

Sourcing From Overseas: Challenges and Opportunities

By Beth D'Addono, NACD Writer

Chemical distributors are increasingly looking beyond U.S. borders for sourcing. Navigating these uncharted waters can be a challenge. We asked a few experts on this issue for some tips on how to best integrate overseas sourcing into a company's business growth plan

Individuals Interviewed:

Tony Ridnell, TR International, Inc.
Chris Coates, Chemical Distribution Network
Terry Podlogar, Chem One Ltd.

As CEO of Seattle-based TR International, Tony Ridnell has been sourcing overseas for more than 15 years. The company has an office in China, and recently set up a global trading office in the Middle East, initially in Pakistan, but soon to move to Dubai. "We're really looking to expand both buying and selling from overseas," he said.

Forging strong relationships is at the heart of the company's success, said Ridnell. "We've worked hard at that, and have had several exclusive distribution arrangements with us for more than 10 years."

The challenges are many, not the least of which is having the capital to invest. "To do it right costs a lot of money, between the office, and all the travel to factories. It adds up. But it has to be that way. Because if you spend \$30,000 on an expensive chemical and someone ships you sand or something out of spec and then disappears, you're out \$30,000. There's no quick in and out with overseas sourcing, it's a long-term investment," he said. "But it can pay off."

"I think opportunities come from the fact that last year a lot of capacity was taken off of the market. When product gets short, companies with many tentacles out there can take advantage of that," said Ridnell.

Chris Coates runs Chemical Distribution Network in Chicago, a consortium of 22 chemical distributors who source globally. "What I do is position our combined buy to source overseas," he explained. "CDN itself doesn't transact business overseas, but we help our member companies connect with import partners." Founded in 2000, the idea behind the consortium is to leverage economy of scale for the best overall supplier value. "Through face to face meetings and conference calls between our 22 member companies we decide which products we need to source, and agree on who the possible import partners will

be. Then I negotiate commitments and purchase programs."

Minimizing risk is the top priority, accomplished by dealing only with vetted companies that specialize in finding trusted quality sources of supply and moving product globally while dealing with financial, political and economic risk.

"Our game plan is cost control and mitigating risk. With the economic situation as volatile as it is now, some of our suppliers, Chinese or otherwise, could be going out of business," said Coates. "We're constantly evaluating how strong our partners are. And when we identify a good partner, we stick with them. At the end of the day, the only way to drive good relationships is to bring our suppliers market share and value." As for CDN's future strategy, Coates said it's pretty simple. "We're hunkered down and focused on cost control. Besides fine-tuning and making sure our import strategy is efficient and productive, we're looking internally and sharing best practices relative to cost control. That's a focus area until we get through this recession."

Houston-based Chem One Ltd. President and CEO Terry Podlogar is another experienced NACD member when it comes to sourcing overseas. "We have long term contacts in the dry inorganic chemical industry in countries such as Mexico and China. Many own their own manufacturing plants. We also store all our products at our own warehouse rather than using a public warehouse."

The reason for working direct with the plants and utilizing their own warehouse is risk management for Chem One and its customers.

"We feel our long term relationships are the main reason we have had quality imports, however we also have a specification testing program to monitor the quality of the chemicals. Although we receive the manufacturers' certificates of analysis we feel further local testing is an important part of the import process."

Podlogar agrees that importing delivers many challenges.

"Customers choose an imported product either out of necessity or price. We all want low prices, however a low price can indicate a quality issue or when times are difficult could cause product to be adulterated," he said.

Podlogar steers clear of the many unsolicited emails that come in from agents that don't own plants and in many cases operate from a one-room office building trying to make a quick sale.

"We hit delete on all those emails," he said. Ensuring the process and the packaging meets all regulatory requirements such as DOT, IATA, IMO, IPPC, FDA, ITC, OSHA, and US Customs takes a great deal of effort. "Our relationships make it a much easier process, however in some cases the plants can not meet all the requirements. In those situations we make all the corrections at our warehouse. This would be very difficult, if not impossible, at a public warehouse."

Looking ahead, Podlogar sees security issues looming larger than ever. "We expect to see an increase of scrutiny on imported chemicals moving through our ports. Delays from additional inspections can be expected and that is another reason for the importance of inventory at our warehouse."

The uncertainty of the economy also presents challenges for those importing. "Taking a full container may save some money, but if the demand falls, then you have money tied up, potentially shelf life or caking issues on dry chemicals, and the risk that the market will drop resulting in high cost inventory." That is why Chem One works closely with its customers on demand projections. "With the large number of customers we support, we have a marked ability to move product if projections do not meet demand. Customers need to look at the total cost of importing not just the delivered price. Our goal is to provide a competitively priced dry chemical of high quality that can lower our customers total cost of handling the chemical by minimizing inventory levels."