Keeping the middleman relevant in the Net age

BY LEONARD LAW YU CHENG, DAELUS LU JIAJIA AND APPLE YE OONG

WILD fluctuations in price can turn sugar trading decidedly sour. So, protecting itself and its customers from the vagaries of the market is one reason why Wee Tiang has thrived over the past 18 years, since its incorporation in 1993.

"Customer satisfaction has always been Wee Tiang’s top priority and it is one of the many reasons why our customers remain loyal to us," says its 34-year-old director, Tan Wee Beng.

Founded by Tan Siiong Kern, 61, Wee Tiang Pte Ltd started as a rice and sugar importer and wholesaler.

Since then, it has expanded its local import business and grown its export business, establishing itself as one of the foremost physical commodities trading companies in the region.

Today, Wee Tiang averages more than $500 million in annual turnover, with sales in 2010 hitting a record $350 million, of which about 90 per cent came from overseas trading.

The company is also making its sixth appearance in the annual ranking of Enterprise 50. Adding to these credentials, Wee Tiang is also the proud holder of the Global Trading Programme (GTP) status, awarded by IE Singapore, which recognises well-established international trading firms based in Singapore, and is a member of the prestigious Refined Sugar Association in London.

Trading edge

Fresh out of university, Mr Tan Wee Beng initially considered a career as an engineer with Singapore Airlines, but was quickly roped in to the family business by his father and brother to take charge of Wee Tiang’s trading arm.

One of the electrical engineering graduate’s first moves was to wire up the company into futures trading and kick-start it into the digital century. This move has played a pivotal role and kept the company afloat since the advent of the Internet. Producers and buyers could now trade with Wee Tiang and work directly with one another.

Mr Tan explains, "With Internet, trading became much more transparent... that was very detrimental to our position in being a third party who did not add value to the physical goods we traded."

The company, however, makes itself relevant in a few ways. In a typical sale, customers will specify the commodity they need, as well as the shipment dates.

The company then buys from its regular suppliers and arranges shipping, insurance, collateral management and storage if required.

Wee Tiang’s strong financial position and ability to incorporate collateral management and financing quickly earned itself yet another niche of customers. The company also advises its customers on when to buy and assist them to buy cheap, to demonstrate its keen customer service as well as insight into the volatile futures market.

"Because of all these services, plus a very reasonable profit in between, our customers are happy and do not bypass us as the middleman," Mr Tan adds.

The company’s venture into hedging in sugar trading proved to be important for its survival.

Owing to the huge influx of money into the commodities market, commodities trading has become extremely volatile with prices spiralling up and plunging regularly.

The price swings cause suppliers to withdraw from the deal when prices increase. Similarly, customers withdraw when prices decrease.

In order to stay the course through such unpredictable markets, the trading team recognises the need to hedge against the fluctuations by taking appropriate positions in the physical via-a-via futures markets.

Mr Tan adds: "We were no longer sitting ducks and were able to use hedging and options tools to protect our suppliers, customers and ourselves."

While Wee Tiang has grown into a multi-million dollar business, Mr Tan says that the company has no interest in going public. Keeping the business within a tightly bonded family has enabled Wee Tiang to manoeuvre effectively in volatile market situations as it lacks the bureaucracy that is usually present in larger firms.

"Employees of listed trading companies have to follow stringent guidelines when making trading decisions, but such rules do not apply in a small business like Wee Tiang," he explains.

"Our smaller and more mobile team was able to lockdown deals more easily as we do not need to go through many levels of decision making. This is one competitive edge we do not yet want to lose."

Vertical integration

Looking ahead, the company realises that it will need to strengthen its position by diversifying upstream and downstream.

"Without value-added services, we will ultimately remain a ‘redundant’ party in the food chain. Similarly, the big trading houses also face the same problem," Mr Tan explains.

To further solidify their presence, leading trading organisations began to build sugar refineries with their own plantations. In this way, they do not just rely on trading and in a way extend their reach and presence to the buyers.

By following the examples of international trade houses such as Cargil and Olam, Wee Tiang has drawn up plans for a sugar refinery in Indonesia. The sugar refinery will be able to process raw sugar into white sugar and is expected to be ready next year.

This refinery will help extend the company’s reach to more potential buyers in Indonesia and improve its ability to compete with other big trading houses.

Mr Tan says that he may also be looking at investing in sugar cane plantations as part of business expansion plans in the future when the refinery is operational. "With commodities prices increasing at such a fast rate in the past years, one of the best ways to capture this price increase is to be your own producer."

The commodities boom could become the next big story in the coming decade. With good foresight and careful risk taking, Wee Tiang remains well poised for more sweet success.

The writers are students from NUS Business School.