Stainless steel and aluminum coils, sheets, plates, and long products/pipes might not be the first products that come to mind when you think of Internet sales, but California-based Ta Chen International has become a market leader by focusing on web sales for those products.

The company has its roots in Taiwan as a stainless pipe, valves, and fittings manufacturer. Today, Ta Chen Stainless Pipe Taiwan is one of the largest stainless PVF mills in Asia. In the US, the company has made its name by building the largest and most efficient depot network in the stainless and aluminum distribution market. Ta Chen’s Taiwan mill produces about 20% of the...
inventory that Ta Chen International carries in its US depots. The balance of TCI’s inventory is sourced from unrelated European and Asian mills (approximately 50/50 European vs. Asian sourcing mix).

“We are not a service center, distributor, or supply house,” said COO Johnny Hsieh. “Instead, we are one level above on the supply chain, and we act as a fast-turnaround diversified depot supplier to the service centers and wholesale supply houses. Most importantly, TCI is one of the few master distributors that can guarantee that it sells to distribution only to avoid all possible channel conflicts with its existing customer base.”

Unlike the other large players in the metals industry, the majority of Ta Chen’s sales are transacted online. Ta Chen International was a pioneer in the early days of the Internet boom, seeing the ability of the web and cloud computing to create unprecedented operating leverage for traditional businesses that incurred high sales and marketing expenses as a percentage of revenue.

“We are the only company in the steel business that can conduct 70% to 80% of its business online. Not only do we sell via the web, but most of TCI’s daily administrative processes, including warehouse management and inventory monitoring, are performed online,” Hsieh said.
“We’ve been very successful in building a business model centered around the principles of operating leverage and scalability,” he said. “These two principles are critical to profitability and risk management when you are running a large volatile commodities distribution platform. It’s not that we sought to become a web-based business. Instead, the web has become a powerful tool that allows us to generate the necessary operating leverage and economies of scale to drive the business model that we sought to create.”

The typical distribution model for most steel companies in the US is to hire more sales people to sell more products, whereas Ta Chen redefines distribution as the creation of an efficient market platform that produces enough value for customers so they willingly and automatically come to this platform to buy. Hsieh said the only way such a platform can bring in such customers is if it can deliver on all three points on the TCI value triangle: service, quality, and price.

“Most companies can achieve one out of the three. Some companies can achieve two out of the three, but very few can deliver all three simultaneously and consistently,” said Hsieh. “The focus and power of our business model is similar to Amazon.com’s retail platform except that TCI focuses on industrial products and distribution customers. Amazon and TCI both work toward perfecting a platform where revenue and gross profit are growing at much higher rates than the incremental operating expenses needed to generate that growth.”

Due to the operating leverage and scale of economy these platforms can generate once critical mass is achieved, web-based businesses such as Amazon.com, eBay, and TCI are hard to displace. “It is the classic snowball effect,” said Hsieh. “Once a platform gets to a certain size, more buyers want to join the platform to access the number of sellers (and more products) on the platform, and more sellers want to join in to access the number of buyers in the network.”

**Plans for future growth**

As the company grows more sophisticated in leveraging the Internet, TCI is finding that it can do more with less. One area that has seen significant growth over the past two years is the sales of aluminum flat rolled products.

“In 2008, we did 26 metric tons per day in aluminum sales,” said Hsieh. “In 2009, we did 62 metric tons per day, and in 2010, we are averaging more than 180 tons per day. All of these additional aluminum sales were generated without having to add incremental sales, marketing, or administrative
costs (and very limited additional warehouse expenses). Our ability to achieve rapid growth in aluminum flat-rolled without taking on a lot of incremental costs is a great case study that demonstrates the power of the TCI business model.”

Although the company does more with less, Hsieh emphasizes that the company does not skimp on costs when compensating employees, especially when it has to pay the necessary overtime or bonuses to ensure service levels remain consistent when sales volume surges. “In a model such as ours, the big savings come from the sales and marketing side where we do not take on extra headcount to support sales growth,” he said. “Operating leverage is not effectively achieved by being cheap to the forklift driver who handles tens of thousands of dollars of our inventory every hour.”

As many of TCI’s customers are also trying to do more with less, Hsieh said customers will typically order everything they need through Ta Chen for convenience and freight savings as long as 80% of what they are looking are priced competitively.

In addition to providing quality products and efficient service at a great price to its customers, Ta Chen’s other important goal during the next couple of years of economic uncertainty is to maintain its historic loyalty to employees. “We don’t skimp on compensation, and we did not lay off any warehouse, sales, or administrative personnel during the economic downturn,” said Hsieh. “Having confident, loyal employees who always work with high morale is what keeps Ta Chen operating more efficiently than the competition.”

As the economy turns around in 2011, Hsieh said it will enhance Ta Chen’s already positive outlook for growth. “Our business model is recession proof,” he said. “Our overall company sales in 2009 were 530 metric tons per day, and this year, they are 697 metric tons per day. Regardless of what 2011 brings, we believe we should grow at least 15% in sales volume just from further product line expansions and increasing customer dependency on Ta Chen’s inventory to support their businesses.”