IMPORTING PIPES INTO AFRICA

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François LeGrand, owner of a U.S.-based export company specializing in OEM heavy equipment parts for the mining industry, has the opportunity to bid on a contract sourcing pipes for a company in Gabon, Africa. This piping is not the type of product François is used to exporting, but the African mining company has been his client for over 15 years. François is faced with assessing this one-time opportunity and ascertaining if the opportunity is worth pursuing given the business risks. This case is designed for students studying international business, global commerce, international management, or international marketing. The case aligns with NASBITE CGBP's Learning Tasks where students can apply various assessment models such as PESTEL and CAGE to evaluate risks.

INTRODUCTION

François LeGrand had received an email from David Koumba, a procurement manager for a mining company in Gabon, Africa, indicating that a well-known European company was the only supplier who submitted a bid to supply piping for one of their projects. David had been procuring original equipment manufacturer (OEM) parts for heavy equipment from François for the last 15 years. He was wondering if Francois could beat that bid. He included the European supplier's order specifications, including quality standards and per linear meter price estimates. Because of his reputation and relationship with the company, François felt sure David would award him the contract rather than the competing European company if he could provide comparable quality and delivery terms at a competitive price.

As François was half-heartedly discussing this opportunity, his friend Robert Davis told him of a pipe supplier from China. François realized that the volume of the

project might be worth pursuing. However, François also said, "I do not like working with Chinese suppliers because of quality and delivery issues."

Given the potential profit, François was considering a bid for the order but needed to fully assess the opportunity before committing over $150,000 of his personal capital under what he perceived as risky circumstances.

WHO IS FRANCOIS LEGRAND?

François LeGrand, originally from France and now living in the U.S., specialized in exporting high quality OEM parts for heavy machinery for various mining companies mostly in western and central Africa. Procurement agents across Africa called or texted him day and night to solve their parts problems because operational downtime could be very costly, and François was well-known to get the right parts to them quickly, reliably, and price-competitively. With known clients, François was willing to risk his own capital by offering open account credit; clients would pay only when they received the parts. Comparatively, using bank letters of credit lowered risks but required both parties to deal through banks, a process that added time and expense. Using an independent agent as an intermediary also carried similar disadvantages.

François was proud of the reputation he had developed in Africa and wanted to maintain it at all costs. Since the mining companies sourced most of their heavy equipment from U.S. and European manufacturers, quality OEM parts generally had to be sourced from there as well. From years of experience, François either knew of or was able to research and find the original subcontractors of parts for major heavy equipment manufacturers such as Caterpillar. He could then supply the OEM parts directly for less than what Caterpillar, for example, might quote to an African procurement agent.

François liked doing business in Africa because his experience gave him an advantage there. His services were important as procurement managers there had more limited education and lacked purchasing power and access to information. After doing business in Africa for 15 years, François had gained cultural fluency and judgment such that he was comfortable negotiating and transacting deals with people in Africa. However, one of the most critical risks of doing business in Africa was not getting paid. He therefore preferred to work with existing clients with whom he had good rapport to assure he would receive payment. They would not want to jeopardize current or future orders by not paying him.

François set benchmarks for himself that reflected his views of the risks involved. When working with an *existing* client, he was willing to accept a net 20 percent profit margin if the OEM suppliers were American or European or net 40 percent

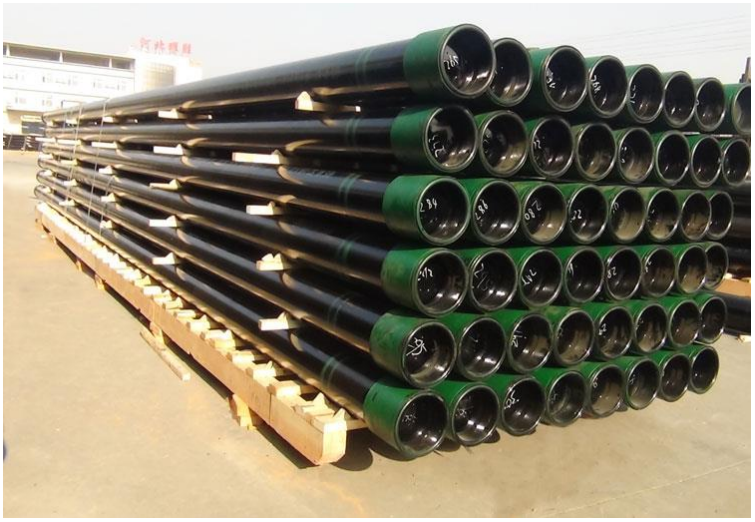
if not. If he was doing business with an *unknown* client, he wanted a net profit margin of 75 percent for European and American OEM part, or 150 percent if the OEM parts were from other sources.

François preferred using American or European sourced OEM parts. In his experience, they had consistently met or exceeded required quality standards. François rarely took delivery of parts but instead had them drop-shipped to his clients. This was logistically easier for him and ensured that the product was packaged and shipped correctly. François was willing to consider sourcing products from unfamiliar origins for existing clients if the risks could be offset by larger profit margins than if sourcing from U.S. or European OEMs. François stated: "If I cannot make 40% guaranteed net profit on this order because the pipes come from China, I am not willing to risk my reputation, plus I do not need the business…. I am considering retiring soon, and I don't need the stress."

THE OPPORTUNITY

David Koumba, a procurement manager of a mining company in Gabon and someone François had sourced parts for over the last 15 years, emailed about needing high-pressure water pipes for a mining project. He needed one kilometer of API 5CT J55 type pipes. This was considered a specialized, heavy-duty pipe (see Figure 1). The quality of the pipeline was critical as any work stoppage at a mining site would cause considerable loss in revenue.

Figure 1
API 5CT J55 Type Pipes



Source for demonstration purposes (accessed November 20, 2018): http://www.ltdpipeline.com/api-5ct-j55-k55-l80-n80-p110-casing-pipe/

David indicated that he was not getting sufficient bids to his inquires for piping. Although François was not familiar with this type of high-pressure water piping, he showed his resourcefulness by finding an established European company that specialized in this piping. Although Francois did not have any relationship with that company, he shared this information with David who was very appreciative.

A NEW DEVELOPMENT

A week later, David Koumba informed him that the order had been increased from one linear kilometer to 7.5 linear kilometers of pipe. Furthermore, François' research proved to be correct. The only company to bid on the project was the European company that François had found and told David about.

David also volunteered that the European company quoted $23 per linear meter of pipe. The price included delivery within 4-6 weeks to the port in Libreville, Gabon. The mining company, David's employer, was associated with the government and would assume responsibility for offloading the pipes, customs clearance, and transport of the pipes to the mining site.

SOURCING FROM CHINA?

With the volume of piping required having increased significantly, François realized that the contract might be worth pursuing himself. He would likely win the order from David if he could provide better terms than what the competing European company had quoted. His friend Robert Davis, who happened to have experience in the oil and gas industry, said he could recommend a reliable Chinese manufacturer that he had used successfully in a recent international project. Robert recalled the pipes costing approximately $17/18 per linear meter. Robert acknowledged that he did know what the cost of shipping might be since his project had been near the supplier in China. He would have to make further inquiries.

François had concerns about Chinese quality and potential delivery delays. The global trade climate with respect to Chinese products was further exacerbated by the Trump administration's efforts to punish Chinese imports into the U.S. Although François stated that "the *Chinese are awful, and their product is horrible,"* he admitted that he did not have much experience with industrial equipment from China.

Robert's experience with the Chinese pipe supplier did provide some comfort to François. The pipes used in Robert's project in China had been inspected by Bureau Veritas. They were found to have exceeded reasonable quality standards requirements for the oil and gas industry, which far exceeded the standards of the mining industry. Robert explained that Bureau Veritas was one of three

internationally renowned testing, inspection, and quality certification companies used by numerous manufacturers.

Robert had forwarded to François a quote from his Chinese supplier (Appendix A) which included total costs with trade terms. The order was CIF (cost, insurance, and freight) which meant that the Chinese supplier would be responsible for the costs/liabilities to the port in Gabon. François was considering the opportunity but needed to assess it fully before risking his reputation and capital of over $150,000. If so, David Koumba needed the bid within ten days.

APPENDIX A

Dear Robert

Please be kindly informed that the below quotation with a validity period of 120 days.
Should you have any doubts, please let us know.

We are looking forward to hearing about your firm order.

Best Regards,

If the proposed type is acceptable, please kindly find the price that:

1) API 5CT J55, 88.9mm*5.49mm, 11.3kg/m, 7500m, 6m/pc, total weight: appr. 84.7 ton
2-a) Ex-work, USD 1610.-/ ton, total amount: USD136,300.-
2-b) CIF to the chosen African country, current freight is USD 6500.-/ 40ft times 4 containers= USD26,000.- . Therefore, **the total cost of USD162,300 at CIF to African Country Port of choosing.**
3) Lead time: 50 days
4) Factory location: Changzhou area, Jiangsu Province

The above quotation is based on the limited information.

If you have more detail or specification, please let us know. We can provide a more accurate price and technical proposal.

Best Regards,