



CHINA TRADE

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The Family Stone

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Six years ago marble and granite countertops were beyond the reach of most middle-class Americans. Most of it was imported from Italy and priced like couture, a luxury item for the wealthy. So it's apt that the largest 'communist' nation on earth has used its industrial muscle to make natural stone an accessible choice for working-class homeowners. In fact, both China and India have surpassed Italy to become the biggest exporters of stone to the U.S., which is now the world's biggest importer (more than \$3.8 billion worth in 2006).

Manu Shah and his wife know this better than most couples, and have seen the trade radically change over the last few years. They founded Los Angeles County-based MS International (MSI), which now imports 10,000 containers of stone a year and stores 45,000 slabs in seven distribution centers around the country. Revenues last year crossed \$200 million.

When the Shahs founded MSI in 1975 in Fort Wayne, Ind., they operated out of their basement part-time for eight years while Manu worked as an engineer at International Harvester. Back then the market for imported stone was tiny and the prices high. The Shahs used family contacts to import lower-cost stone from India, growing the business and relocating to Orange, Ca., in 1984. Today MSI imports from 30 different countries, including places like Turkey and Brazil (60 of their 400 employees act as overseas purchasing agents). But unlike even a few years ago, when India still ruled, their top source today is China. More than one third of their stone now comes from China, compared to about 10 percent from India.

The other big change is that MSI, which once sold directly to manufacturers, now sells directly to contractors and retailers like Home Depot and their Expo Design Centers.

Despite the recent leveling off of U.S. home building, MSI has been able to stay ahead of the market and grow at an annual rate of 50 percent over the last several years. That growth has been driven largely by the drop in price for stone and the increased demand by consumers in the U.S., where natural stone serves a mostly decorative purpose, for countertops, facades and flooring. It has surpassed all other counter-top materials and become a standard item even in entry-level homes.



"Granite countertops are even being installed in condos and apartments to give it that feel of luxury," says Eddie Sanchez, a contractor from Orange, Ca. and a customer of MSI. "A homeowner can buy a granite 'blank' from Home Depot for a few hundred dollars and have it installed. It gives the place a nicer feel. I know contractors who do little else but installations of these." Flooring materials like Travertine have also seen steep drops in prices. Ten years ago, when Italy was the leading source of the stone, it typically retailed for as much as \$12 a square foot. Today MSI imports their supply from new markets like Turkey, and Travertine retails for \$2 to \$4 a square foot. "Over the years we focus on keeping the cost low, focus on logistics, making sure we're buying at the right price from the right countries," says Shah. China is now undercutting India and many other countries because stone is so heavy – a granite

slab weighs roughly 19 pounds per foot – and pricing is largely driven by shipping costs, says Rup Shah, executive vice president and Manu's son. "On stone, freight is anywhere from a maximum of 50 to 60 percent of the landed cost down to 10 percent of the landed cost, depending on [the type]," he says. "So fluctuations on freight rates really affect how we do business."

China has several advantages in this regard. Unlike European ports, which haven't been upgraded in years, her major ports are able to handle 10,000 TEU post-Panamax container ships. So it's cheaper to ship from China than from Italy, for example. Many Chinese factories are also situated close to ports, so transport inland is minimized. And freight back to China is so inexpensive – her export-driven economy means lots of empty vessels heading home – it's often cheaper to ship raw stone from Italy or Brazil and process it in the Middle Kingdom for export, than to ship finished stone from the country of origin. Even Indian stone is now being sent to China first for cutting, says Shah.

The only concern for companies like MSI, says Usha C. V. Haley, PhD, a business professor from the University of New Haven, is the risk of relying too heavily on China as a primary supplier of any commodity. "China has problems with projections," he says. "When you talk about making projections three to five years down the road, you also have to balance it against the demand in China, which is increasing. If demand suddenly shoots up or down, China could have a glut of stone or [the opposite]." In which case, says Haley, China could become a net importer of stone.

Before that happens, tastes – and budgets – will have to change in China. One cash-flow advantage that Chinese stonecutters have over their European counterparts is that, typically, European factories waste up to 30 to 40 percent of the stone while processing it, whereas Chinese factories will recover most of the waste and sell it to the domestic market, which is undergoing its own construction boom. At some point Chinese consumers will want the finer finished granite countertops and Travertine floors for themselves.



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