

Finch & Beak
SUSTAINABILITY STRATEGIES

PART OF SLR

“

The carbon conundrum: unlocking ESG potential in the Chemical industry

Industry insights

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Introduction

Following our participation in several projects in the Chemical industry, our team at Finch & Beak- part of SLR identified some alarming indicators that the Chemical Distribution sector was acutely delaying the rest of the value chain in sustainability. In response to this, we decided to collect the relevant publicly available sector data on these companies' operational vulnerability and market alignment, loosely following the WBCSD-model for portfolio sustainability assessment (PSA).

This report depicts the Chemical Distribution industry as the fascinating sector that it is from a sustainability research standpoint: it boasts **high growth, high value,** and **high impact** but, compared to other sectors it is immature on ESG reporting and the development of sustainability programs. To highlight some key findings of our research:

- Emissions disclosure for reporting on frameworks such as TCFD is still in its infancy stage. A mere 21% of companies report on either their Scope 1, 2, or 3 emissions.
- Only 4 out of all 38 companies report the full spectrum of their Scope 1 to 3 emissions.

- No more than 24% of the companies researched publicly disclose their materiality assessment.
- Unfortunately, the results hardly improve with the reporting of ESG performance on social topics. Just 11% of the markets is found to publicly report their accident rates.

In a value chain where sustainability and ESG are at the top of the agenda and as transparency is becoming imperative, it hardly comes as a surprise that the Chemical Distribution sector needs to move fast to raise the bar on ESG reporting and sustainability programs to solve the carbon conundrum and unlock the ESG potential of the industry.

The almost forty companies that formed part of this Finch & Beak benchmarking study represent a substantial annual market revenue of approximately EUR 54 billion. I sincerely hope these research results from this massive and impactful market provides new insights and that our report contributes to accelerating sustainability in the Chemical Distribution sector.

As always, the Finch & Beak team and I anticipate welcoming your questions, remarks, and other input.

Warmest regards from Barcelona,

Jan

Research approach

Overview of approach & methodology

The objective of this study about the Chemical Distribution industry is to determine the sustainability maturity of the industry and to identify the environmental, social and governance (ESG) gaps the industry is facing. With a focus on the European Chemical Distribution industry, a total of 38 European chemical distribution leaders, each with a revenue of above 200 million dollars (based on 2020 data) were assessed [1]. Together, the 38 companies represent a market revenue of approximately EUR 54 billion.

The core part of the industry research is an analysis known as the **Portfolio Sustainability Assessment (PSA)**, as developed by the World Business Council for Sustainable Development. This was used to assess the 38 chemical distributors' sustainability performance, based on publicly available evidence. To gather qualitative and quantitative elements, two analyses were carried out:

- 1 **Operational Vulnerability**
- 2 **Market Alignment**

These two together forms the source data to form a matrix in which the overall performance of the companies can be plotted.

A diverse, sector-specific list of Key Performance Indicators was developed, based on criteria from best-in-class ESG benchmarks, such as the Corporate Sustainability Assessment (CSA) from S&P Global and the Sustainability Accounting Standards Board (SASB), as well as trend reports. In addition to this, desk research was conducted to deliver final conclusions determining which KPIs to include in the analysis.



Evaluated Criteria

Environmental:

- Climate Strategy
 - Waste
- Circular Economy
- Product Stewardship

Social:

- Human Capital Development
 - Labor Practice Indicators
- Talent Attraction & Retention
- Occupational Health & Safety

Governance & Economic:

- Codes of Business Conduct
 - Materiality Assessment

Other:

- Impact Valuation



Assessment in terms of

Operational Vulnerability:

The risks and opportunities of the environmental footprint and social handprint of the assessed company based on quantitative reported data. The benchmark data was then normalized against the company's revenue (billion EUR) to obtain comparable data.

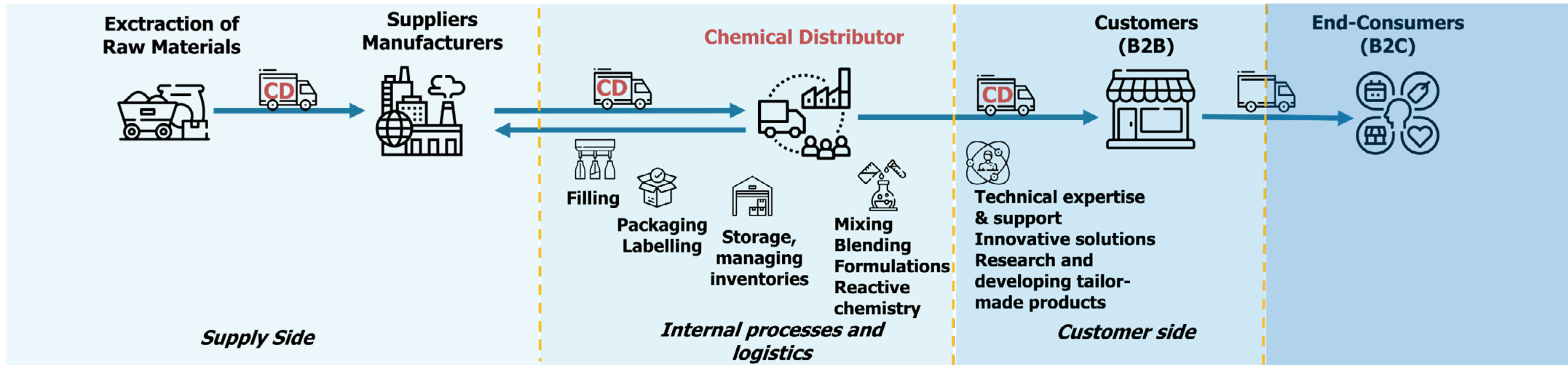
Market Alignment:

Benefits or challenges that a company faces from a market perspective. In order to understand the risks and opportunities arising in the value chain, the alignment with market developments was assessed. The Market Alignment is based on qualitative data and benchmarked against peers to create a scoring.

Sector introduction & overview

A brief introduction to and overview of the Chemical Distribution sector

Chemical distribution is often viewed as the transport and storage of bulk and packaged chemicals. However, as illustrated by the figure below, chemical distributors hold varying roles in the supply chain, and often do more than they are given credit for. These businesses' typical activities include logistics such as packaging and (re-)labeling. Upstream, chemical distributors can provide ingredients and raw materials to produce formulated or finished products, and downstream, chemical distributors can add value by supporting clients in the R&D of tailor-made products.



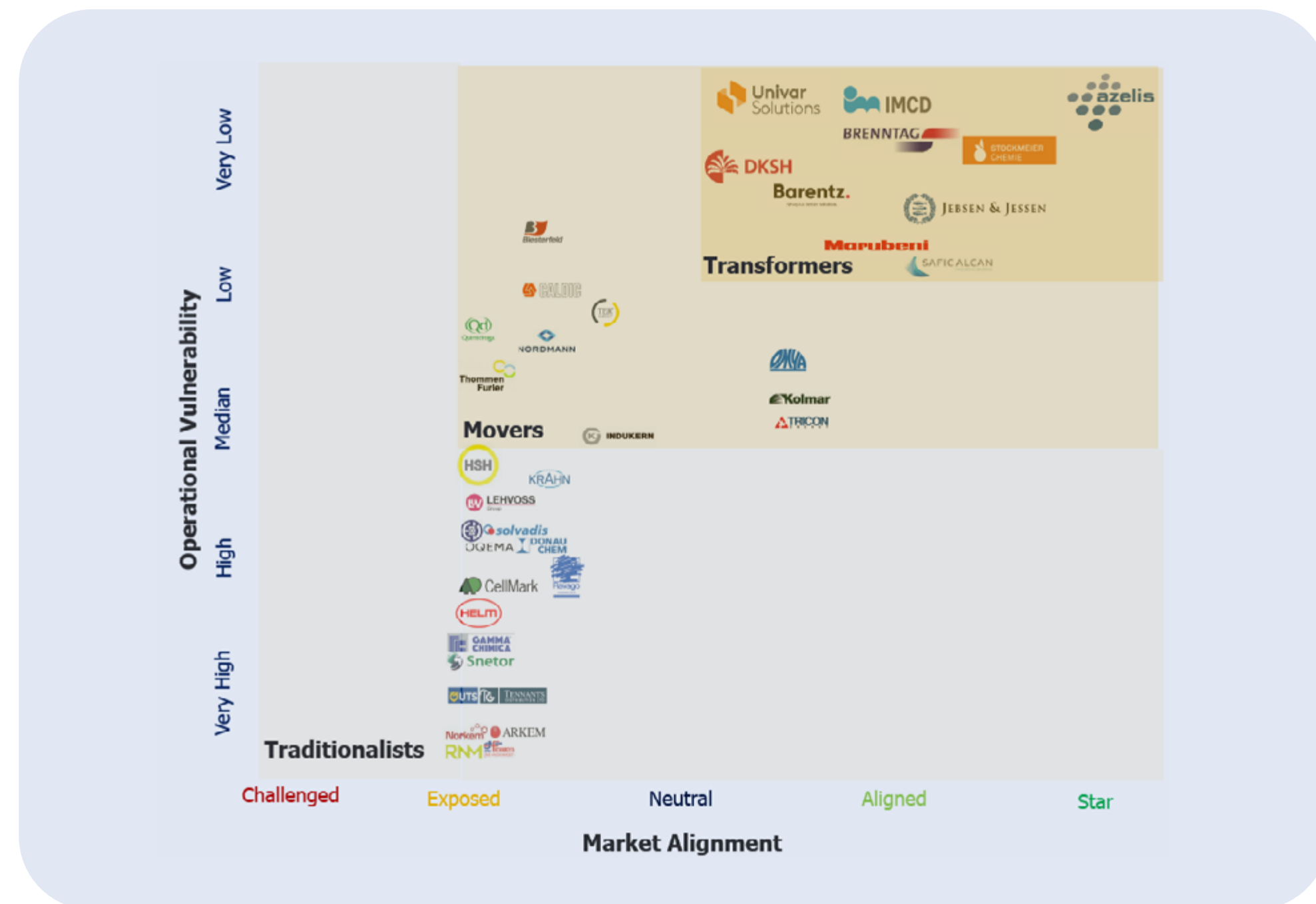
These three main activities fit into a larger categorization of the global chemical distribution market: specialty chemicals and commodity chemicals [2;3]. Specialty chemicals such as agrichemicals or construction chemicals have a clear purpose, while commodity chemicals are multi-purpose chemicals, e.g., plastics, polymers, and petrochemicals. Both specialty and commodity compounds are used in end-use

industries such as infrastructure & construction, the automotive industry, textiles, electronics, oil & gas, petroleum, and pharmaceuticals. Direct sales are mostly derived from pharmaceuticals, building materials and auto parts [4;5]. In 2020, the global chemical, distribution market was valued at roughly EUR 230 billion, with an expected annual growth rate (CAGR) of 5.4% from 2020 to 2028 [4].

Chemical Distribution sector: categories & comparisons

Sector overview by plotting operational vulnerability and market alignment scores

By using the scores of individual companies' performance on operational vulnerability and market alignment and plotting them against each other, a sector overview representing the percentile ranking of each company's performance is the result. **Subsequently, the chemical distribution sector can be classified into three archetype categories:**



Transformers

Companies that demonstrate the highest sustainability maturity within the industry, by having a sustainability program in place. This often includes Materiality Assessments and top line targets, assisting the companies in realizing their sustainable development ambitions while differentiating themselves from competitors.

Movers

Companies that have started focusing on ESG but are not mature yet. Clear targets, KPI's and actions on sustainability are frequently missing. Opportunities and risks are identified but not well integrated into the business strategy yet and these companies are not yet creating substantial value from their ESG strategy.

Traditionalists

Companies lacking ESG reporting, showing a low transparency and maturity. Traditionalists are less prepared to respond to risks related to sustainability and might miss out on new business opportunities that the current market trends are presenting.

Chemical Distribution sector performance ranking

Position	Company	Position	Company
1	Azelis	20	Thommen-Furler
2	IMCD	21	KRAHN Chemie
3	Stockmeier Holding	22	HSH Chemie
4	Brenntag	23	Ravago Chemicals
5	Jebsen & Jessen Group		Lehmann & Voss
6	Univar Solutions	25	OQemA
	Safic-Alcan		Solvadis Group
8	Barentz		Eigenmann & Veronelli
9	Marubeni international		Donauchem
10	DKSH Holding	29	CellMark
11	Tricon Energy	30	Helm
12	Biesterfeld	31	Snetor
	Omya		Gamma Chimica
14	Kolmar Group		United Trading System
15	TER Group		Tennants Distribution
16	Nordmann, Rassmann		Ruskhimset
17	Caldic		Arkem Kimya
18	Indukern		Grupo RNM
19	Quimidroga		Norkem Holdings

* Based on publicly available data

**Ranking based on the average performance on the operational vulnerability axis and the market alignment axis of the matrix

A business case for sustainability

Market trends, impacts and risks & opportunities

Risks



High customer expectations and competition (both in pricing and value-adding supply chain services)



Increased ESG legislation and reporting requirements



Lack of talent to build a diverse workforce

Opportunities



Growth of commodity and specialty chemicals



Investments in sustainability, renewable energy & circular economy



Digitalization (modernizing IT-infrastructure to monitor and forecast demand, and optimize internal processes and logistics)

A business case for sustainability

Market trends, impacts and risks & opportunities

Market Trend	1	Increased competitiveness	LOW Many chemical distributors are generally well-prepared for high price competitiveness and can offer feasible solutions to time and geographical issues. This trend will merely separate the wheat from the chaff [7;8]	Impact
	2	Increased legislation	MEDIUM The EU Green Deal is a strategic turning point in how companies invest and do business. Increased ESG legislation and reporting requirements, like the EU Taxonomy and the Corporate Sustainability Reporting Directive (CSRD), require companies to be transparent about their sustainability performance data. Chemical distributors that do not act on this will risk losing valuable investments.	
	3	Lack of talent to build a diverse workforce	HIGH To establish a dominant position in a service-oriented market, attracting and retaining talents is becoming increasingly important. In a labor-intensive industry like the Chemical Distribution sector, a diverse workforce will be a crucial differentiator.	
	4	Market growth	MEDIUM Chemical manufacturers are highly dependent on chemical distributors, requiring support in making specialized products accessible to specialized customers [6-8]. The increasing demand for chemicals increases will result in opportunities for early adopters.	
	5	Sustainable investments	HIGH An increasing demand in green products and emerging and evolving trends such as the circular economy and Clean Energy increased demand for sustainable chemicals. Chemical distributors hold the key to sustainably transforming the supply chain [4;7-9] and frontrunners in this area will gain a vital competitive advantage.	
	6	Digitalization	HIGH With Covid-19 painfully exposing flaws such as the dependence on global value chain activities, it could mean the start of a new way of digitalization. This could lead to, for example, the optimization of transportation systems and predicting optimal supply quantities [10]. Innovations of such a nature influence all ESG dimensions and the impact and this will have a high impact on the industry (e.g., energy efficiency increase due to route optimization, leading also to lowering emissions, supporting people in their daily task by freeing them from repetitive tasks).	

Key takeaways





Main ESG challenges faced by the Chemical Distribution sector



Industry report takeaways

01

Room for improvement in ESG reporting transparency

1.1 Only 21% of companies report on their Scope 1, 2 or 3 emissions. The companies that do report on their emissions represent 56% of the market revenue and just four of the companies that formed part of the research, report on all Scope 1 to 3 emissions. Consequently, the industry is not ready for disclosure standards, like CSRD. In addition, it is uncommon for companies to commit to net-zero targets and sign science-based targets agreements. Only **one company** in the research sample (Univar Solutions, the second biggest company in terms of revenue), is **committed to science-based targets**.

1.2 Chemical distributors have **not yet realized the value of having a diverse workforce**. Only 21% of featured companies report on women in the workforce and these have an average of 47% of women in the company. The gender balance looks different when considering management positions: in companies that do report on percentages of women in management positions, the **percentage of female managers is a mere 25%**.

02

Materiality Assessments are not the norm yet

2.1 Materiality is a tool that is used to set the direction of a sustainability strategy, but few chemical distribution companies seem to be using it as a starting point. Of the companies researched, **only 24% publicly disclose their materiality matrix**. These companies with materiality matrices represents 40% of the sales revenues of all companies assessed.

2.2 While 55% of the European chemical distributors researched are part of the Responsible Care initiative, **only 13% are part of the Together for Sustainability Alliance (TfS)** – a joint initiative unifying companies on material topics. The **42% of companies that are not part of any initiative** show that many chemical distributors still need to become aware of the added value of collaborating with supply chain partners in order to improve performance on material topics.

03

Unrealized potential of circular economy as a value creating tool

Circular economy is an important tool that can be used by the industry to unlock value, but from the research it is clear that the Chemical Distribution industry still has not yet started tapping into the potential. Only **21% state working on circular economy** and only **34% are actively aiming to improve and increase their recycling rates**.

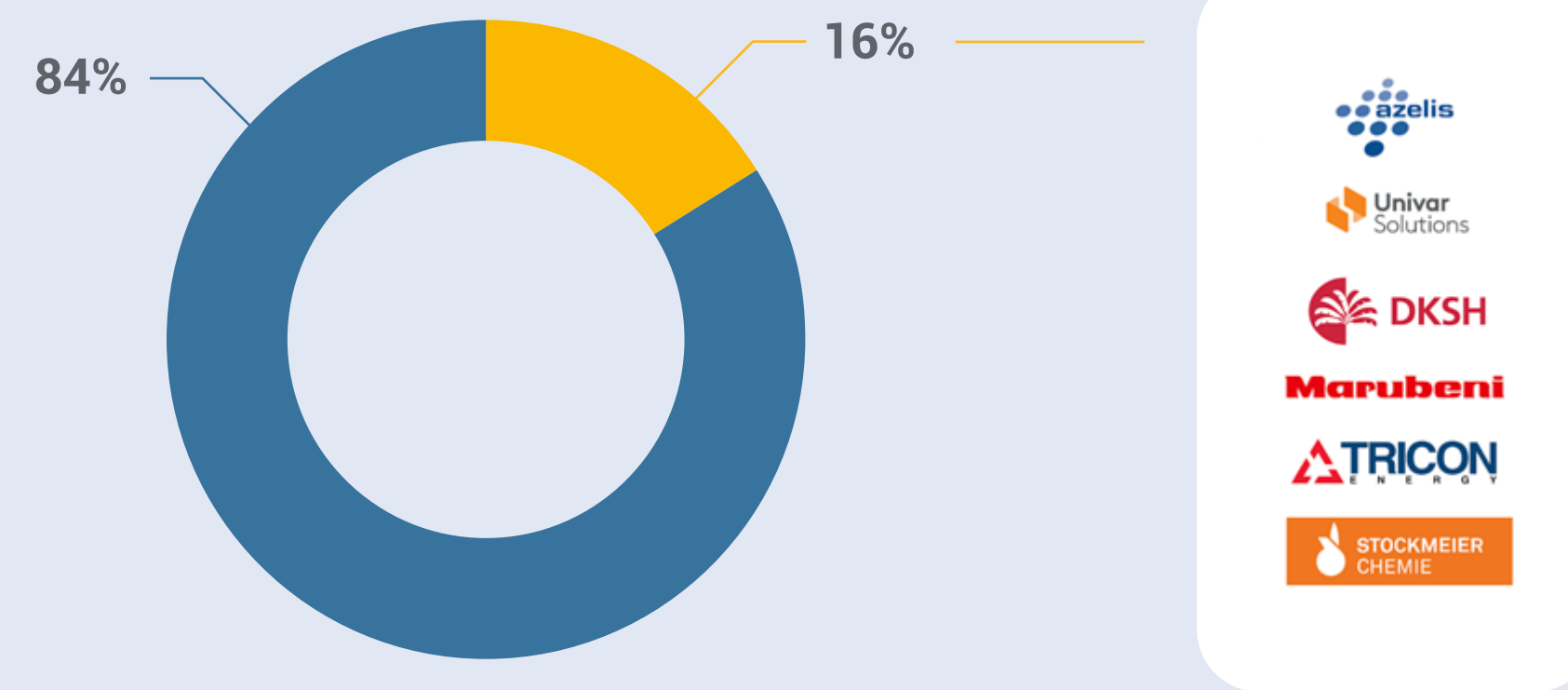
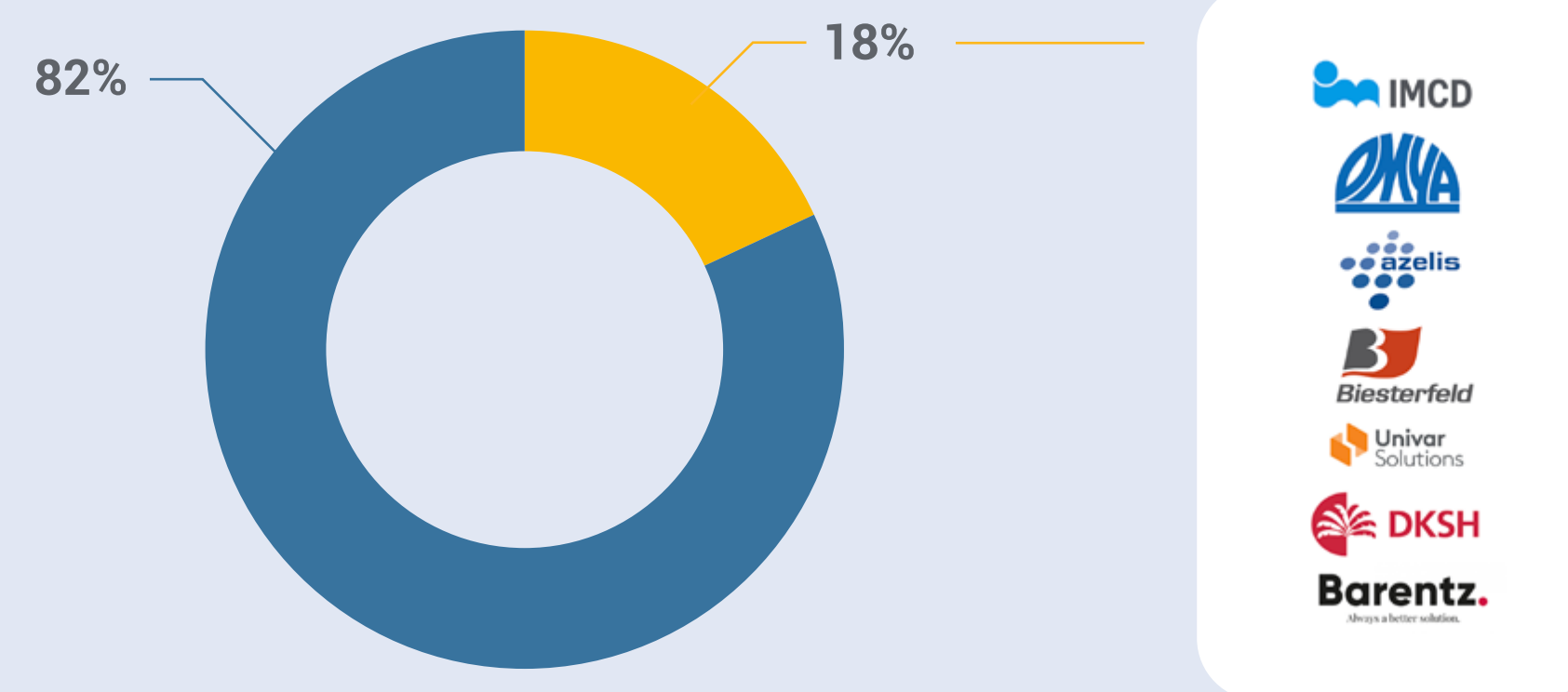
Room for improvement in ESG reporting transparency

1.1 Only 21% report on Scope 1 - 3 emissions

With the Paris Agreements and the inception of the **Task Force on Climate-Related Financial Disclosures (TCFD)**, considerable efforts are made to decarbonize value chains and accelerate the Race to Zero. Currently, the chemical distribution industry is not adequately prepared for its challenge to combat climate change. Despite an increase in stakeholder pressure for chemical distributors to report and disclose their emissions, just a mere **21% of companies report on their Scope 1, 2, or 3 emissions, whereas only four of these companies report on all Scope 1 to 3 emissions.**



This highlights that the chemical distribution sector is a hard nut to crack when it comes to making progress on moving to net-zero. Industry leader Brenntag is exploring alternatives, as stated in their Sustainability Report 2020: "Since chemical products with net-zero emissions are currently limited, we take up an alternative solution, the offset of product emissions" [11]. Target-setting in the industry is not on par with the overall chemical sector. Less than 20% of companies have committed to a near-term or long-term target.



One example of a company that does have a long-term target in place, is **DKSH Holding**. **DKSH** is aiming to reduce emissions from direct operations with 35% by 2025, against its 2020 baseline. To reach this goal, the company is tackling emissions at its source by optimizing transport routes and ensuring more efficient use of electricity across sites, while also extending the use of renewable energy.

Other companies, like **Nordmann, Omya, and Rassmann** aim to achieve emission reduction through the transition to renewable energy. Renewable energy is not yet able to meet industry needs, but the integration of renewables is seen as a main enabler in moving to a low carbon economy.

Although these are encouraging developments, only one company was found to go the extra mile by **committing to science-based targets: Univar Solutions**, the second biggest company in terms of revenue. Another frontrunner, **Marubeni**, takes the approach of aligning with TCFD. Despite the best-practice examples these two companies bring forward, a trend to commit to net-zero has not yet reached the chemical distribution industry.

Best-practice example



Out of the 38 European companies within scope of this research, Univar is the only chemical distributor that is a member of the Science-Based Target initiative. Univar Solutions publicly reports on its Scope 1, 2, and 3 emissions and has a long-term 2050 net-zero target in place. To reach this, several milestones are set: by 2025 Univar aims to reduce 20% emissions in Scope 1 & 2, while by 2030 the company is aiming for a 40% absolute reduction in Scope 1 & 2 (against 2019/2020 average baseline). Solutions include having on-site renewable energy generation, fleet route optimization tools, as well as implementing energy efficient technologies.

Best-practice example: alignment with TCFD



Marubeni aims to reach net-zero by 2050. In addition, the company understood that in order to prepare for the impacts that climate change will have on their business model, scenario-analyses are necessary. Marubeni international has developed a climate scenario analysis and publicly discloses this on their website in line with TCFD-requirements. Another frontrunner, Marubeni, takes the approach of aligning their climate strategy using TCFD recommendations. Despite the best-practice examples these two companies exhibit, the trend to commit to net-zero within the chemical distribution industry has not yet developed.



“Considering the complexity of many chemical products, the data collection process of carbon emissions is substantial. **At the moment, Scope 1 and 2 are broadly covered, and the chemical industry is increasingly reporting and looking into reporting schemes for Scope 3 emissions, upstream and downstream. The data for scope 3 are often patchy and complex to understand and report on.** Emission data by the distributors will improve the reporting efforts by the manufacturers and an increased supply chain integration can help in jointly lowering the carbon footprint.”

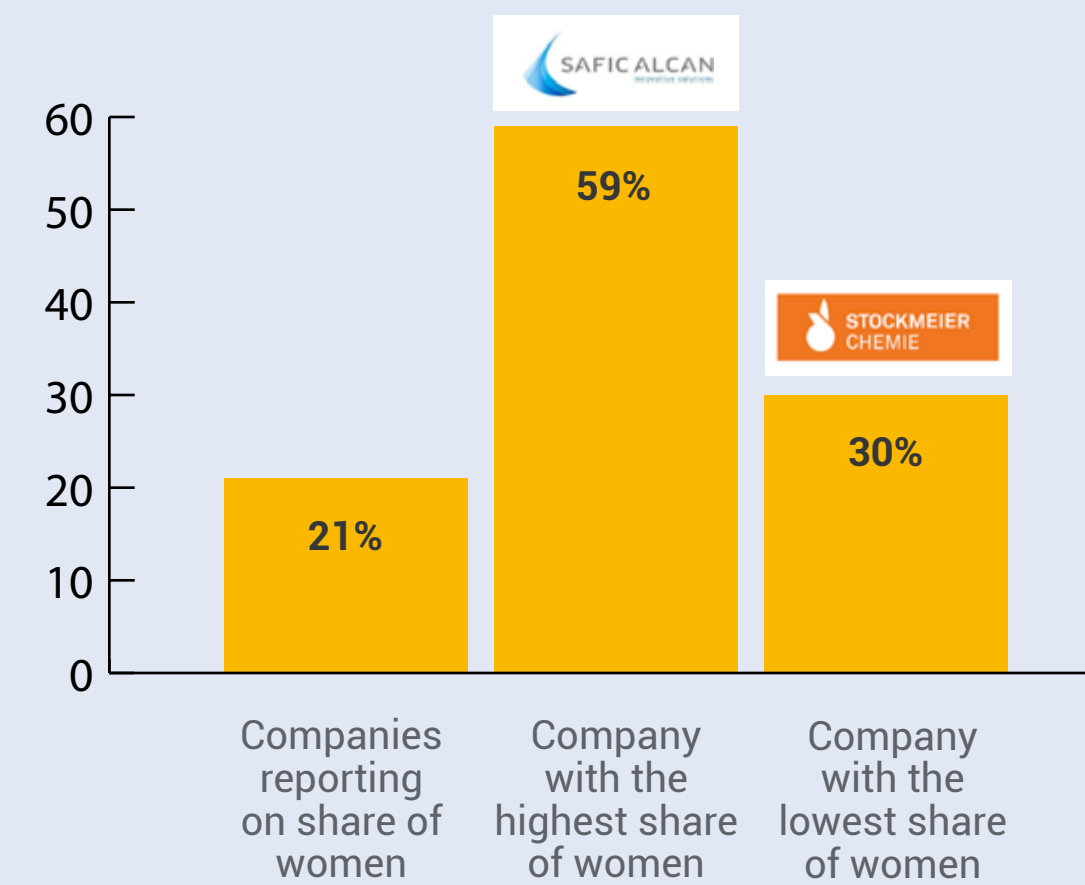
Ann Dierckx, Sustainable Development Director at CEFIC

1.2 Social dimension reporting can be better

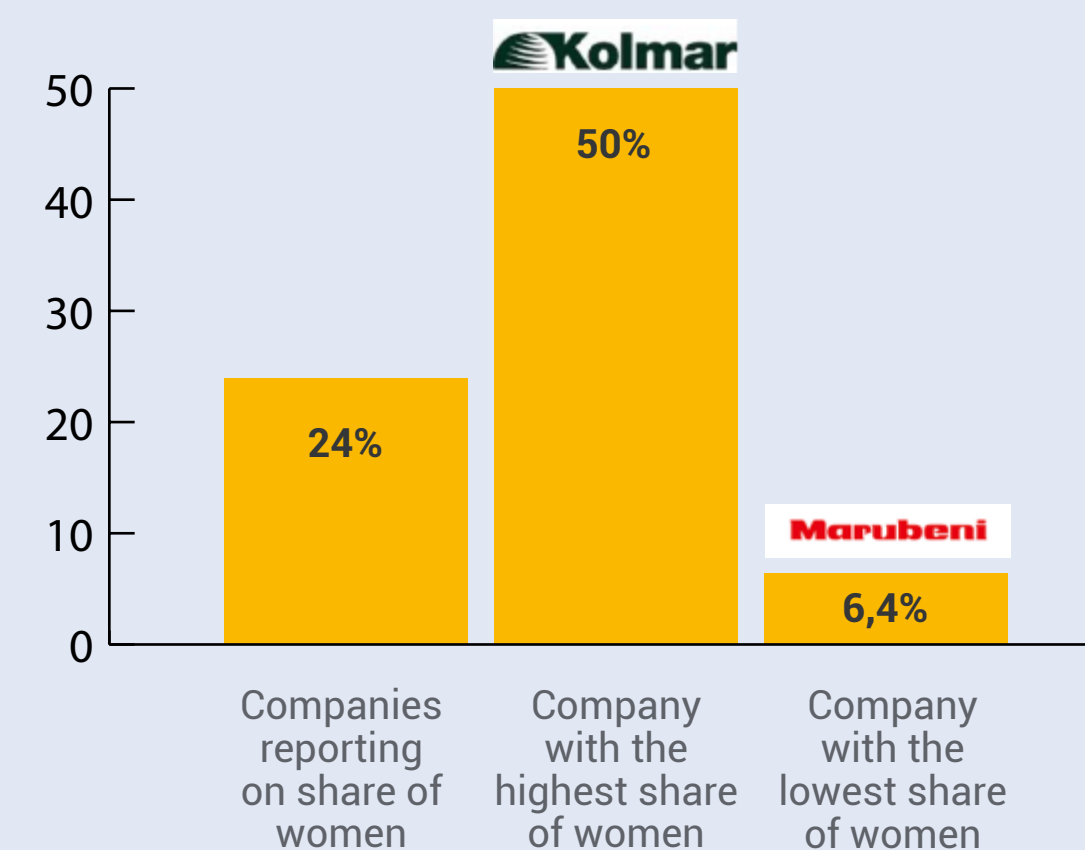
The low level of transparency is not limited to environmental reporting. As chemical distribution is a labor-intensive business, companies rely on a strong workforce. When researching the social dimension of the featured companies, the low level of transparency can also be observed in a few main social KPIs.

- 1 A deep dive into **Human Capital Development** reveals that the majority (85%) of companies do not publicly report their training hours per FTE. In terms of content, popular training topics among chemical distributors are hazardous goods training, e-learning on the code of conduct, and general health and safety training.
- 2 Chemical distributors are not fully transparent when it comes to **health and safety**. **Only 11% publicly report their accident rates**, representing 32% of the market revenues.
- 3 In order to stay competitive, having a diverse and inclusive company culture is crucial [12;13]. Despite the proven economic benefits diversity offers, it is surprising to see that **only 21% report on the share of women in the company and 24% on the share of women in management positions**. Noteworthy is that the companies that do report on the share of women show a nearly gender-balanced workforce (47%). This positive impression changes, however, when looking at the average of women in management positions, which is only about a quarter. Most chemical distributors do not yet sense the potential a diverse and inclusive workforce can offer, thereby missing out on the opportunity to use diversity to foster employee engagement and generate business value.

% Women in workforce



% Women in management positions



Materiality Assessments are not the norm yet

2.1 Companies with a matrix are often non-compliant

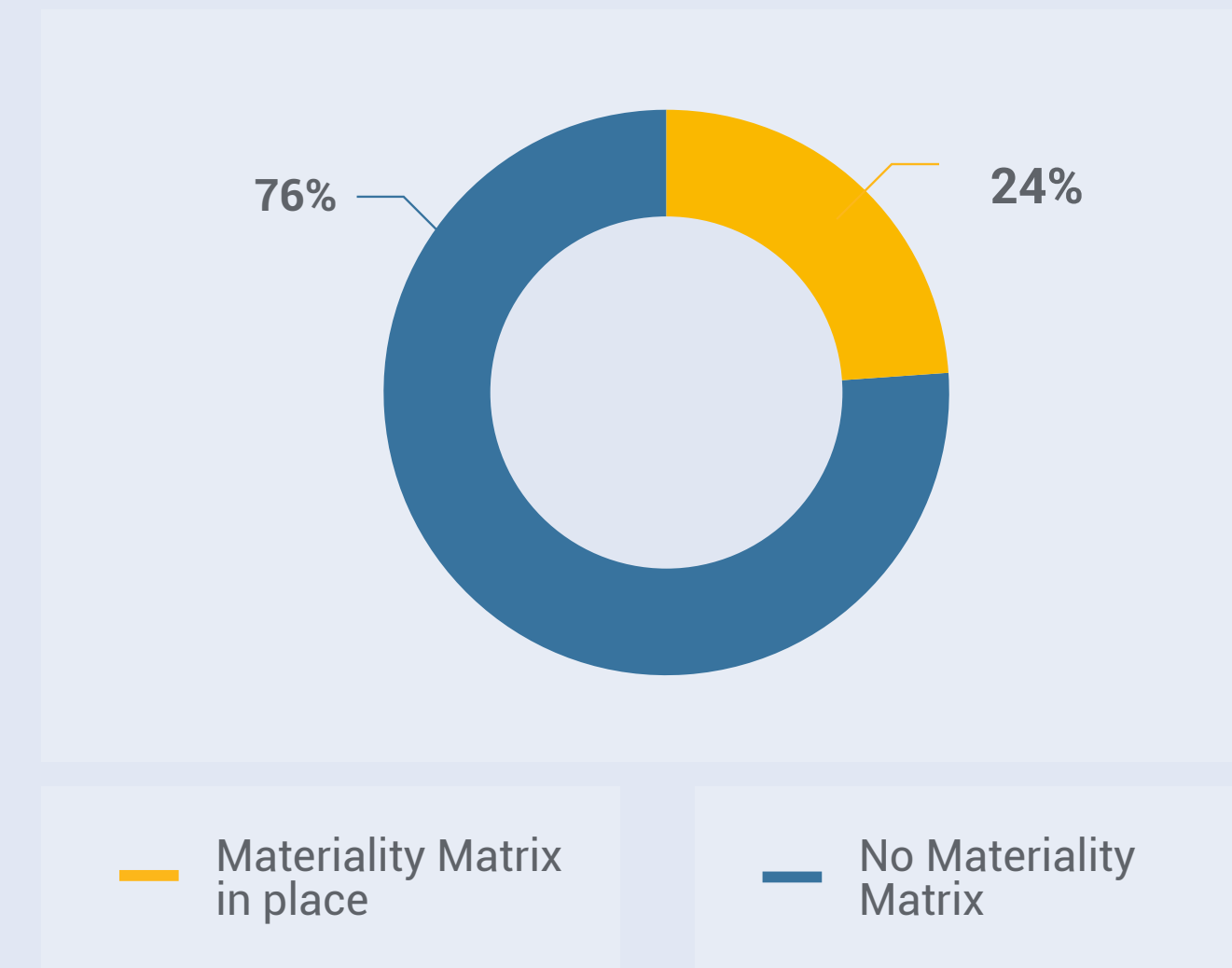


A materiality assessment reflects the most relevant material topics from the stakeholder and business impact perspective. The result of the assessment is a materiality matrix that provides a guideline or blueprint for a companies' ESG strategy.

Of the researched companies, **24% publicly disclose a materiality matrix**, representing 40% of the total revenue. This means well over half of the total market is lagging. From the available matrices, Business Ethics/Corporate Governance, including transparent reporting, comes back as most relevant. A strong focus on business ethics and transparency can help build stakeholder trust and enable future regulatory compliance. The high prioritization is underlined by the fact that already **74% of the companies publicly report on their code of conduct**.

Less than half provide a clear direction with their materiality matrix. The majority of the companies use the matrix as a generic reporting tool rather than linking it to their sustainability strategy, Enterprise Risk Management system and SDG targets. For example, Biesterfeld presents a matrix that classifies the topics into 6 pillars. However, the company does not state the exact material topics in the matrix. Therefore, the matrix is not specific enough and fails to communicate their "must-win battles". In other cases, topics like Data Privacy, Security or Climate Change are often found in the medium to lower range of the matrices, meaning these are not considered to be the most important aspects.

Materiality Matrix



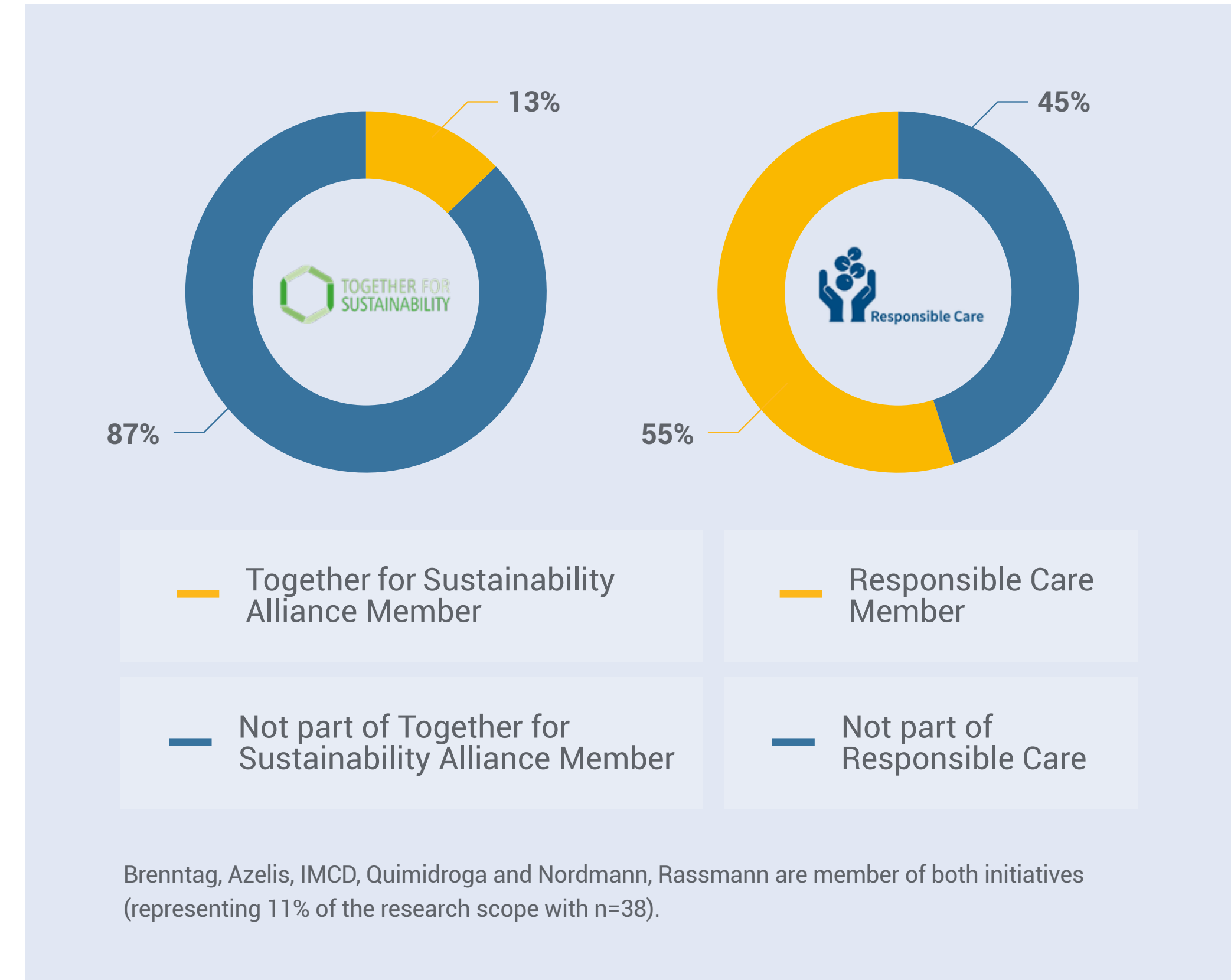
Highest ranked material topics across companies having a materiality matrix in place



2.2 45% have not joined Responsible Care

Another topic that has been a key concern for the Chemical Distribution industry is **Health and Safety**. Workplace safety has been a trademark of the industry since the establishment of the **Responsible Care initiative**, a voluntary initiative that drives the management of safe chemicals and performance excellence [14]. Just over half of the assessed companies are part of the Responsible Care initiative. Despite many companies seeing the initiative as relevant, 45% do not realize the potential of being part of an initiative that gives the opportunity to exchange knowledge and learn from others on material topics. This statement can be further highlighted by comparing chemical distributors to chemical manufacturers, as to date already 96% of the world's largest chemical companies, have signed the Global Charter, which outlines the unified commitment [15]. With solely 55% from the assessed companies being member of the Responsible Care commitment, shows that chemical manufacturers understood the urgency of joining an initiative that drives continuous improvement in environment, health, safety and security performance.

Looking beyond Responsible Care, another important joint initiative in which companies are unified on material topics is the **Together for Sustainability Alliance (TfS)**, of which for example, **Brenntag, Azelis, IMCD, Nordmann, Quimidroga, and Rassmann** are members. TfS brings together chemical manufacturers and chemical distributors and was introduced to collaborate along the value chain to improve each others' sustainability (ESG) performance, by for example sharing supplier sustainability assessments and audit data.



These supplier assessments cover material topics such as environmental performance, labor and human rights, and ethical and sustainable procurement. The aim is to drive and deliver tangible and measurable improvements in sustainability performance for both suppliers and the company itself. The program is based on the UN Global Compact and Responsible Care principles, which enables companies to fully embed sustainability into their business. **With 42% not being part of any of these initiatives**, it is clear the industry needs to further explore the potential of collaborations along the supply chain.

Circular Economy overlooked as a value-creating tool

The value of circular economy worldwide is increasing and is estimated to reach \$4.2 trillion by 2030 due to rising environmental and regulatory requirements, while societal pressure is also encouraging the shift to a circular economy [65;17]. Moreover, FECC* has acknowledged the Circular Economy Action Plan and supports the initiative by ensuring that used resources remain in the EU economy for as long as possible [18]. Due to the nature of chemical distributors, companies play an important role in closing the loop of product lifecycles [19]. This makes **circular economy** an important tool that can be used by the industry to create value.

Despite these facts, **only 21% state to work on circular economy, and just 34% aim to improve and increase their recycling rates.** As chemical distributors barely apply the model of a closed-loop system, the industry still has to make the circular transition. The first chemical distributors are showing signs of improvement. Companies like **Azelis, Brenntag, and IMCD** are exploring sustainable solutions to make the transition to a circular economy. Although it is currently hard to discover any measurable actions, these companies are taking the first steps in fully unlocking the potential of circular economy and creating value from it.

*FECC is the European Association of Chemical Distributors.

Best-practice examples from the industry



IMCD states that sustainable solutions stimulate circular economy, as they can reduce the environmental impact and increase financial benefits for all stakeholders, during all life-cycle stages. IMCD is carrying out analyses to assess a products' environmental footprint and models different scenarios of the use-phase of customers. Ultimately, this can help customers to increase financial savings.



Brenntag strives to continuously improve its products' efficiency, reducing consumption and decreasing environmental impact. As Brenntag's target is to become the preferred distributor for sustainable solutions, the company has set up pilot projects with 10 selected key suppliers.



Barentz supports its customers in producing sustainable products, reducing their ecological footprint and implementing sustainable business practices.



Are you ready for sustainable value creation?

Insights from Professor Bettina Büchel, IMD

[This article was originally published in I by IMD \(ibyimd.org\)](#)

How to move sustainable business solutions from the periphery to the core of your organization.

Eni, an Italian oil company, claimed in an early 2020 advertisement that its oil-based “diesel” was green. In the past, they might have gotten away with it. This time, [the Italian government imposed a five million euro \(\\$6m\) fine for “greenwashing”](#).

This type of behavior is not limited to Eni or other fossil fuel companies. Greenwashing – essentially spending more time and money on marketing than minimizing environmental impact – is in abundance. But with consumers and investors increasing the pressure on companies to take more action on not only climate but ESG change, it is time to move from checking off the “sustainability box” in a nice report to making decisions deeply embedded at the core of strategy and operations.

[Reporting on sustainability has increased from 20% in 2000 to 80% in 2020, showing that boards and executives around the world are increasingly understanding the importance of environmental, social, and governance \(ESG\) issues](#). But making this shift towards embedding sustainability into core strategy where sustainability is not only about value protection but value creation is easier said than done. Enhanced reporting is not yet a sign that firms are considering combining sustainability and profitability in their decision making. Still, several companies stand out in reshaping their activities.

[Neste](#), for example, moved from being a regional oil refiner to a global player in renewable and circular solutions. The Finnish company committed to reducing its customers’ climate emissions by 20 million tons annually by 2030. That involves a radical transformation and shift in its portfolio of business activities to compete in new fields such as sustainable aviation fuel. Yet, even without disruptive change, there is a growing need to progressively make decisions that link commercial, sustainability and financial goals.



“Companies are starting to embed sustainability decisions within their day-to-day decisions to drive value and thereby achieve a competitive advantage”

So what are sustainable business decisions and why should business leaders care?

The origin of sustainable development comes from the Brundtland report in 1987 where it was defined as “development that meets the needs of the present without compromising the ability of future generations to meet their own needs”. But for the corporate world it is much more. At the core of a company are decisions about value creation: which products and services to launch or abandon, how to optimize resource usage – and value capture – where to invest, and how to price products and services.

Often, sustainability is associated with trade-offs. Many business leaders think contributing to society cannot possibly be in the best interests of profitable returns. But many have proven that becoming more sustainable can give an organization a competitive advantage.

As consumers, investors, and other stakeholders are intensifying pressure for corporate transparency around environmental and social issues, firms are reinventing their purpose and backing it up with action. During its transformation Neste defined its purpose “to create a healthier planet for our children”. This elevation of corporate purpose acknowledges the failures of short-term profit maximization and the need to find a more sustainable path that takes into account the perspectives of multiple stakeholders and society at large. Companies such as [Solvay](#), [Evonik](#) and [Kering](#), are leading the way in systematically embedding sustainability into business decisions to create value and mitigate risk. These examples show how to:

- 1 Use sustainable product portfolio management (SPM).
- 2 Use an environmental P&L to change your supply chain.
- 3 Use sustainable hurdles for product innovations.

Sustainable product portfolio management (SPM) at Solvay

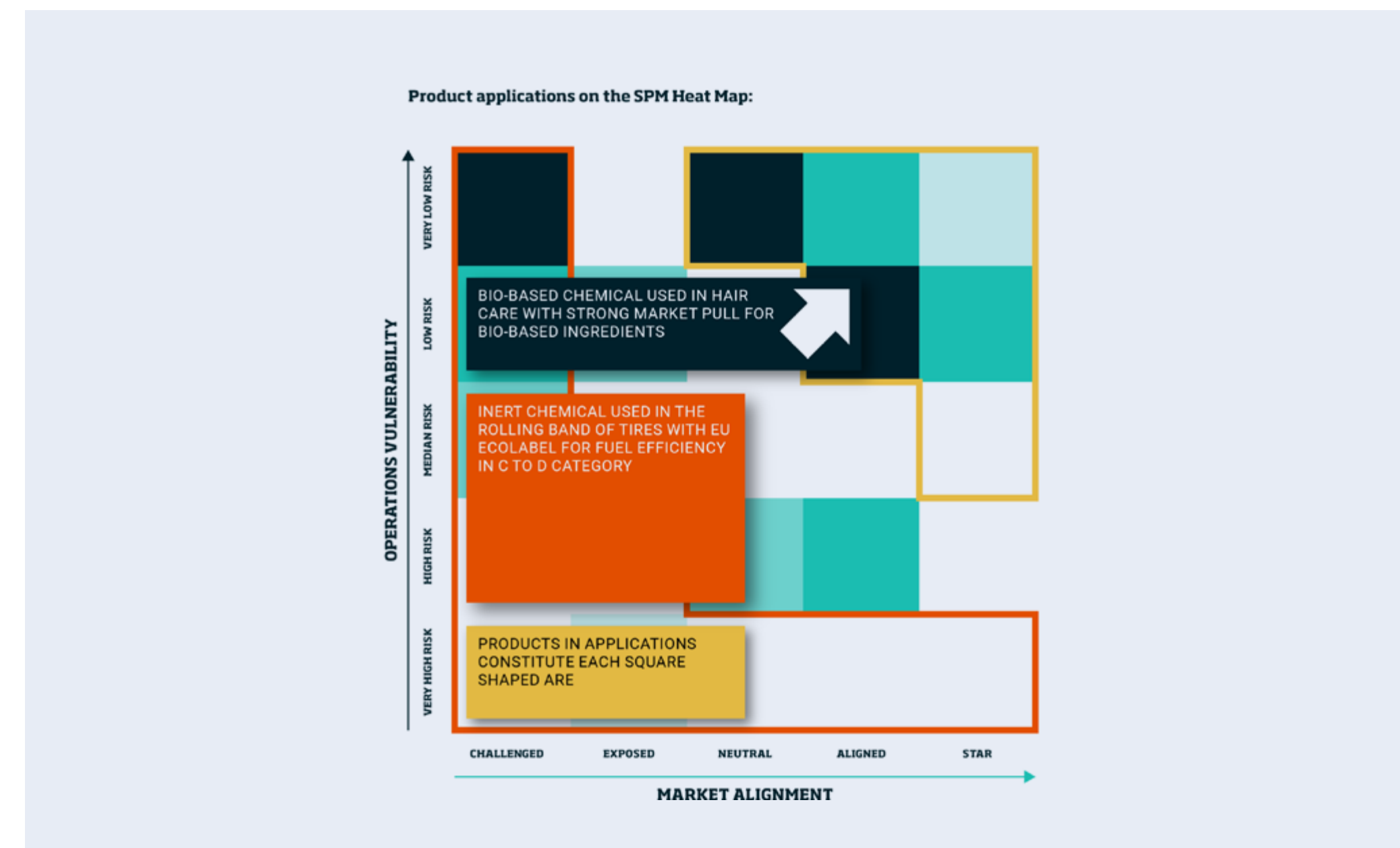
Solvay, a Belgium-based international chemicals and advanced materials company, uses an SPM heatmap (see illustration above) to steer its environmental footprint and identify its related risks and opportunities (vertical axis) and how these applications bring customer benefits (horizontal axis).

The heatmap categorizes products into three categories:

- 1 **Solutions:** products with a better sustainability contribution to Solvay’s customers and value chain, combined with a favorable balance between value and environmental impact.

- 2 **Neutral:** products without outstanding sustainability performance, if any, and low operations vulnerability which is not combined with favorable sustainability drivers in the marketplace. These are products that consumers need, but which do not contribute to environmental footprint reductions.

- 3 **Challengers:** products for which there are either strong negative signals resulting from sustainability drivers in the marketplace, or serious operations vulnerability challenges. These are products that may contribute to declining revenues over time and are likely to eventually disappear from the product portfolio (see Figure 1). Keeping this product portfolio map on the radar of any management team can lead to non-sustainable products being discontinued and replaced with more sustainable solutions, as well as increasing marketing on solutions that are more sustainable.



Sustainable hurdles for product innovations at Evonik

Evonik, a German speciality chemical company uses a framework called PARC (Product, Application, Region, Combination) to provide guidance on product innovation decisions that enhance sustainability performance.

The underlying framework, developed by the chemical industry together with the World Business Council for Sustainable Development (WBCSD), helps companies to identify material, environmental and social challenges and opportunities related to any product and its application in a specific region.

Assessing sustainability using criteria defined by relevant stakeholder groups allows the company to test its own sustainability performance using a fact-based outside-in view. It highlights areas where changes in decision-making are likely to occur because of sustainability-related reasons. For instance, Evonik might ask a supplier to change the use of a material as it wants to ensure all products are traceable.

For each of the identified signals, which could imply either perceived sustainability benefits or concerns, the company shall decide on the materiality of the signal for the PARC categories. For product innovations, the criteria to be a leader can be outlined explicitly and thereby provide guidance into the product innovation process. As a consequence, innovation teams will have more ambitious, sustainability compatible criteria to fulfil in a stage-gate process before they receive funding to proceed. This will ensure that the product portfolio roadmap continuously has more sustainable solutions.

Environmental P&L (EP&L) to managing supply chains at Kering

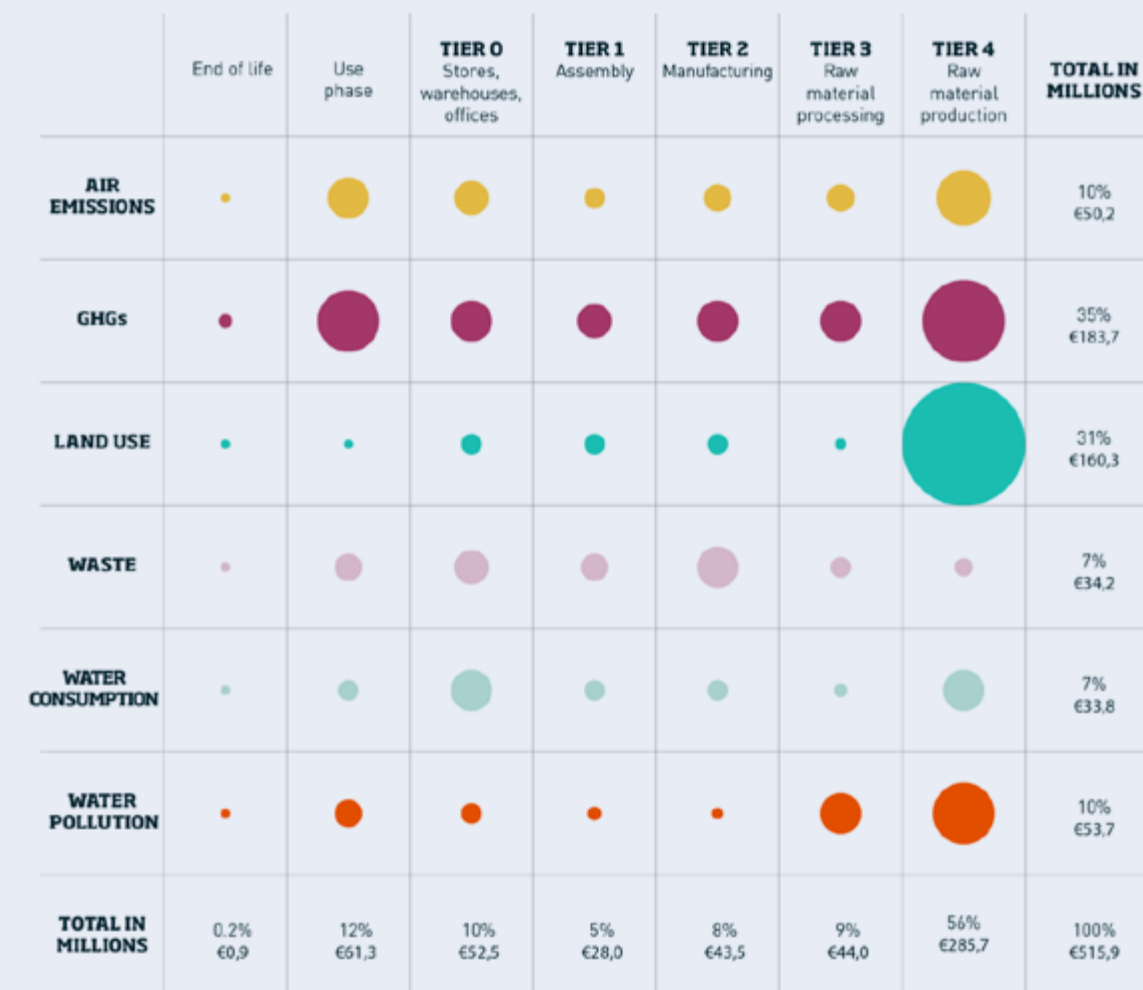
Global luxury group Kering developed an innovative tool for measuring and quantifying the environmental impact of its activities. The Environmental Profit & Loss (EP&L) account is

a key enabler of a sustainable business model, and one that Kering aims to share with its peers in the luxury industry.

Kering, which manages the development of a series of renowned luxury brands such as Gucci, Saint Laurent, Bottega Veneta with a turnover of \$16 billion in 2019, leverages its EP&L tool to assess the impact of air emissions, greenhouse gases, land use, waste, water consumption and pollution within its supply chain.

The fashion, leather, jewellery, and watch maker generates the most significant environmental impact in its supply chain (90%), and in particular from the production and processing of raw materials that together represent 76% of the total (see Figure 2). By deploying this EP&L statement, Kering is constantly developing environmental improvement initiatives in its supply chain that help lower the company's environmental footprint.

FIGURE 2:
EP&L IMPACTS ACROSS THE TIERS SPLIT BY IMPACT AREA



Embedding sustainability decisions

While some of the frameworks help assess where a company stands today and provides an “as is” snapshot, making sustainable business decisions means moving beyond the assessment phase towards an Integrated Sustainable Strategy Implementation framework.

Business leaders must answer the following questions:

What business portfolio decisions will help us leverage new value pools – as in the case of Neste and its move into sustainable aviation fuel.

Which strategic priorities will be adopted following our SPM heat map assessment – will we abandon certain product lines and accelerate others, in the case of Solvay?

How can we develop robust targets that demonstrate commitment and allow a meaningful tracking of performance such as the number of new product innovations that include higher sustainability targets, in the case of Evonik?

How can we influence adjacent players within and across the supply chain to jointly lower the environmental footprint impact as an industry, in the case of Kering?

To make these decisions, businesses must align, not just internally, but among a broader stakeholder ecosystem to ensure that longer term ambitions can be realized.

The move towards sustainable business decisions is accelerating as a result of new regulatory frameworks, pressure by investors to integrate ESG criteria and increased management awareness. Taking a value creation rather than “only a value protection and reporting” perspective to sustainability allows leaders to make the right long-term trade-offs. Are your leaders and organization ready for this new future of embedding sustainability decisions in the day-to-day context?

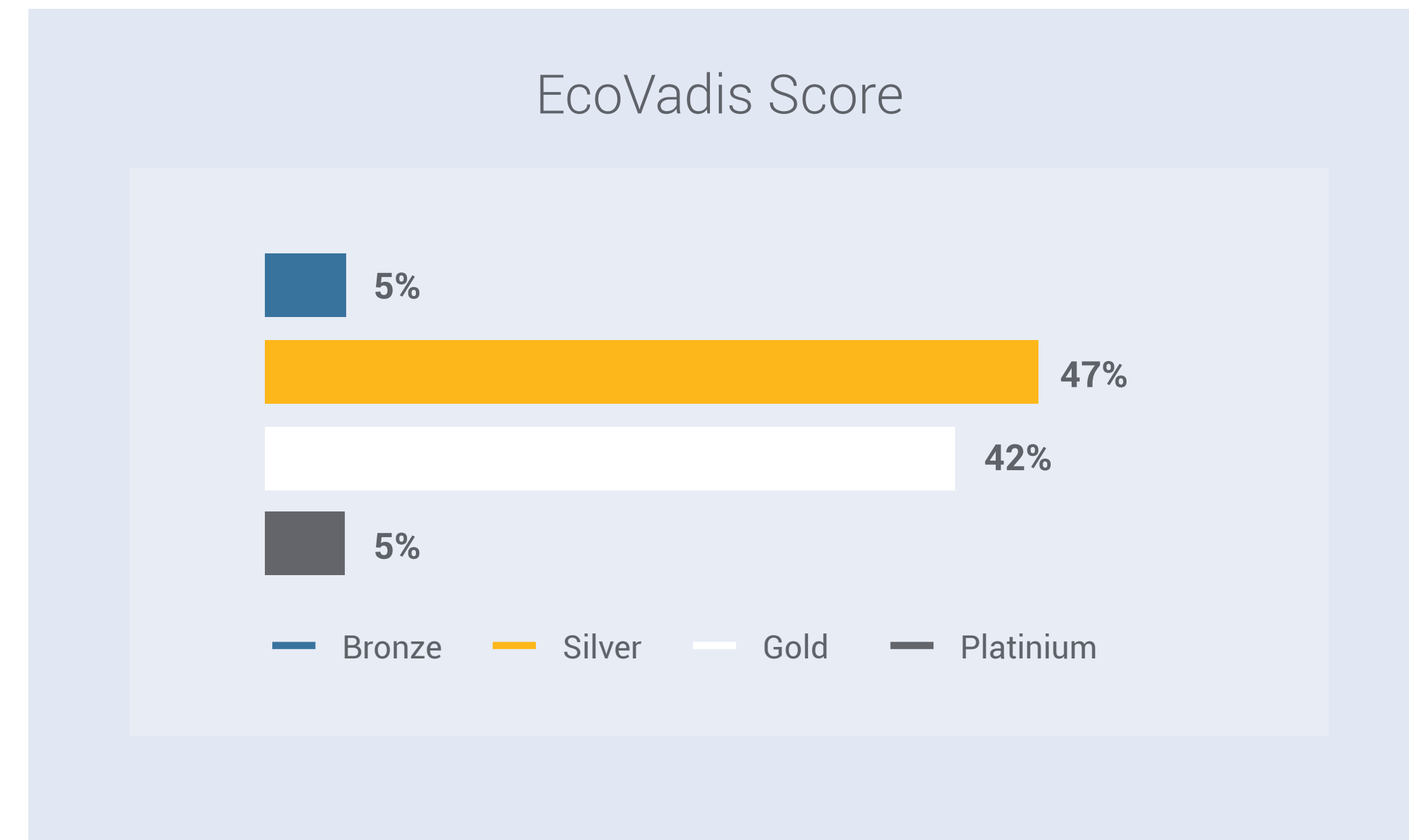
Next steps for the industry

ESG benchmarks are often used as a tool to identify ESG gaps, which can help in setting a clear direction for ESG reporting and transparency. For many companies, increasing their level of transparency is the first step in improving their maturity level in terms of sustainability. Companies performing well on ESG are better prepared to mitigate risks and uncertainties in the short- and long-term, while also gaining competitive advantage. Nonetheless, ESG benchmarking is not yet common practice among chemical distributors. Roughly half of the assessed companies are not even eligible to participate in common ESG benchmarks, such as the Corporate Sustainability Assessment (DJSI) and Climate Change questionnaire (CDP), due to their size and revenue generation.

Fortunately, supplier assessments are more common. 53% of the companies have an EcoVadis rating, which looks at four themes: Environment, Labor & Human Rights, Ethics, and Sustainable Procurement.

The high participation rate is likely caused by value chain partners (e.g., chemical manufacturers) requesting a supplier assessment from chemical distributors. To align with science-based targets, more and more chemical manufacturers will collect data on their Scope 3 emissions. Consequently, the percentage of EcoVadis assessed distributors is likely to rise.

In spite of this hopeful trend, the current level of reporting and transparency among chemical distributors remains low. As long as this is the case, the industry will continue to face obstacles in accommodating value chain partners' requirements and as a result, lose important business partners.



Azelis has already had an EcoVadis score since 2015. At the time, the company started with an EcoVadis Bronze rating, and throughout the years improved to Silver and eventually was awarded Gold in 2018. In 2021, Azelis was the first and only company in the Chemical Distribution industry that got awarded a **Platinum** score. This places the company in the top 1% of the more than 75,000 companies assessed by EcoVadis.



About Finch & Beak

25 Years of experience in accelerating sustainability

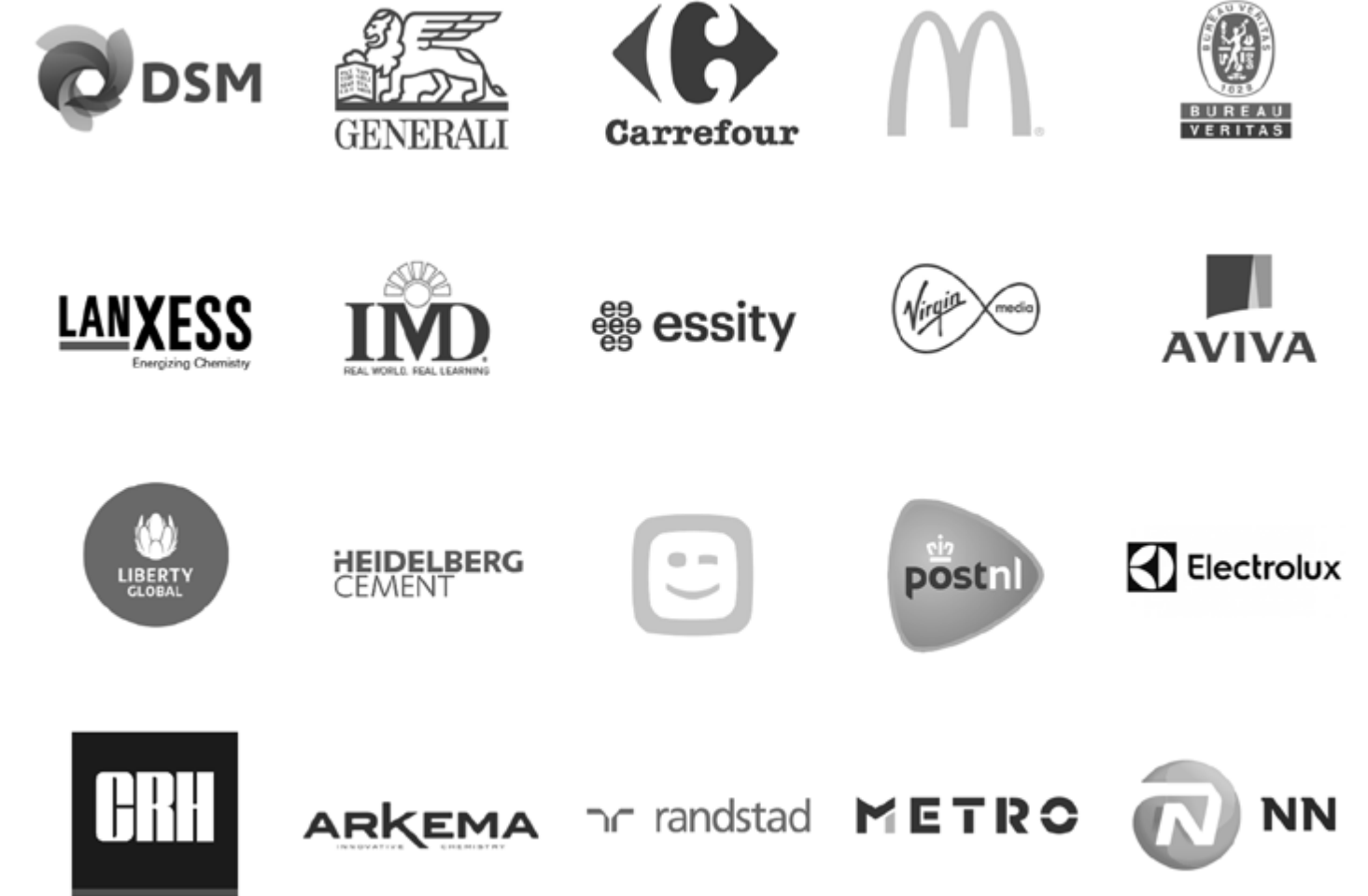
Finch & Beak is a consultancy that helps companies accelerate their performance on today's biggest sustainability challenges. In 1997, we launched our business as Between-us: a boutique consultancy that worked on bringing sustainability into the mainstream. During this 25-year period, we have serviced over 100 corporate clients throughout Europe, trained more than 5000 executives, and worked with top-level business schools from around the globe such as INSEAD, IMD Lausanne, and Bocconi.

Today, Finch & Beak uniquely focuses on helping its clients to speed up the process of business evolution. We deliver clear and concise services aimed at building business cases and turning them more quickly and effectively into value for both the company and society. As of March 2022, Finch & Beak has joined SLR Consulting and became part of a larger global network to further sustainability acceleration.

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“In 2018, we set ourselves the goal to be included in the DJSI Europe Index in 2020. Thanks to Finch & Beak, we are very proud to have achieved this ambition already in 2019, a year ahead of schedule, and by 2020 we were named Industry Leader of the Professional Services industry.

Overall, we are extremely pleased with our collaboration with Finch & Beak: the consulting team helped us better understand the questionnaire and expected practices for companies in our industry as well as mobilize and engage the internal stakeholders. Finch & Beak is a professional, independent sustainability consultancy and an expert in DJSI.”

Marc Boissonnet, Executive Vice President Corporate and External Affairs at Bureau Veritas, 2020

Our services for Chemical companies

ESG Services

ESG Benchmarking & Ratings

Analysing key ESG ratings e.g. CDP, DJSI, FTSE4Good, EcoVadis, MSCI, Sustainalytics to uncover gaps, develop action plans, strengthening the company's sustainability program to increase performance and support in optimizing benchmarks' short, mid and long-term results.

Materiality Assessment

Developing inclusive and forward-looking materiality matrices to help drive the company's sustainability strategy, incorporating emerging issues and stakeholder expectations while matching all key reporting standards' requirements incl. double materiality.

Environmental & Social Impact Measurement and Valuation

Support in developing and implementing a framework that will enable to integrate environmental and social impacts into business cases and strategic planning based on frameworks e.g. Capitals Coalition, Product Social Impact Assessment, B4SI and Life Cycle Analysis.

Implementation Management

Support with implementing sustainability programs through change management engaging internal and external stakeholders, developing and managing communications and (executive) education.

Climate-focused Services

TCFD Reporting Alignment

Support in analyzing climate risks in line with TCFD recommendations, through identification and prioritization of physical and transition risks across the value chain including operations, sites, assets and supply chain, identification of mitigation actions and potential costs and benefits, and mapping of the company's adaptive and transition capacity to these risks.

Science Based Targets

Support in setting SBTs including Footprint Review, Target Modelling, Reduction Pathway development, BAU planning and Carbon Reduction Initiatives and Formal Sign-off and SBTi Submission.

Climate Risk Assessment

Support in analyzing climate risks in line with TCFD recommendations, through identification and prioritization of physical and transition risks across the value chain including operations, sites, assets and supply chain, identification of mitigation actions and potential costs and benefits, and mapping of the company's adaptive and transition capacity to these risks.

Net-zero Strategy

Development of GHG emission reduction trajectories through analysis of the external context, development of initiatives and involvement of the entire value chain.

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