

## 3E CO. RISES TO THE CHALLENGE OF RAPID GLOBAL GROWTH IN EH&S INFORMATION SERVICES MARKET

*3E Company (Carlsbad, Calif.; www.3ecompany.com) is a provider of chemical and regulatory compliance information services for environmental, health and safety (EH&S) professionals. Beginning in the late 1980s with a more traditional environmental services practice, the firm quickly began to focus on the development of information technology (IT) solutions and services for managing material safety data sheets (MSDSs). From there, the company's product line has evolved to the point today where the firm can provide comprehensive, on-line chemical life-cycle management and emergency response support through its "24-7-365" HazMat Mission Control Center in Carlsbad. Bob Christie is 3E's president and CEO.*

**EBJ:** What kind of year has 2006 been for 3E, in terms of revenue growth, profitability and business opportunity?

**Christie:** It's been a good year, and a hectic year. This is actually our 20<sup>th</sup> year in business, and we've been experiencing dramatic growth over the past two to three years, and 2006 has been no exception. Revenue growth is up over 20%, and profitability is up greater than that. That's similar to what we experienced in 2005, and it's pretty much what we're expecting in 2007 as well. And that's just organic growth.

The biggest challenge we face is managing that type of hyper-growth. A few years ago, the company had just one location in Carlsbad, and now we're in six locations. So with the revenue growth and profitability growth, we've seen tremendous operational expansion.

The biggest opportunity for us is coming from globalization of the marketplace. We have about 8,000 customers worldwide, and most of our U.S. companies are expanding outside the country. In fact, we're seeing that trend with almost any company in any country. The top 15 companies in Japan are customers of ours, and everyone of them exports their products. So we are seeing a tremendous amount of growth on the part of our customers outside of their core domestic markets and, more importantly, we're seeing expansions in regulatory requirements—for example, the GHS [the U.N.'s "Globally Harmonized System of Classification and Labeling of Chemicals"] and REACH [Registration, Evaluation and Authorization of Chemicals] in Europe. Our company allows the companies affected by these regulations to outsource their compliance management obligations.

Several countries are reviewing the GHS. Japan has accepted it; the United States

hasn't yet. The question is, what will adoption of GHS mean to companies that do business on a global basis? Even though the U.S. hasn't accepted it, if you export to countries that have done so, you have to comply. It may also mean that many of your products have to be retested and revalidated.

We're at a time right now, in the world of compliance, where there's a tremendous emphasis on corporations being more globally aware. In the United States, there's the additional concern of Sarbanes-Oxley and its reporting requirements, including the sign-off of key corporate documents by CEOs and CFOs. It brings much more recognition to the issues of being compliant with hazardous materials laws when shipping product to countries in which you are doing business.

**EBJ:** What do you see as the key market trends affecting the EH&S software industry?

**Christie:** Because of what's happening in terms of globalization, you have hundreds and hundreds of rules, including state and county laws and regulations. That forces companies to have systems integrated into their facilities that will prevent them from missing any change in regulations. They need to know the impact of these changes on the products, whether it's as simple as labeling or as complex as having to revise a MSDS. Globalization has made managing information the most difficult challenge that a company faces. You need access to the latest information and you need to know what to do with it. You need to understand how to use that information to remain compliant in the areas where you are doing business.

If you are a domestic producer pushing a product in New Jersey, you essentially know what the rules are. But if you are exporting to other countries, you need to know what

changes in regulations are taking place, and you need to know how to respond. That involves a cost. And that's true not only with regard to where you are selling products but where you are manufacturing them. If you are manufacturing in China, you need to know what environmental laws are coming down the road over the next two to three years.

What we're doing at 3E is trying to be an information company that helps a corporation in end-to-end chemical compliance management, from the time it manages ingredients in the creation of a chemical product to the eventual disposal of it in some end-product, anywhere in the world—from writing an MSDS, to dealing with the regulations on product stewardship and worker health and safety, wherever the product goes. That's basically our vision—to help companies manage the regulatory issues in the life cycle of their products.

**EBJ:** What do you see as some of the key unmet needs in the EH&S software market?

**Christie:** The key area that is required by corporations is the unification of the information they manage. There are so many software packages to help you manage information, whether its worker safety, or filing a new product registration, etc., and the problem is to unify this information so that you are not surprised by changes in any one area. You need to manage these dozen or so applications that your organization is using so that you don't have conflicts. You need to provide a centralized system for these multiple platforms, up and down the supply chain.

You're seeing more and more companies being fined for non-compliance. You therefore need to be, not reactive, but proactive, and you need solutions that are linked so that you can be proactive. Another complicating factor is the fact that you will need to provide this information in many languages. For a single product or a single transaction, you are going to transport products across multiple jurisdictions, and you have to have labeling and documentation that will deal with that. This fact tremendously complicates the development of needed applications.

We offer our MSDS application in many languages, which means we help enable regulatory compliance in many languages. Meeting the language demand is our biggest chal-

lenge. We could spend a lot of capital just on developing new languages reflecting the places we think we're going to be in the next 12 to 24 months.

Still another factor is the fact that our clients hold us to a very high standard of quality. That essentially means that we have to have high quality standards, which we do. We also have an advisory board that comes in and evaluates us on a regular basis.

Quality was something that, three years ago, clients didn't ask about. Now, every relationship demands a high degree of quality and performance. That goes back to controlling your own destiny, which means we gather our own data and develop our own data sheets. We don't outsource this work. So if somebody comes to us and asks us to develop data on a new country, we gather the data on those regulations ourselves.

**EBJ:** What has been the principal aim of your firm's strategy over the past couple of years? Any major shifts in terms of markets or service areas?

**Christie:** The biggest change has been in the area of client industry focus. Up to about two years ago, we were focused more on the end-user industries, such as large retail companies. We were dealing with their vendor MSDS management and the issues that companies had in using or selling those products. The big shift is our move towards working on the front end of the product's life cycle—that is, the manufacturing side, and dealing with MSDS authoring and distribution for the actual creation of the chemicals and products.

**EBJ:** What are you projecting for growth next year? For the next two to three years? What factors will drive that growth?

**Christie:** We absolutely see our growth continuing. We believe revenue growth will be double-digit, mainly because of the rapid changes in regulations. In terms of profitability, our earnings could start to level off, because all of these changes affect the development of new products. We invested twice as much on new product development in 2006 than in 2005. We will continue to invest both in new products and in enhancements to existing products.

A lot of product ideas come from our customers. They come to us and work with us to develop new ideas that will help them sleep at night and be sure that they are not missing any key areas of compliance.

**EBJ:** Which client sectors are proving to be the dominant users of your products?

**Christie:** A leading client sector for us is the chemical industry, obviously, but there are lots of others we're working with—automotive, oil and gas, and pharmaceuticals, for example—and downstream, on the end-user side, industries such as retail, utilities, health care, and transportation. You could go through the list of various companies that either make, use, distribute, or sell these products—the whole gamut of companies. At the end of the day, it's hard to think of a company that does not work with a hazardous material in a product in some way, or that doesn't use a product with compliance issues.

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**EBJ:** Is the EH&S software market still a very fragmented one, in terms of suppliers, and do you see the potential for consolidation?

**Christie:** It's very fragmented, by sectors. Depending on the market and specific need, there are a lot of small niche players out there. For example, if you're talking about MSDSs, there are lots of small software suppliers who may not deal with hazardous spills or emergency response. So, yes, the business is very, very fragmented. As a result, we believe the business will consolidate. Our strategy is to grow this business, not only organically, but through partnerships and acquisitions.

When you go outside the United States and look at a lot of the people who provide services, it is even more fragmented. Some companies provide service only in their country, for example, rather than across Europe.

**EBJ:** Has the competitive field in EH&S software shifted much in recent years among pure software development firms, environmental consultants, and major providers of enterprise software?

**Christie:** You definitely see quite a few companies in the consulting business. They

aren't providing software services as such; rather, they are providing consulting services and seeking third-party software providers for support. Also, about three years ago, the providers of EH&S software solutions were selling software as a package to companies, for which the client would pay a license and then a maintenance fee. As a client, you hosted the software on your system, managed it, and paid a fee to update it. The problem is, with so many changes in regulations, you may need to constantly buy new packages to stay up to date. So we're seeing a shift in demand towards the "application service provider" (ASP) model, which gives more flexibility to make changes. Virtually every product now is experiencing demand in the form of the ASP model.

Another thing I'd add, in terms of the trends in the marketplace, is that people are now thinking much more broadly in terms of where they are going in the future. Years ago, people were thinking more parochially. With the last five or six customers I've met, the majority of the conversation is around global issues.

**EBJ:** What are the top three business challenges your firm faces going forward?

**Christie:** Our biggest challenge is managing hyper-growth. It's easy to manage a company that's growing at a 2 to 3% rate. At our growth rate, we're dealing with product development and enhancement, technology backups, finance, facility management, and new personnel over a broader human resources base. If you're managing a staff of 20 people, that's one thing, but if your personnel count is 300, that's quite another.

The other issue that is paramount here is this globalization trend, and making sure that everything we're doing isn't limited in jurisdiction. That tremendously impacts the development schedule.

The third challenge, mergers and acquisitions, is one we spend a significant amount of time on. It's a way to pursue growth without just building everything ourselves. When you are growing at a fast rate and trying to get to market quickly, and you need to cut your development schedule, acquisition is one way to do that.

Basically, if you can come up with a nine-day work week and a 35-hour work day, we'd be interested! ■