It entered into force on 1st June 2007. It streamlines and improves the former legislative framework on chemicals of the European Union (EU).



December 2013, compared to the previous year. The company can expand its presence across the globe by expanding operations in emerging economies. (Akzo Nobel NV,2014). New FMC Corp. wants to become a global brand and increase its presence in China. They have significant plans to grow in Asia with their niche applications in agricultural products.( Voith, M. (2010).

Russian specialty chemicals market is still in its nascent stage when compared other BRIC countries, but the trend seemed to be changing, as MNC's entering the Russian specialty chemicals market. The growing end user application industries such as automotive, oil & gas, personal care and construction have fuelled the demand for specialty chemicals in the country. (M2PressWIRE,2013)

Asian economies are among the fastest growing in the world. The increased consumption of cosmetic and personal care products in Asia has had a particularly profound impact on the companies that supply formulators, as they also look to benefit from the growth evident in this region. Thirty years ago, performance enhancing chemicals were considered as corrective agents for formulations that did not live up to requirements. Today, products such as emulsifiers, viscosity modifiers, specialty surfactants and others are seen as integral components of high performing, cost-effective consumer products. (Fost D, 1997)

Deregulation in emerging economies has led to rise in their GDP which has increased generic consumption, leading to growth in demand for specialty chemicals.

### Conclusion

Specialty chemicals industry is able to overcome the commoditization and downward spiral of recession by adopting innovative marketing and branding strategies. Few specialty chemicals segments i.e. plastics additives, textile chemicals, construction chemicals or specialty polymers followed the slump of their end-use industries, others such as cosmetic chemicals, food additives, and industrial cleaners, have showed more resilience to the negative economic conditions. The adoption of new product specifications and environmental standards has potential to boost the specialty chemical usage. Emerging Market is driving growth for specialty chemicals and needs to be viewed differently. Demanding customers and distinct performance requirements in end user industries will require renewed focus on providing product and application know-how to end use customers. An approach to solve business challenges through innovative solutions will become a key differentiator for increased market share.

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