

商業周刊

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楊文財攝

FOCUS CHARACTER

Mr. Rung Kun Shieh, an entrepreneur with humble beginnings from Tainan, Taiwan, is the Founder and CEO of the Ta Chen Group, the leading Master Distributor of Stainless and Aluminum industrial metals in North America with annual revenues of NTD\$60 Billion. Today, the largest stainless and aluminum producers in world are all key partners of Ta Chen and rely on Mr. Shieh's distribution channel to sell their products into the North American markets.

In a recent interview, Mr. Shieh relayed his vision of how Taiwan must break away from its history of being a manufacturing focused nation and evolve into a Country with the ability to build worldwide distribution networks in order to create new job opportunities for Taiwan's youth and provide an engine for future economic growth. Mr. Shieh believes the ability to improve Taiwan's position in today's worldwide economic ecosystem is a topic that our President needs to address.

However, the road that Mr. Shieh took to become the head of the most powerful metals distribution network in America was filled with difficult hardships beginning with his family's huge financial debts when he was a young boy.

Mr. Rung Kun Shieh's life was filled with financial hardship growing up in the rural countryside of Tainan, Taiwan. Due to the heavy debt burden that his family carried, Mr. Shieh was determined to help his family. He perceived every step up, no matter how small, as a reason to be grateful and celebrated each small success. No one would have believed that someone with such humble beginnings would one day build a stainless and aluminum distribution empire with annual revenue of NTD\$60 Billion.

After 34 years of hard work and tireless effort since he founded Ta Chen Stainless Pipe Ltd., Mr. Shieh has created the steel industry's most robust and powerful Internet based B2B distribution platform. By harnessing the power of the Web to create a distribution platform with unprecedented scalability and operating leverage, Ta Chen is able to carry more than ten thousand SKUs of products in its inventory and sell more than twenty six thousand tons of aluminum and stainless steel products every month worldwide. This is the most powerful high tech distribution platform utilized in the industrial metals distribution industry today. Mr. Shieh's high tech channel has leading market share for many of the products that it distributes, including stainless steel pipe. Today, a large share of stainless steel pipe imported into the United States is distributed via Ta Chen's web-based platform. Ta Chen's customers include all major service centers and supply houses in the United States and Canada and cover all major industries. It would not be surprising to find that the stainless or aluminum products used at the local fast food restaurant or the steel utilized in everyday family household appliances have been sold through Mr. Shieh's distribution channel.

The largest steel producers in the world including ArcelorMittal (India/France), ThyssenKrupp (Germany), Outokumpu (Finland), TAIYUAN (TISCO) Iron & Steel Group (China) and Bao Steel Group (China) all utilize Mr. Shieh's network to efficiently distribute their products into the US and Canadian markets. Ta Chen is the largest importer of industrial stainless and aluminum products in North America. During the last several years, Ta Chen has also become an important customer/partner for many of the premier U.S. domestic producers.

"The one who can master distribution is King", observes Mr. Chen Yaokui, the Vice General Manager of Corporate Synergy Development Center. He believes that it would be extremely difficult for someone to compete with Mr. Shieh's distribution strategy. A large and formidable competitor from Japan who was once a leading stainless steel distributor in the US market, decided to exit from US stainless steel market this past year rather than continue to compete against Ta Chen with an operational cost disadvantage.

Childhood: His father was burdened with huge legal debts

"From ten years old until I went to university, seeing court foreclosure seals plastered all over my family home was part of my daily life"

When Mr. Shieh was still a child, his family went broke due to a failed business venture that resulted in his father accumulating over NTD\$600,000 in debt. Since he was ten years old, his family home was covered with court foreclosure seals. His parents borrowed more money so he and his siblings could go to school. However, this difficult experience did not frighten him. On the contrary, the hardships he endured when he was young, gave him the courage to go to a foreign land when he was only 29 years old as an entrepreneur with nothing more than a few dollars and the shirt on his back. "Living under the burden of huge family debts, all of the money for our household expenses was borrowed from others and I had to stare at the court foreclosure seals that covered all the doors, all the walls and even on the chairs that we sat on..." Because the debts carried very high interest rates, the family was never able to pay off the debts completely. "Living with those court foreclosure seals since I was ten gave me the determination to achieve big goals in life so I can one day restore my family's once prominent name".

After graduating from University, Mr. Shieh got a job as an overseas sale manager of San Shing Corp. which was the largest fastener machinery producer in the world at that time. "My monthly salary was about NTD\$36,000, which was very good 34 years ago..." (Editor: in 1981, before Mr. Shieh left San Shing Corp., his salary was five times higher than the average salary in Taiwan.) However, even with this generous compensation, working for San Shing still could not fulfill his goal of paying off his family debts, so Mr. Shieh was forced to look for new opportunities.

"We are the first and only company in the world today that has successfully built a virtual B2B sales platform to distribute industrial steel products. Many others including large e-commerce companies have tried and failed to enter the industrial metals market". Coincidentally, the day of this interview was also Mr. Shieh's 63rd birthday. While he was discussing the various types of distribution models, his eyes often flashed as he spoke rapidly with the enthusiasm of an excited young man.

Even in a world that is dominated by e-commerce giants such as Amazon and Alibaba, these distribution models only work well as business to consumer platforms. In a B2C model, the merchant sends merchandise to the customer after receiving payments. However the B2B business environment, especially when it pertains to the North American industrial metals market, is drastically different in that products are sent to customer as soon as they are ordered. The B2B platform built by Mr. Shieh is not only a sales portal but a complete business management system that enables the merchant to extend credit and carefully monitor the receivables of customers.

With this distribution model, Ta Chen is not just a supplier of industrial metal goods, but has become a virtual inventory and risk management partner for the Company's customers. As a virtually integrated supply chain partner, Ta Chen helps its customers improve cash flow, increase inventory turns and reduce inventory exposure risk (especially in industrial stainless steel and aluminum commodity products where inventory value are sensitive to raw material price fluctuations). For the high value services that Ta Chen provides, Mr. Shieh does require all of his customers to pay within defined terms of receiving merchandise or the customer will be automatically cut off by Ta Chen's web based credit management system. In addition to creating an advanced web based B2B business platform, Mr. Shieh's unmatched ability to raise equity and debt capital allows Ta Chen to have a solid financial foundation. The Company today can easily carry inventory and finance receivables totaling about NTD \$25 Billion, a level that creates a high barrier to entry for potential competitors.

Entrepreneurship: Do what others do not think of.

“You can not be dominant in an industry if you do not have your own distribution channel”

The success of Mr. Rung Kun Shieh is a typical story where heroes create the trend of the times. His desire to make more money to support his family induced his business acumen. In the beginning when he had nothing, he asked ten former customers (that he had met while working for San Shing Corp) to invest seven thousand US dollars each in him so he can start his own trading company. At only 29 years old, with only this small amount of capital, he had the courage to venture alone to the United States and started his entrepreneurial career.

Mr. Chen Yaokui remembers that Mr. Shieh had to sleep in the factory every night for a few years because he could not afford a home in United States. When he started his own trading company, he had no employees. Mr. Shieh learned to do everything himself including how to drive a forklift and he borrowed a moving truck from a friend to deliver the stainless steel fittings that he was selling. This bare-bones way of life continued for about 5 years.

In the process of building his business, Mr. Shieh discovered the importance of having his own distribution channel very early. “You are not in the driver’s seat if you do not own the distribution channel. As a manufacturing business, you would always worry every day whether the customer would want to buy your goods...” Mr. Shieh’s principal is that a successful business should not have to depend on others to sell your goods. “Business will always be very hard if you do not control distribution and if you do not dominate the market”. This critical concept has become the fundamental belief that drove Mr. Shieh to build the dominant steel distribution empire that he runs today.

He used Taiwan’s 7-11 stores as an example and asked the author. “Do you ever see any sales people from 7-11 come to you outside the stores to sell something to you? Of course not! 7-11 does not need to send people to sell anything to you because you need the merchandise that the 7-11 stores carry and you will automatically go to their stores to buy.” He continues to explain, “Of course the store ultimately needs consumers but my point is that a single customer would need the store much more than the store would need any single customer. This is the power of owning a well-recognized distribution channel!” Mr. Shieh had given a lot of thought about the relationship between distributors and customers before starting his revolutionary distribution model for the industrial metals market.

The key to victory – point 1: Develop a scalable business with high operating leverage to become the lowest cost platform

“Competitors may be full of rage, but all of our customers welcome the benefits”

When Mr. Shieh started his stainless steel distribution business in USA, the market already had many domestic and foreign distributors. Although he was a late-comer, Mr. Shieh aspired to build the dominant distribution network for the US steel industry. At that time, many of his big competitors including the large Japanese trading and distribution companies believed that “it is impossible”.

Mr. Chang Dijin, Vice General Manager of Ta Chen, revealed that at the start up stage, Ta Chen’s business is very small with little resources and product diversification because the Company was unable to win the trust of suppliers. Mr. Shieh was forced to reduce prices in order to gain a little market share. It is at this time that he accelerated the construction of Ta Chen’s Web based sales and distribution platform.

In the early years, Ta Chen’s profits were still not enough to support the total cost of operations. Net losses quickly ate into the Company’s capital base. In addition, the burst of the dot com bubble in early 2000 caused Ta Chen’s stock price to suffer years of decline. The Company struggled to consistently make profits for many years.

“The distribution business indeed is very difficult to build. It is much more difficult than most people can imagine.” Mr. Shieh does not deny that if he did not have luck on his side, he could have been in trouble many times. “To build this distribution network, we spent a lot of time and money. Through many years of hard work, I think we have finally achieved real stability.”

For Mr. Shieh, the key to success lies in the value that our distribution business brings. He said, “It is a simple logic. The only reason for a supplier and customer to trade through us is because we can offer them more value than if they traded by themselves.” For the supplier, selling products in very small volume is costly and not really worthwhile. Also, for a customer, they may not have the capital or usage need to buy in large quantities to secure the best pricing from a supplier, especially if the supplier is overseas. “When a customer buys from us, my inventory becomes their inventory. It means Ta Chen’s NTD\$12 Billion inventory investment can be used by them.” Mr. Chang Dijin also explains that this means Ta Chen is carrying at least four month worth of inventory and hedging costs for its customers. Ta Chen’s ability to create value and provide equally important benefits to both suppliers and customers compelled the largest steel manufacturers in the world such as ArcelorMittal to partner with Ta Chen to distribute their products more cost effectively.

As Ta Chen grew in scale, the company was finally able to build long term trusting relationships with suppliers and customers. Ta Chen is the dominant leader in stainless steel master distribution and has successfully deterred any opportunity for a second distributor in the USA. Similarly, Ta Chen’s sister company, Brighton Best International has quickly established itself as the dominant distributor of fasteners in the United States with annual revenues 100% greater than its closest competitor.

Harvest: Reducing Operating Costs from 9% to 5% of Revenues

“In past six years, competitors in this industry have all been driven away by our low cost model”

In the global stainless steel industry, the supply side has consistently been exceeding demand since 2009. Many stainless steel mills have been consistently losing money since the financial crisis. Gross profit in the industry has been compressed to only 8.5%. The main costs for a distributor are cost of goods sold and sales expense. Costs of goods sold should be about the same for most distributors of similar scale. The reason that Mr. Shieh has revolutionized the steel distribution industry is in Ta Chen's ability to reduce the industry average sales expense requirement of 9% (of revenues) to 5% via its web based sales platform.

With a web based distribution model, Mr. Shieh's distribution channel can easily increase from selling 7,400 tons of steel per month in 2005 to 26,000 tons of steel per month in 2014. However, the power of Ta Chen's system is the ability to sell more tons while reducing the sales & operating cost per ton of steel sold. From 2005 to 2014, Ta Chen's web-based model was able to reduce operating expenses per ton of steel sold by 45%. That is a reduction equal to about NTD\$1.5 Billion per year.

Mr Shieh explains, “It is a very powerful ability for Ta Chen to be able to reduce sales expenses from 9% down to 5% of revenues because the 4% saved becomes the net profit”. Even after the US financial crisis, where gross margin in the US stainless steel industry has fallen to only 8.5%, Ta Chen can still achieve 3.5% net profit margin after deducting sales expense of 5%. With higher revenue growth, the effectiveness of this model is more obvious. “With a distribution model that creates an unbeatable cost structure, many of my competitors in the steel and fastener industry have been driven away in the past six years”. For example, three of the four largest distributors that formally dominated the US fastener distribution market have all closed their doors after Mr. Shieh entered into the fastener distribution business six years ago. His newly established fastener distribution company, Brighton Best International, was able to grab over 65% share of the fastener distribution market in a few short years, a true display of how powerful Mr. Shieh's model can be.

Key to Victory – point 2: Continue to innovate with a web based business platform

“With our proprietary web system providing full operating visibility to my businesses and 20 years of accumulated experience, I can literally manage my Companies within seconds.”

Besides the scale of the business, our real time web system is another big competitive advantage. It is also the main reason that Ta Chen can significantly reduce its sales expense requirement.

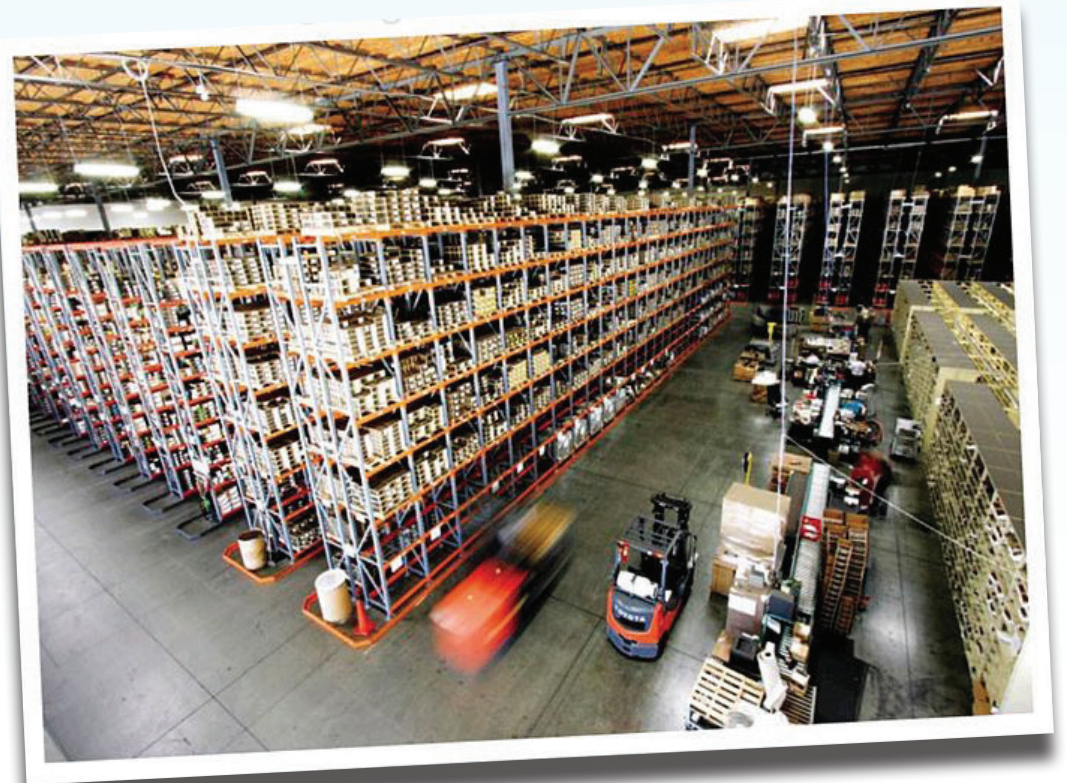
Mr. Shieh entails the IT team at Ta Chen to build a platform that allows him to monitor all of Ta Chen's operations including inventory levels, sales volume, profitability, accounts receivable, and warehouse efficiency in real time. With this real time system, every sales transaction and all management activities can be seen instantly and is constantly updated every few minutes. “I want the ability to manage my company within seconds. With my accumulated experience over 20 years and real time visibility, I can make important decisions in a few seconds if necessary”.

“I can monitor all of my company's operations overseas using the web throughout the day. Even today, I still like to work all the time. It could be fourteen, sixteen, or even eighteen hours each day.” Jokingly, Mr. Shieh reveals that he even checks Ta Chen's sales numbers at night when he wakes up to go to the restroom. This real time web system allows Mr. Shieh to utilize “differential management”. Day to day, the Company's operating statistics should fluctuate within only a few percentage points. If the sales performance changes too much at any given time, Mr. Shieh would personally follow up. “For example, when I saw that the sales number in Chicago was very low versus where they should be at on normal days by 2PM Central Time, I would immediately phone Chicago. The Regional Manager immediately told me that there was a heavy snow storm in Chicago and many customers are closed for business; and that is why sales are down 50% for the day. My managers always know the answer to give me before I even ask the question”.

Mr. Shieh has successfully undergone many trials and tribulations in his journey to build two dominant distribution businesses for steel and fasteners. At sixty three years old, with many grey hairs, some people have asked him why he still has so much enthusiasm. Mr. Shieh has a simple answer: “No end for progress, no end for success!”

Taiwanese businesses are generally good at manufacturing products but not so good in sales and distribution. Without a distribution channel to support these businesses, the future is very bleak for Taiwan's manufacturing sector and this is a topic that President of Taiwan will need to study and address.” Mr. Shieh believes his web based system can be expanded to distribute all types of industrial products and he hopes to be able to help Taiwan achieve this goal.

After the interview, it is already late afternoon when Mr. Shieh prepared to leave the headquarters of Ta Chen. The light of the setting sun is shining on glass windows of the majestic seven story building, quiet and bright. Here was once his father's sugar cane plantation. Mr. Shieh built his Company here on this land. This piece of land has supported him from trading to manufacturing to becoming the master innovator of steel and fastener distribution.



■ Mr. Shieh's new venture in fastener distribution includes 21 warehouses in the U.S. and sells around 60,000 items. More than 80% of the orders are processed through its online ordering system 24 hours 7 days a week.