

Rules of the trade

Chemical distributors continue to find opportunities and pitfalls in emerging markets around the world

DORIS DE GUZMAN/NEW YORK

OPPORTUNITIES ABOUND for US chemical distributors in the emerging markets of Asia, Latin America, Middle East and eastern Europe. Despite the complexities of dealing with these markets, several companies are making headway in claiming a piece of the action, not only in sourcing but most importantly in domestic distribution.

Asia, in particular, remains an attractive chemical trading ground as it becomes the world's chemical mega-source and at the same time a growing chemical mega-consumer itself. Companies such as Brenntag, Univar, Ashland and Connell Brothers have made investments in the past few years, particularly in China, which they consider as still an emerging market for them.

Chemical producer and distributor Ashland says that it expanded its sales efforts in China last April. Ashland Distribution has been sourcing and exporting products from and to China for many years, says Ted Harris, president of Ashland Distribution and vice president of Ashland Inc.

"Ashland has been operating within China for decades and the expansion of our distribution capabilities in this market was a natural fit for the company's previous investments," Harris says.

"Our China distribution business is fortunate that we were able to leverage Ashland's existing office and supply chain structure from our other divisions, enabling a much quicker and more successful scale-up than other companies may experience."

Harris also noted that the company has expanded its east European operations this September. Ashland considers India, Brazil, South Africa and China as potential markets from a sourcing perspective, and specifically

the Greater China region and certain parts of Europe as attractive distribution potential.

THE TIME TO BUY

For specialty chemical distributor Connell Brothers, China remains the mainstay in offshore sourcing because of its abundant supply and economic value, says import manager Carl Martin.

The company has been distributing across the Pacific Rim for more than 100 years but says that it started sourcing for the US market more than 10 years ago, initially focusing on suppliers from Thailand, South Korea, Taiwan and Indonesia. The company has made seven acquisitions throughout the Asia-Pacific region over the past five years, reportedly to strengthen its position in certain markets.

"The growth of our exports from China has significantly outpaced the rest of the region but we feel it is important to have an offshore sourcing strategy that incorporates multiple regions and suppliers," says Martin. "We plan to continue investing in the coming years, extending our footprint from Pakistan to New Zealand to [South] Korea."

Acquisition has been a strategy for Univar as well when it comes to China. The company says it has purchased several small Chinese distributors over the past few years. The company also made a joint venture partnership with Singapore-based Dovechem when Univar acquired CHEMCENTRAL last year.

"We entered China as a greenfield investor by first building a substantial relationship with our suppliers in terms of our procurement business," says John Sammons, senior vice president and chief administrative officer for Univar. "When the market opportunity was right, it permitted us to operate as a distributor."



"We plan to continue... extending our footprint"

Carl Martin, import manager, Connell Brothers

Connell Brothers' import manager Carl Martin offers his advice in putting together an offshore sourcing strategy to contribute to your bottom line.

Chemical sourcing is a challenge in itself, let alone adding the complexity of sourcing offshore. Hence, there is value in partnering with a company that navigates the waters and provides a complete sourcing solution.

For a variety of reasons, most companies today supplement domestic supply with offshore product. Prior to executing an offshore initiative, one must refine a strategy that includes specific goals and objectives that take the business in the planned direction.

To this end, buyers should break down their sourcing strategy into the following four categories:

- Supplier strength and quality
- Economic environment
- Logistics
- Longevity

Every company wants to focus on sustainable business and likewise, sustainable suppliers. The offshore sourcing strategy and evaluation process goes well beyond price and specification.

It ties in with the local, state and federal governments that regulate the producer, along with the country's currency, overall economy and position in global trade. All of these factors come into play when determining your offshore strategy.

Univar will continue to make acquisitions around its considered development market when the opportunities present themselves, says Sammons. The company deployed much of its current emerging market resources in China, southeast Asia, South America and eastern Europe.

"All of them possess good fundamentals as well as unique challenges," says Sammons. "We are basically looking at markets with rising growth, a sophisticated customer base and really, for us, an opportunity for entry." »

» This year, Brenntag also expanded its operations in southeast Asia with its exclusive partnership with France-based specialty chemical company Rhodia. In the deal made in late September, Rhodia transferred to Brenntag all of its chemical distribution operations in Australia, India, Taiwan, Thailand, Malaysia, Indonesia, Philippines, Vietnam and Singapore.

REALITY BITES

While opportunities glow for domestic distribution, chemical sourcing remains the lifeblood activity for most US distributors in these markets.

Some distributors are said to have found out the hard way the pitfalls of dealing with countries that have big infrastructure and logistics problems; issues in material sourcing and domestic supply chain; ever-changing government policies; and even ethical trading issues.

“There are some integrity challenges that you have to deal with anywhere but sometimes this is exacerbated in some emerging markets,” says Anthony Ridnell, CEO of Washington-based TRInternational Trading (TRI).

“Credit is the biggest problem to sell into when clearly interest rates in emerging markets are slightly higher than in the US. You have to have an incredible business relationship and know who you are dealing with particularly in the countries that you are buying from,” he adds.

TRI says it is looking at the Middle East as a growth opportunity, and considers China and eastern Europe as already relatively matured chemical markets.

For Univar, dealing with emerging markets even in China continues to be a learning experience, says Dave Mahon, senior vice president for strategic planning.

“Clearly they all pose different challenges than we’re used to in the Western market. These are all very important markets to us down the road and we feel that they’re really worth the investment, time and effort to understand what it will take for us to be successful in them,” Mahon adds.

Sourcing in China has been particularly challenging this year, says Connell Brothers’ Martin. He notes that many other offshore markets are currently offering quality products at a more competitive pricing compared to Chinese products.

“In 2007, China began reducing its VAT [value added tax] credit on many low value, high energy and high natural resource

ADVICE FROM THE TOP

Emerging market veterans share their insights on how to gain successful market entry.



“Make sure you have a good and reliable source of supply, because if you don’t have the product, you have nothing to sell. This will obviously upset your customers who have been waiting 6-8 weeks for their raw material”

Bruce Schechinger, president, BHS Marketing



“Know why you’re seeking these markets in the first place”

John Sammons, senior vp and chief administrative officer, Univar



“You have to know who you are dealing with”

Anthony Ridnell, CEO, TRInternational Trading

exports. The reduction in tax credit coupled with higher domestic wages and a weak dollar has made Chinese products more expensive,” Martin says.

“The problem with China before is that you usually deal with middlemen who are more like glorified brokers instead of directly with manufacturers,” says Bruce Schechinger, president of Utah-based BHS Marketing. Schechinger is also the vice chairman of the NACD.

China is now learning how to deal with their Western customers, Schechinger says.

He adds: “Chinese suppliers are now getting more involved with their customers as they are seeing the value of this relationship. They are even asking for things that they never asked for before, such as how much insurance you have, what industries are these products going into, etc.”

WHO TO TRUST?

Most chemical distributors agree that the biggest initial challenge in emerging markets is the building of trust in both ways – as a customer and a supplier.

“Keep in mind that there are already well-established competitive environments in most of these markets around the globe. They have to allow you to get to the sort of preferred supplier role in these new markets,” Univar’s Sammons says.

If trust is not enough, valid documentations and certifications are also very good tools in dealing with emerging market suppliers, says Ashland’s Harris.

“Our customers can be assured their raw materials are authentic. This is particularly important for finished products where performance or regulatory issues are paramount such as medical devices and automotive components,” Harris adds.

BHS’ Schechinger also recommends emerging market suppliers to join the NACD to gain credibility. The NACD mandates its members to comply with its Responsible Distribution Process (RDP), a third-party management process verification, which Schechinger says, is designed for members to continuously improve performance in environment, health, safety, and security.

“We’ve been pushing RDP in China, India »

» and Europe and we're gaining a lot of strength in these endeavors," says Schechinger.

"The NACD has already taken some new members from Mexico, which is a positive start. The idea for talking with these emerging countries is to let them know that if they sell to one of our members, they will be getting a top quality organization that will handle their product from cradle to grave, make sure it's delivered safely, in a correct package, with all the proper procedures and codes they need intact."

NACD is said to have had its first RDP orientation workshop in Mexico last year. Schechinger says since its first RDP workshop in China in 2006, the country is now using their RDP policies to manage their citric acid industry.

In 2005, India also signed a memorandum of understanding to promote a close working relationship between Indian chemical manufacturers and the NACD. ■

ADVICE FROM THE TOP



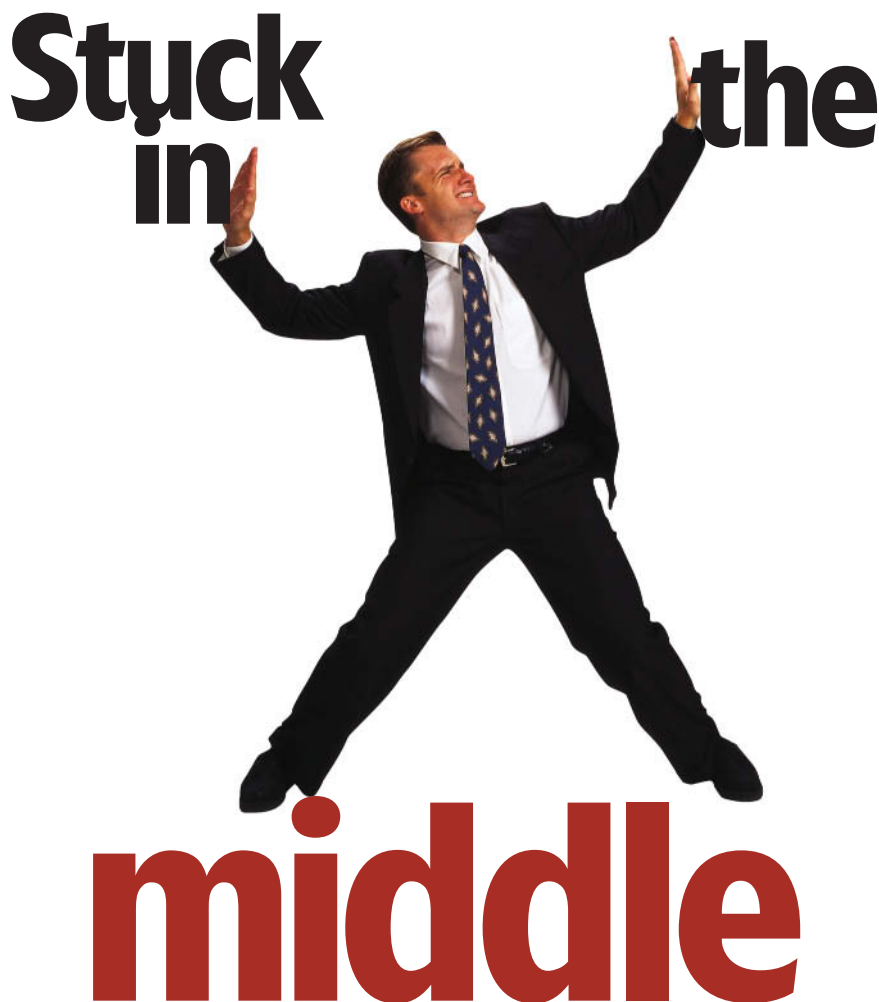
"Be patient. New markets also need to learn about you"

David Mahon, senior vice president, strategic planning, Univar



"Think really hard. Do you have a value proposition that would attract customers to you versus other thousands of local competitors?"

Ted Harris, vice president, Ashland.



PHOTOLIBRARY

North American distributors are having to assist their suppliers and customers with EU Reach registration, incurring costs in time and money

ED ZWIRN/NEW YORK

MARY BLUEMNER, product registration specialist at Hydrite Chemical, says her workday is spent mainly in the middle.

As the point person trying to get her company ready for Reach, the EU's new chemicals regulation, her job consists mainly of trying to coordinate registrations of chemicals with the new European Chemical Agency (ECHA) in Helsinki, Finland.

Bluemner has spent much of the last year and a half getting Hydrite, based in

Brookfield, Wisconsin, ready to do business under the new system. She says that, as a distributor, her Reach work is often "very frustrating, because the guidance coming out of the EU still seems to be changing."

This frustration, she says, is often compounded by the need to act as the mediator and information conduit between her customers and the regulators whom they must seek to satisfy. "It's mainly a lot of consultations," she says.

Hydrite is one of the many companies that have to help both their suppliers and end