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# Distributor Value and Economic Challenges



**T**he TH Hilson Company is a preferred distributor of specialty chemical raw materials in the coatings, adhesives, consumer care, MWF/lubricant and plastics markets. The company's management team believes that the role of a specialty distributor does not end with the sale of quality products, but that it begins by providing customers with technology, value and impeccable service. TH Hilson recently provided **PCI** Magazine with information regarding the advantages of utilizing distributors and how the economy has affected the industry.

## What Are the Advantages of Using a Distributor?

By providing product recommendations, technical service, logistics, product bundling and cost advantages, distributors are very advantageous for most companies. "Distributors represent a number of suppliers, so by housing all these resources in one central location, customers can order multiple products from one distributor," said Angie Sisk, Director of Operations. "This helps consolidate freight and reduce order costs for the customer because they can have one invoice for multiple products."

Distributors provide their customers with local warehouses for just-in-time inventory. This not only helps reduce the cost of freight for the customer, but it also provides customers with quicker turnaround times on projects. "Suppliers often have a longer lead time and generally ship in truckload quantities," said Sisk. "The value of distribution is their ability to service clients with the quantity they need just in time or the same day in some circumstances."

Having a distributor that can provide formulation recommendations and offer technical support is

another advantage for the suppliers and customers. "Specialty distributors are very much involved with their clients' projects from initial contact to commercialization," said Lori Hilson, President. "Being involved in this process allows them to guide their customers toward products that are best suited for their specific projects. By doing so, distributors ultimately help with the development, growth and success of their customers' projects." Customers have also started to rely more heavily on distributors for technical guidance. "Suppliers have been cutting back on their technical and sales support," said Ralph Gatti, Vice President of Sales. "Customers call us when they need technical guidance or want a product recommendation because they know we will provide them with the best solution available to their problem."

## How Has the Economy Impacted the Industry This Past Year?

With constant budget decreases, everyone is looking to cut costs, and that has impacted almost every facet of the industry. "Order quantities have been smaller, so the need for distributors has increased," said Gatti. "Just-in-time delivery has also been at an all-time high because producers have let their inventory run down to all-time lows."

Customers are also facing their own issues with the downturn in the economy. "With the decrease of orders, customers who once were placing orders every two weeks are now placing orders once every four to eight weeks," said Matt Krause, Vice President of Business Development. "This has caused turnaround times to increase and has made just-in-time inventory more critical for our customers."

Overall, there's been a decrease in throughput. "We need to recognize our customers' needs, work with them through these tough times and know

what their immediate requirements will be, which is challenging right now," said Sisk.

### **Has the Economy Changed Your Company's Way of Doing Business?**

Like most companies, TH Hilson has had to assess its current strategies and reinvent its sales and marketing efforts. "We have re-invented ourselves during these tough times," said Hilson. "We are utilizing the strength of our customer relationships, both internal and external, to let the customer know we are here for them for the long haul and want to help them grow their business with new products and projects. We are uncovering all opportunities with our customers and doing everything we can to help move their projects through the sales cycle. It's important that we continually identify and uncover new opportunities with existing and potential new customers on a continuous basis while maintaining the existing business we have with each and every customer."

The economy has changed the way that distributors value their customers. "We're more focused on serving our customers as a whole," said Gatti. "We've developed a new follow-up program that's more pro-active and involves more employee-customer contact."

With increasing material and crude oil prices, it's important to maximize strengths to stay ahead of competitors. "Even though business has been down in most coatings sectors, we have minimized the decline by expanding our product offering, increasing our geographic areas and recommending new technologies," said Gatti. "We have also capitalized on supply issues by being creative with our suppliers to identify supply and/or performance alternatives to help the coatings producer continue their supply to their customer base."

It's also important to analyze current and prospective customers. "We've been spending more time getting involved with new projects and new opportunities," said Krause.

### **What Are Some Challenges That Distributors Face?**

Challenges arise when distributors are unsure of what to expect, so it's important they take the time to assess their specific markets and become prepared. "Distributors have to properly allocate resources to areas of potential growth," said Krause. "We must also efficiently manage costs related to the services that the market needs and wants." In order to do this effectively, distributors must look for new opportunities to increase the number of clients who will continually need their services.

When uncontrollable circumstances arise, such as the current economy, it's difficult for distributors to successfully forecast their inventory needs. "Right now, it's important for distributors to make sure they have enough inventories to supply their customers when they call," said Sisk.

The overall financial stability of customers is a challenge for distributors in today's economy. Customers are pushing the limits further than what was customary in a thriving economy. "We hope our customers have enough reserve to make it through this tough time," said Gatti. "Those who do will be bigger and stronger when it turns around."

### **Outlook for the Future?**

Like most companies, the outlook for distributors not only

## **A Supplier's Perspective**

PCI also asked a prominent additives supplier a few questions regarding distributors.

### **What are the advantages of using a distributor?**

Distributors offer a new company instant access to a market. They can help quickly build the business without a large investment up front by a principal. In the case of an established company, distributors offer "feet-on-the-street". They can make your sales force larger and get more contact with customers and potential customers. Since distributors offer a number of product lines, they are always talking to their customers about something. They can learn of opportunities for another product line while discussing a different one.

### **What benefits can distributors provide?**

Distributors offer their customers "one-stop-shopping". This is a benefit to customers whose time is continually being pressed. They offer better logistics than most suppliers, often shipping on the same day when a customer orders. In some cases, they can offer smaller package sizes/smaller orders than a supplier would, thus minimizing the cost of inventory for their customers. They can also offer customers contact points for their technical questions, helping them navigate suppliers' organizations more quickly and efficiently.

### **How is the current state of the economy affecting distributors?**

Like everyone else, they are facing a tough road. Their customers are cutting back on inventory and thus cutting orders to the distributors. At the same time though, distributors are being asked to respond faster when their customers need product. It puts them in a precarious situation if they are not given the time to respond.

depends on the market trends, but on the decisions they make today. "If you've been in the industry longer than five years, you'll notice that the market changes more rapidly every year", said Krause. "It's going to become increasingly important that companies supplying the market understand the trends and shifts and can be responsive to whatever the demand may be."

For the most part, the future outlook for specialty distributors is positive. While the first part of 2009 was slow, May, June and July have seen a slight upturn in demand. "2009 will continue to be a challenge," said Gatti. "But I believe we'll start to see a recovery in 2010." It's possible the future may even provide new business opportunities for distributors. "We're viewing today's economic trials as an open opportunity to secure a supply position with our existing and new accounts," said Sisk.

As a second-generation, privately held specialty distributor, TH Hilson Company has worked through many ups and downs throughout the past 35 years, which has made them stronger. The management team believes that more opportunities will come to those distributors who have worked hard over the past years to create a company that goes above and beyond just selling quality products and enhances the value of the services they provide. "When we survive the current economic times," said Gatti, "we'll know we can make it through anything." ■

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