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IMP INTELLIGENCE SERIES

B2B MARKET INTELLIGENCE · SPECIALTY CHEMICALS · STRATEGY

Who Owns the Customer?

Formulators vs. Molecule Makers

Why value capture is shifting downstream — and what European producers still get wrong about who pays for performance.

KEY FIGURES

10–15 pts

SPECIALTY VS BULK PRODUCER
EBITDA SPREAD

18–36 mo

PHARMA REFORMULATION CYCLE

3–5 yrs

AUTO COATING
REQUALIFICATION

2–3x

FORMULATION EV/EBITDA EXIT
PREMIUM

2026

MARKET INTELLIGENCE · STRATEGIC RESEARCH · COMMUNICATIONS

01

CORE THESIS

Executive Summary

A growing share of value capture in the chemical and life-science value chain is shifting downstream — into formulation, application and system supply. In the segments where this shift is most advanced, margin, multiples and customer relationships are accruing to formulators, application specialists and system suppliers rather than to the producers of the underlying molecules.

The shift is not uniform across chemistry. It is most pronounced in formulated, application-driven segments — coatings, adhesives, personal care, flavours and fragrances, formulated pharma — and is far less dominant in molecule-critical niches such as semiconductor-grade materials, IP-protected polymers, and proprietary pharma intermediates, where supplier-defined performance and process complexity still anchor the value pool. The thesis of this paper concerns the former category, which is also where the majority of European specialty chemicals revenue and capital is currently deployed.

Within that category, the observation is not new where it has already played out: flavours and fragrances, automotive coatings, industrial adhesives, personal care actives. It is, however, an under-priced reality in the parts of European chemistry that still describe themselves primarily as molecule producers. The question for those companies is no longer whether the shift is happening, but how much margin they are willing to surrender before they reposition.

This paper sets out the structural mechanics of the shift across five vectors: where margin actually sits, who controls specification, where switching cost lives, how the service layer became a profit centre, and why a measurable share of European producers are strategically mispositioned for the customer they actually serve. A final section names the boundary conditions — the segments where this thesis does not hold.

THE SHORT VERSION

If you don't own the formulation, you don't control the specification — and margin follows specification.

02

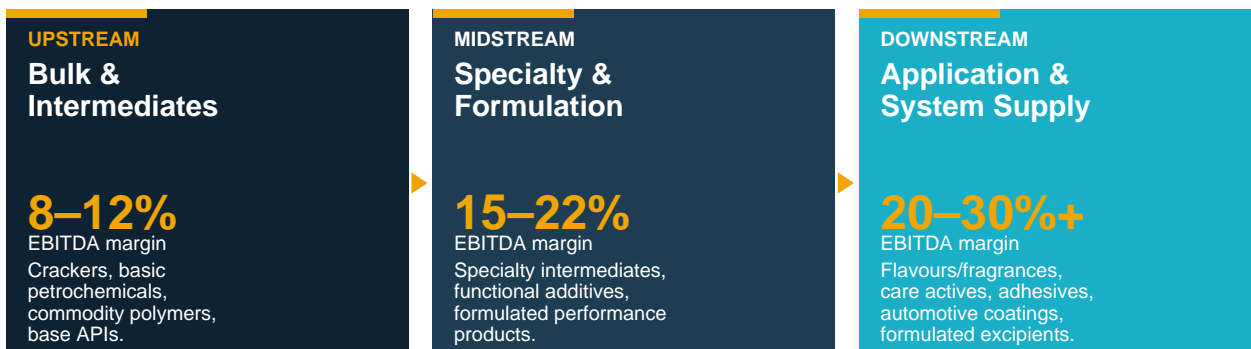
VALUE CHAIN ECONOMICS

Where Margin Actually Sits

The most visible expression of the downstream shift is the margin gradient. Across multi-year averages drawn from public reporting, structurally comparable end markets show a gap that is often in the range of 10–15 percentage points of EBITDA between bulk and intermediate producers and the specialty formulators serving them. The gap widens further when downstream players also own the application know-how — adhesives, fragrances, care actives, coatings — where 20–30%+ EBITDA margins, while not universal, are not exceptional. Ranges vary significantly by segment and by cycle; the figures throughout this paper represent structural bands rather than point estimates.

FIGURE 1 · THE MARGIN GRADIENT

Indicative EBITDA margin ranges, multi-year averages from public reporting

**Why the spread is structural, not cyclical**

Bulk and intermediate producers compete primarily on cost-to-deliver a defined molecule. Their pricing power is bounded by feedstock economics, capacity utilisation and the degree to which the molecule is interchangeable with a competitor's equivalent. None of these levers is durable: feedstock economics are exogenous, capacity is matched by rivals on a 3–5 year cycle, and interchangeability is the default state for any non-novel chemistry.

Formulators compete on a different vector. Their pricing power is bounded by the performance they deliver against a customer-defined specification — and by the cost the customer would incur to switch. Both levers are durable. Performance can be improved continuously through application research; switching cost compounds with every qualification cycle, every regulatory filing, every installed line that has been tuned for the existing system.

Upstream differentiation has not disappeared. It persists in IP-protected chemistries, regulation-locked or hazard-class-restricted molecules, and processes whose complexity creates genuine manufacturing barriers. But this defensible upstream territory represents a shrinking share of the total value pool, and a shrinking share of the volume that European producers actually ship.

The result, repeated across sector after sector, is that EBITDA capture and EV/EBITDA exit multiples both migrate toward the formulation layer. Over recent transaction cycles in specialty chemicals, formulation businesses have changed hands at indicative multiples in the 12–18× EBITDA range where comparable bulk and commodity assets transact in the 6–9× range — a 2–3× premium that is timing-sensitive but consistent in direction across favourable market environments. Strategic acquirers and private equity have not been paying the difference out of sentiment.

03

WHO HOLDS THE PEN

Specification Power

Margin follows specification authority. Whoever defines what the product must do — and what evidence will be accepted as proof that it does so — captures the architectural position in the value chain. In most formulated and regulated end markets, that role used to sit with chemistry suppliers, when performance was largely a function of which molecule was used. It no longer does.

In those markets, the specification is now defined by two forces working in tandem: the brand owner or OEM, who specifies performance and outcome, and the formulator or system integrator, who translates that specification into a deliverable. The molecule maker arrives at the table with a candidate ingredient, not with a vote on the specification itself. Exceptions exist — semiconductor-grade chemicals, some high-performance polymers, and IP-protected pharma intermediates remain meaningfully supplier-driven — but the exceptions do not invalidate the rule across the rest of the formulated chemistry landscape.

FIGURE 2 · WHO DEFINES THE SPECIFICATION

Direction of specification authority by sector

SECTOR	SPEC OWNER (PRIMARY)	FORMULATOR / INTEGRATOR	MOLECULE MAKER
Automotive coatings	OEM body shop spec	Tier 1 / coatings formulator	Pigment / resin maker
Pharma solid dose	Regulatory + brand owner	CDMO / formulator	API / excipient producer
Personal care	Brand (L'Oréal, Unilever)	Care formulator (Croda, BASF)	Surfactant / silicone maker
Industrial adhesives	OEM assembly engineer	Henkel / 3M / H.B. Fuller	Polymer / monomer producer
Flavours & fragrances	Consumer brand creative	Givaudan / Symrise / IFF	Aroma chemical supplier

Specification authority sits left of centre. Molecule producers sit furthest from the customer.

The mechanics of how specification authority moved

Three forces shifted specification authority downstream over the past two decades. First, regulatory complexity grew faster than any single supplier could absorb — REACH, TSCA, FDA, ECHA notifications, biocides, food contact, automotive emission, cosmetics regulation — pushing customers toward partners who could carry the regulatory burden as part of the deliverable. Second, brand owners consolidated and professionalised procurement, separating the question of *what performance do we need* from the question of *which chemistry delivers it*. Third, application performance moved from single-molecule to system-level: the haptics of a face cream, the durability of an automotive clear coat, the dissolution profile of a tablet are not properties of a molecule; they are properties of a formulation.

THE PRACTICAL TEST

When a customer changes a product, who do they call first — their molecule supplier, or their formulator? The answer locates the margin.

04

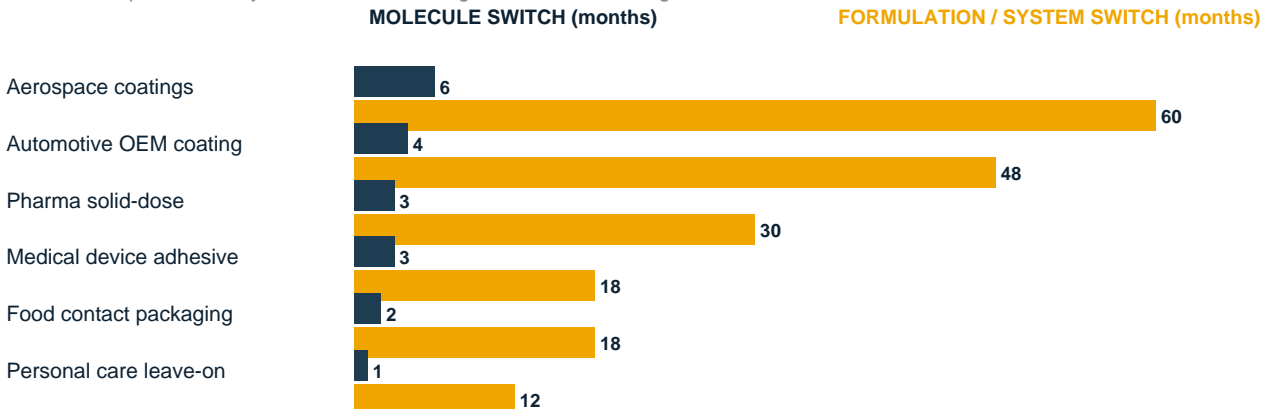
WHERE LOCK-IN ACTUALLY LIVES

Switching Cost Reality

A common misconception in upstream strategy is that switching cost lives in the molecule — that customers will tolerate higher prices because moving to an alternative chemistry is hard. The opposite is closer to the truth in most regulated and performance-driven applications: changing molecules is comparatively easier than full formulation requalification. Changing formulations and requalifying systems is what is genuinely hard.

FIGURE 3 · SWITCHING COST IS NOT SYMMETRIC

Indicative requalification cycle, formulation change vs. molecule change

*Public-domain qualification literature; cycles vary by application class and regulator.***The asymmetry, in concrete terms**

In pharma solid dose, an API substitution requires a regulatory filing — typically an ANDA supplement or a Type II variation in Europe — but the dossier is well understood and the path is procedural. Reformulation that materially changes dissolution, bioavailability or stability profile triggers a different burden entirely: new bioequivalence studies, fresh stability data, often new clinical work. The incremental cost gap between an API change and a formulation change typically runs from a single-digit-million figure to a multiple of that, and the timeline doubles or triples.

In automotive coatings, switching a pigment or a resin within an established formulation can be qualified in months. Switching the formulation itself triggers OEM-led requalification — colour matching across substrates, weathering, chip resistance, process compatibility on installed application lines — typically 36–60 months in OEM-critical applications, at low single-digit millions per platform. Aerospace coatings extend the window further and add airworthiness certification.

In personal care, brand owners can swap surfactants in a wash-off product within a single stability cycle. Reformulating a leave-on emulsion — particularly one carrying a performance or naturality claim — typically runs 9 to 18 months across stability, sensorial, safety and claims substantiation. The longer the cycle, the more entrenched the formulator's position.

The strategic implication is uncomfortable for upstream producers: the lock-in they believe protects their volumes does not actually exist at their layer. It exists one step downstream, with the formulator who has built the qualified system around their molecule. When that formulator decides to dual-source or substitute, the molecule supplier learns about it after the fact.

The new dual-sourcing trigger: Scope 3

Until recently, dual-sourcing decisions inside the formulation layer were driven primarily by price, supply security and minor performance differentials. A second driver has now arrived and is reshaping the conversation: the brand owner's Scope 3 carbon footprint. As consumer goods, automotive and pharma customers commit to disclosed Scope 3 reduction trajectories — and as CSRD reporting puts those numbers in front of investors — formulators are being asked to deliver lower-carbon ingredient profiles without renegotiating finished-product specifications.

The practical consequence is that sustainability has become the most legitimate excuse yet for substituting a high-carbon European molecule with a lower-carbon alternative — biobased, recycled-content, mass-balance, or sourced from a producer with cleaner power.

The conversation no longer reaches procurement as a price negotiation. It reaches the incumbent supplier as a *fait accompli*, framed as a sustainability requirement the customer cannot decline. Producers whose carbon position is structurally weaker — which describes a meaningful share of energy-intensive European chemistry — have very few defensive moves once that framing takes hold.

05

TECHNICAL SERVICE AS PROFIT CENTRE

The Service Layer Is the Margin Engine

Technical service, application laboratories and co-development partnerships used to be classified as cost centres — the price of doing business with sophisticated customers. In the formulator-led parts of the value chain, they have quietly become the central margin engine. Three mechanisms drive this.

1. Service consumption is what gets sold

When Givaudan, Symrise or IFF win a brief from a global brand owner, the deliverable is not aroma chemicals — it is a finished fragrance compound developed through dozens of rounds of co-creation in their creative centres. The brand pays for the result. The molecule cost is a fraction of the invoice. The same logic operates in care actives, specialty adhesives, automotive coatings and increasingly in formulated pharma excipients. The customer is buying a problem solved, and the service hours are how the problem gets solved. In several downstream segments, technical service, application development and co-creation account for a meaningful share of total contract value — frequently more than the deliverable's bill of materials.

2. Application labs build switching cost the customer pays for

Each co-development project deepens the integration between the formulator's system and the customer's product, process and people. The customer's R&D team learns to think in the formulator's vocabulary. Specifications get written around what the formulator's platform can deliver. By the time procurement asks whether an alternative exists, the alternative is no longer technically equivalent — even if the underlying molecules are.

3. Service generates broader data than any molecule supplier sees

Formulators with deep application footprints structurally accumulate broader cross-customer formulation data than most molecule suppliers — performance across hundreds or thousands of customer formulations, processes and end-use conditions. Large integrated upstream players do hold meaningful application data and customer insight; the asymmetry is not absolute. But the formulator sits closer to the point where performance is actually delivered, and that proximity compounds into the next generation of products and the next generation of specifications.

The asymmetry is now being amplified by AI-driven formulation. Formulators with rich internal datasets are using machine learning to engineer around expensive specialty molecules — finding equivalent or superior performance from cheaper, more sustainable, or more available alternatives at a speed that conventional formulation cycles do not match. For the molecule supplier, this changes the threat model: it is no longer enough to be hard to substitute on a like-for-like basis. The formulator's AI is increasingly able to design *around* the supplier's chemistry rather than substitute within it.

The model has a real cost: scalability

The service-led model is not a free lunch. It is people-intensive, expensive to operate, and structurally harder to scale than tonnage manufacturing. Application centres require deep technical talent in markets where that talent is scarce. The trade-off, however, is the relevant one: the model trades scalability for defensibility. Service-driven businesses are harder to grow tonnes-per-employee, but materially more resistant to commoditisation than the molecule layer beneath them.

THE INVERSION

The service layer is no longer a cost of selling chemistry. Increasingly, the chemistry is a cost of selling the service.

06

WHAT EUROPEAN PRODUCERS STILL GET WRONG

Strategic Mispositioning

A meaningful share of European chemical producers still describe themselves, internally and externally, as suppliers of chemistry. The investor deck talks about plants, capacity, feedstock integration and process technology. The customer narrative talks about molecules, grades and tonnages. The organisational logic — Verbund, integrated sites, site economics — is built around the molecule, not around the customer's outcome.

This positioning was rational under prior market structures. When customers also bought chemistry, integrated molecule supply was the source of competitive advantage, and the site-economics logic that built post-war European chemistry was the right organising principle. The posture made less sense once customers began buying performance systems, and in many performance-driven segments, customers have now shifted again — from buying performance to buying outcomes built on top of performance systems. The legacy positioning is not wrong because it always was; it is wrong because the market structure that justified it has moved.

The producer mindset vs. the customer reality

WHAT EUROPEAN PRODUCERS OFTEN STILL THINK	WHAT THE CUSTOMER ACTUALLY BUYS
"We sell chemistry."	Performance against a defined specification.
"Our molecule is differentiated."	Our formulation outcome is differentiated.
"Our cost position is the moat."	Our switching cost on the formulation is the moat.
"Technical service is overhead."	Technical service is the product.
"We are a chemicals company."	We solve a problem in their value chain.

Companies that have moved — and companies that have not

Within European chemistry the trajectory is uneven. A subset of producers have explicitly repositioned around customer outcomes: building dedicated application centres, restructuring sales around end-use sectors rather than chemistries, incorporating formulation intellectual property into the product offering, acquiring their way into formulator territory. Croda's long-running organic strategy in care, Evonik's progressive concentration in specialty platforms, Henkel's separation of Adhesive Technologies as the durably profitable engine of the group, Wacker's silicone applications work — all reflect, with different intensities, the same recognition.

Other producers have not moved. The 2023–2024 wave of European chemical profit warnings, site closures, capacity rationalisations and divestments fell disproportionately on businesses still positioned as molecule suppliers in commoditising end markets. The structural problem in those businesses is not that demand is weak; it is that the margin available to a molecule producer at that point in the value chain is, on a through-cycle basis, no longer enough to support the cost base.

The most exposed cohort: stuck in the middle

The companies under most acute pressure are not the producers who remain consciously upstream and run for cost — they at least have a coherent strategy. The most exposed cohort is stuck in the middle: businesses that carry the cost base and capital intensity of a molecule maker but are trying to charge the premiums of a formulator. Their investor narrative claims specialty positioning. Their customer interface is still tonnage. Their application centres are under-resourced relative to formulator peers. Their sustainability position is structurally weaker than emerging biobased and Asian-recycled-content competitors. And their margin is being squeezed from above by true formulators who have built durable customer lock-in, and from below by lower-cost molecule producers in regions with cleaner power and newer assets.

Reading the European specialty league table, several listed names fit this profile to a degree their public communication does not yet acknowledge. The strategic decision in front of those companies is not whether to reposition, but in which direction. Going upstream — running explicitly for cost in commoditising chemistries — is a defensible but value-destructive choice. Going genuinely downstream requires capability and capital that several do not currently possess. Standing still resolves itself, on current trends, as a slow erosion of the through-cycle margin that funds everything else.

07

WHAT THIS MEANS FOR THE NEXT FIVE YEARS

Strategic Implications

The strategic question facing molecule producers is not whether to move downstream, but how far, how fast, and whether the move is genuine or cosmetic. Four working principles emerge from how successful repositionings have actually played out.

1. Reorganise around end markets, not chemistries

An organisation structured by molecule family will think in molecule terms. An organisation structured by end-market — coatings, personal care, animal nutrition, electronics — is forced to think in customer-outcome terms. The reorganisation is hard because it cuts across plant logic, but it is the prerequisite for everything else.

2. Treat the application lab as a P&L, not a cost centre

Application centres should carry pricing, attribution, and contribution targets like any other business unit. As long as they are measured as overhead, they will be cut in downturns — and the downstream position will erode every time the cycle turns.

3. Acquire formulation IP where the build path is too slow

Building formulation depth organically takes a decade. In end markets where the competitive window is shorter, targeted acquisitions of formulators, application specialists or system integrators are the only realistic path. The 2–3× EV/EBITDA premium paid for these assets is real — and it is also what the acquirer's own multiple is worth, after.

4. Stop describing the company as a chemicals supplier

External narrative shapes internal behaviour. A company that describes itself as a chemicals supplier will be measured by analysts on capacity, utilisation and feedstock spread. A company that describes itself as a performance-systems partner will be measured on customer outcomes, application wins and recurring formulation revenue. The latter is structurally a higher-multiple business — but only if the description is backed by the operating model.

THE WINDOW

The customer relationships available to molecule producers today were won when the customer still bought chemistry. They will not survive the next procurement cycle on that basis.

08

BOUNDARY CONDITIONS

Where This Thesis Does Not Hold

Every analytical thesis is sharper when its boundary is named. The downstream-shift argument is most powerful in formulated, application-driven segments. There are segments where it is demonstrably weaker, and naming them is part of using the thesis responsibly.

Semiconductor-grade and electronic chemicals

Specifications in advanced electronics chemicals — photoresists, CMP slurries, high-purity precursors, electronic-grade gases — remain meaningfully supplier-driven. Chip manufacturers qualify a specific molecule from a specific supplier on a specific tool, and the qualification carries the same regulatory-grade burden as a pharma ingredient. In this segment, supplier-side process complexity, purity capability and co-development with equipment makers anchor the value pool upstream. Margin in electronic chemicals does not migrate downstream the way it does in coatings or personal care.

IP-protected and proprietary polymers

Where the molecule itself is the differentiator — high-performance fluoropolymers, specialty engineering plastics with proprietary backbones, polyimides, certain high-temperature thermoplastics — performance is a property of the chemistry rather than of the formulation around it. The formulator in those chains is genuinely a converter, not a co-author of the specification. Patent life, scale economics and process know-how protect upstream margin, sometimes for decades.

IP-protected pharma intermediates and on-patent APIs

On-patent active pharmaceutical ingredients are the cleanest counter-example. The molecule itself is the product, the formulation around it is comparatively standard, and the regulator licences the molecule. The downstream formulator (CDMO) operates a service model with real value, but the economic engine sits at the API level. The thesis of this paper applies once the molecule loses patent protection, not before.

Process-driven specialty chemistry with manufacturing barriers

Some specialty molecules are protected not by IP but by the difficulty of making them well — multi-step asymmetric synthesis, hazardous chemistry, regulated process intermediates, very small-volume catalysts. In these cases, manufacturing capability is itself the moat, and the formulator downstream depends on the upstream producer more than the reverse.

THE BOUNDARY, NAMED

**Where chemistry is the performance, the upstream producer keeps the margin.
Where chemistry is the input to a formulated outcome, the formulator does.**

CLOSING

If you don't own the formulation, you don't control the specification — and margin follows specification.

In key segments of European chemistry, the customer is no longer buying chemistry alone. The customer is buying a performance system — and increasingly an outcome delivered on top of one. That shift will not reverse in the procurement cycles ahead. Producers who recognise this redraw their organisation, their narrative and their capital allocation around it. Producers who do not, surrender the margin to those who do.

METHODOLOGY

All figures cited in this paper are drawn from public sources: company annual reports, investor presentations, regulatory filings (EMA, FDA, ECHA), industry association statistics, and disclosed transaction data. Margin and multiple ranges represent indicative multi-year averages and should be read as structural rather than precise. Where company examples are named, they illustrate publicly disclosed strategic positioning. The paper expresses IMP's analytical perspective and does not constitute investment advice.

About IMP

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