

Metal Bulletin's 7th International Galvanizing & Coated Coil Conference

Strategic Changes in Distribution of Coated Steel Sheet

Amsterdam, 23/24 September 2002,



By Gilles Calis, Consultant
Hatch Beddows - London

Hatch Beddows

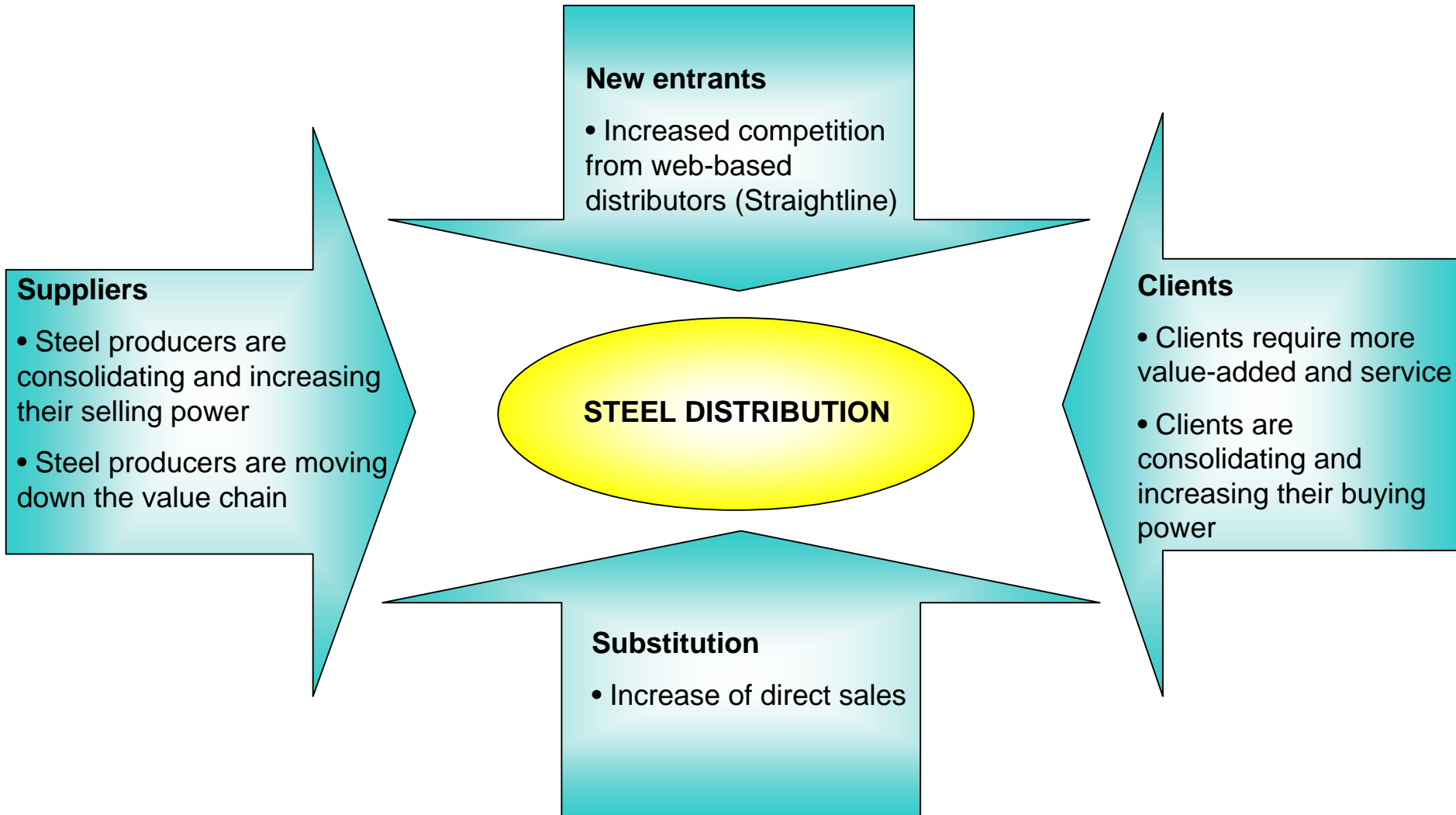
Contents

- **Introduction**
- Distribution of Coated Sheet in Automotive
- Distribution of Coated Sheet in Construction
- Conclusions

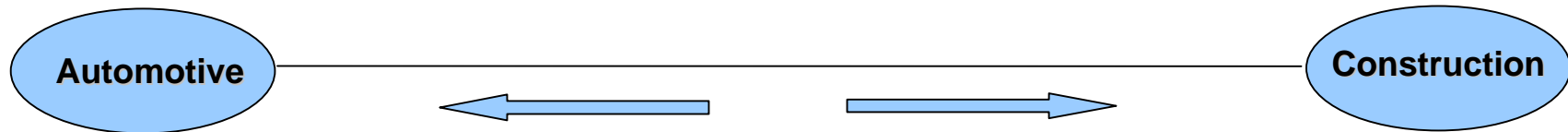
What is distribution?

- We define steel distribution as the collection of all activities performed between production of a finished steel product and consumption of the material by the end-user.
- To understand steel distribution 3 concepts are important:
 - The value chain
 - The supply chain
 - Ownership
- All players involved in steel distribution have to make strategic choices with regard to these concepts.

Steel distribution becomes increasingly competitive



Different market characteristics require different distribution models for various end-use industries, with the automotive and construction sectors at opposing ends of a continuum



- Concentrated production and consumption
- Global character
- Sophisticated, complex products
- High value added processing activities
- High entry costs in distribution
- Mature supply chains

- Fragmented production and consumption
- Regional character
- Relatively simple products
- Low value added processing activities
- Low entry costs in distribution
- Evolving supply chains

Contents

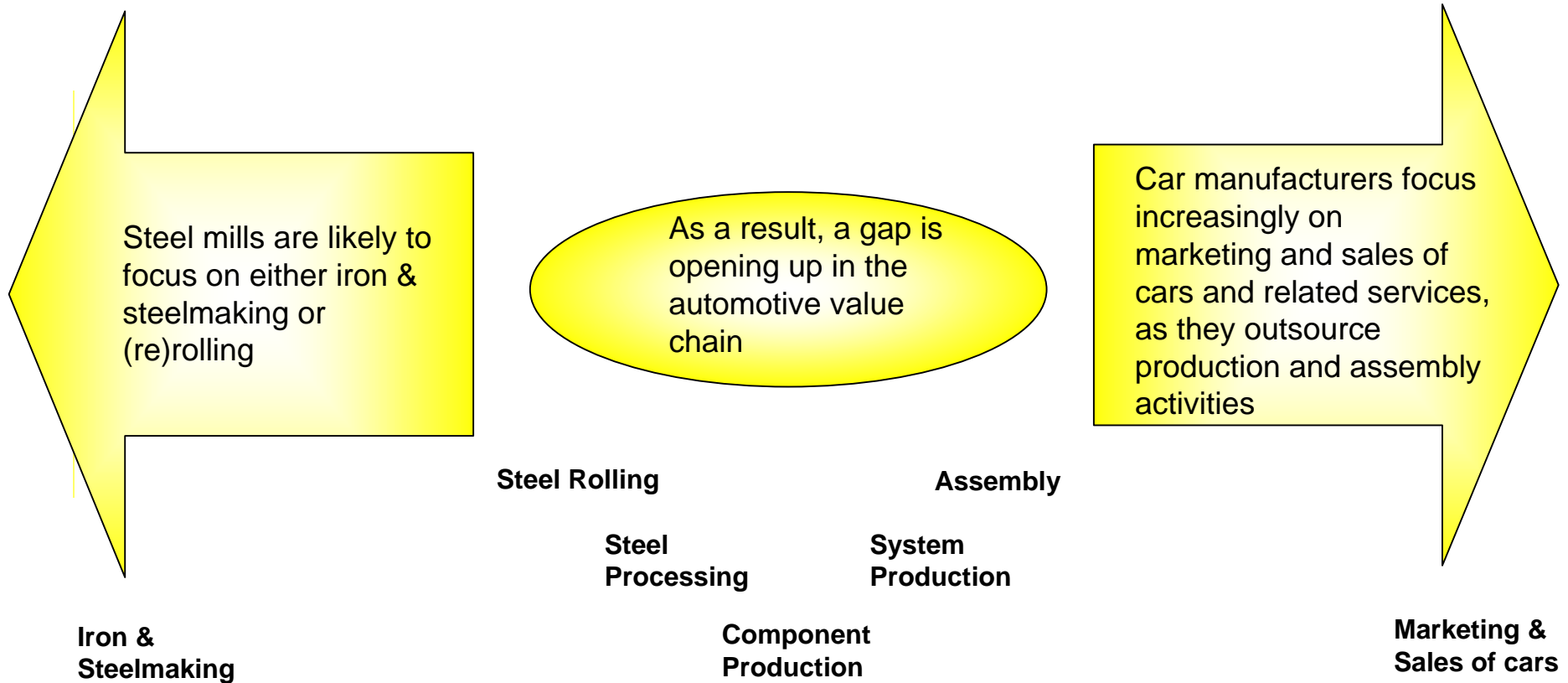
- Introduction
- **Distribution of Coated Sheet in Automotive**
- Distribution of Coated Sheet in Construction
- Conclusions

In supply chain management, no industry faces more complex and demanding problems than the automotive industry

Pressure

- Increasing demands for precise specifications
- Increasing demands for R&D, technical and engineering support
- Increasingly lean and agile manufacturing techniques
- Increasing globalization of automotive assembly plants

The de-integration of steel mills and continued outsourcing by car manufacturers are opening up a growing gap for value adding activities



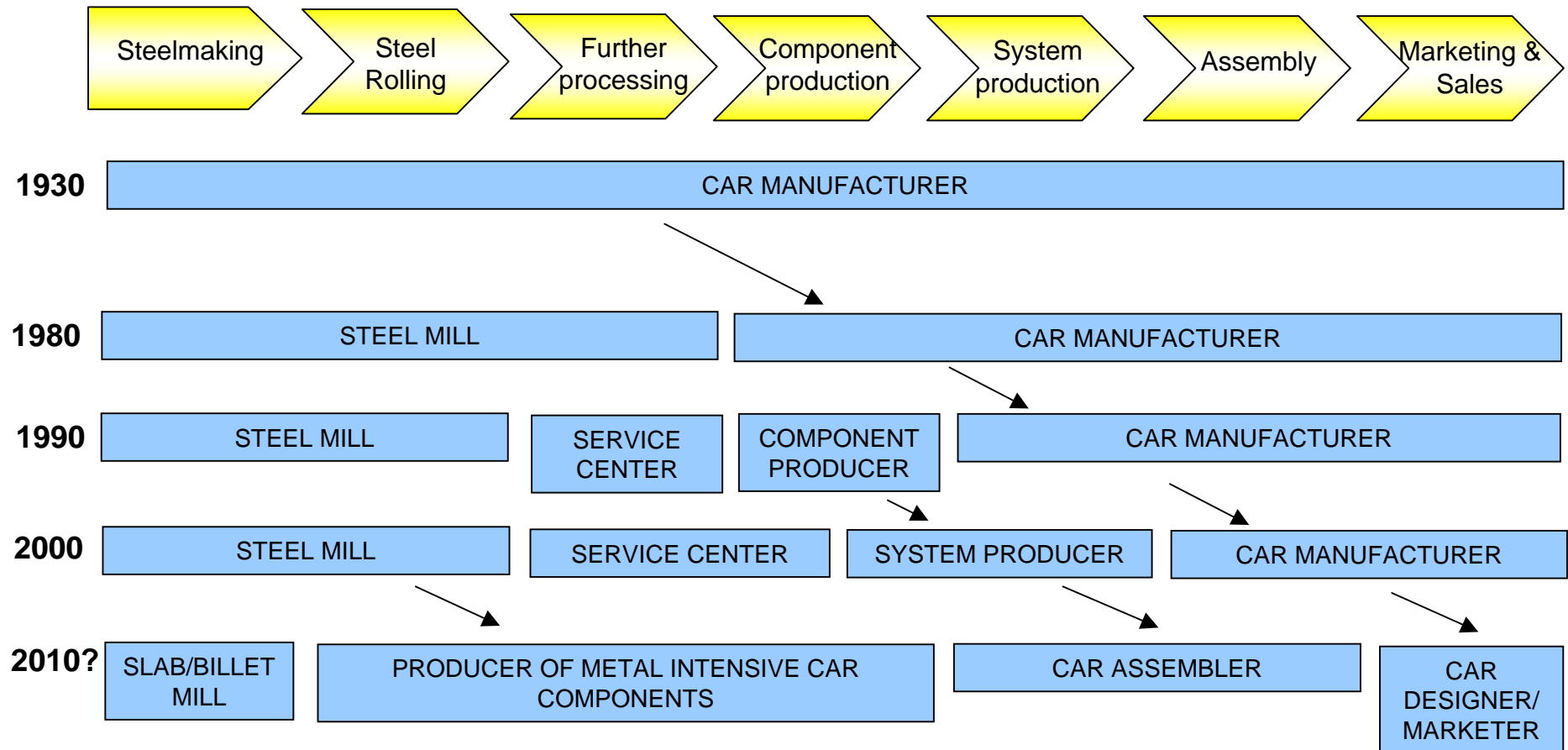
Meanwhile, markets for galvanized and pre-painted sheet have become so crowded that mere coating and 1st order processing are no longer value-adding, but rather value-destroying

- The galvanising hype of the late nineties has led to overcapacity and 'commoditisation' of coating technologies.
- As a result, HDG markets around the world have seen sharp price declines during the last downturn.
- Steel producers are increasingly unable to create a competitive advantage by producing galvanized and organic coated sheet.
- Value adding opportunities are moving away from rolling, coating and 1st order processing to 2nd order processing, services and component and system manufacturing.



Client ordering CR sheet

In response, companies across the supply chain are moving down the value chain in search of higher value added business



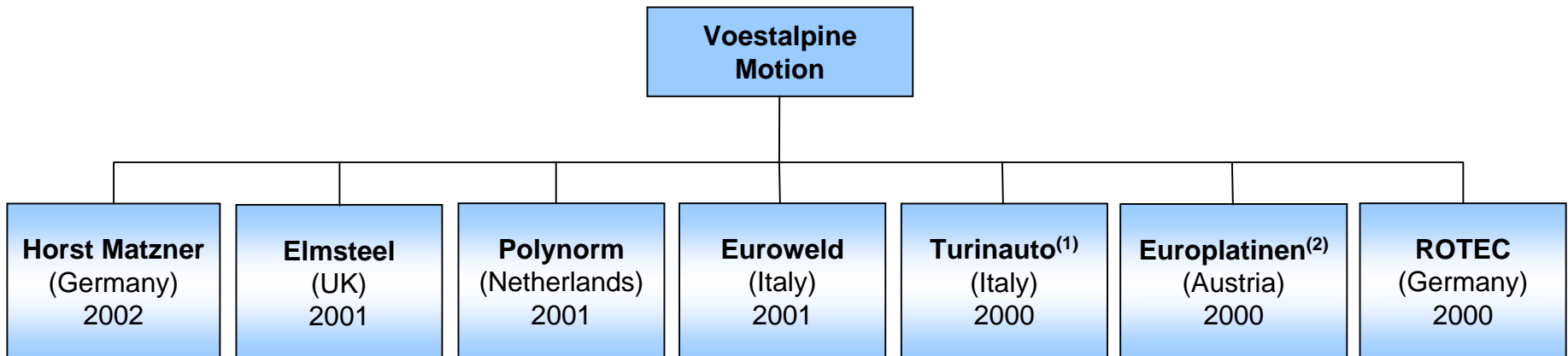
These developments are already progressing today, led by mills like Voestalpine, Arcelor and TKS

Voestalpine's strategy: "to become a processing group by acquiring new downstream business units".

Voest Alpine Stahl → Voestalpine

The company's new motto: "Let others make more steel, we make more of steel".

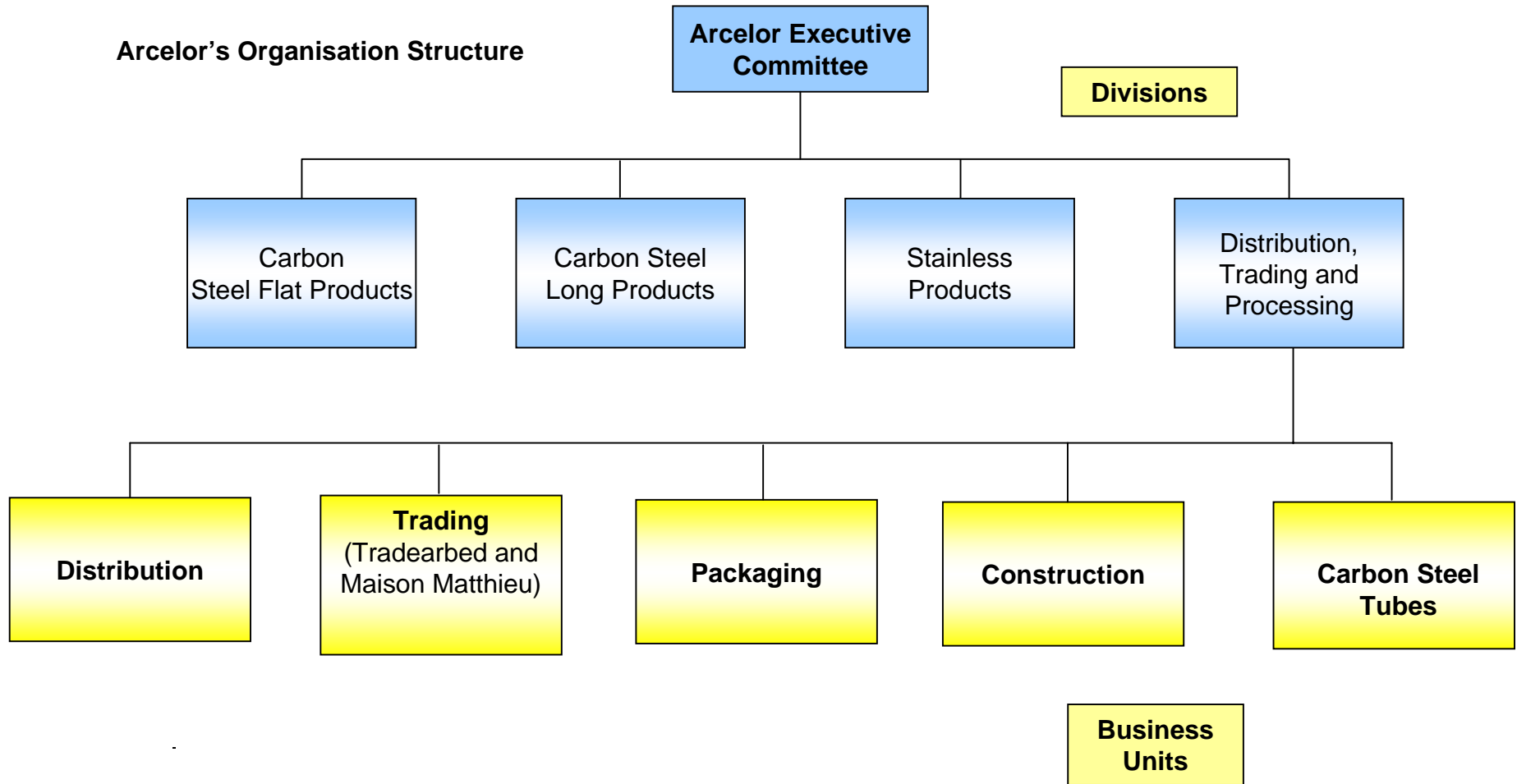
The 7 companies integrated in VA's "Motion" division were all acquired by VA in the last two years:



Source: Voestalpine, Hatch Beddows

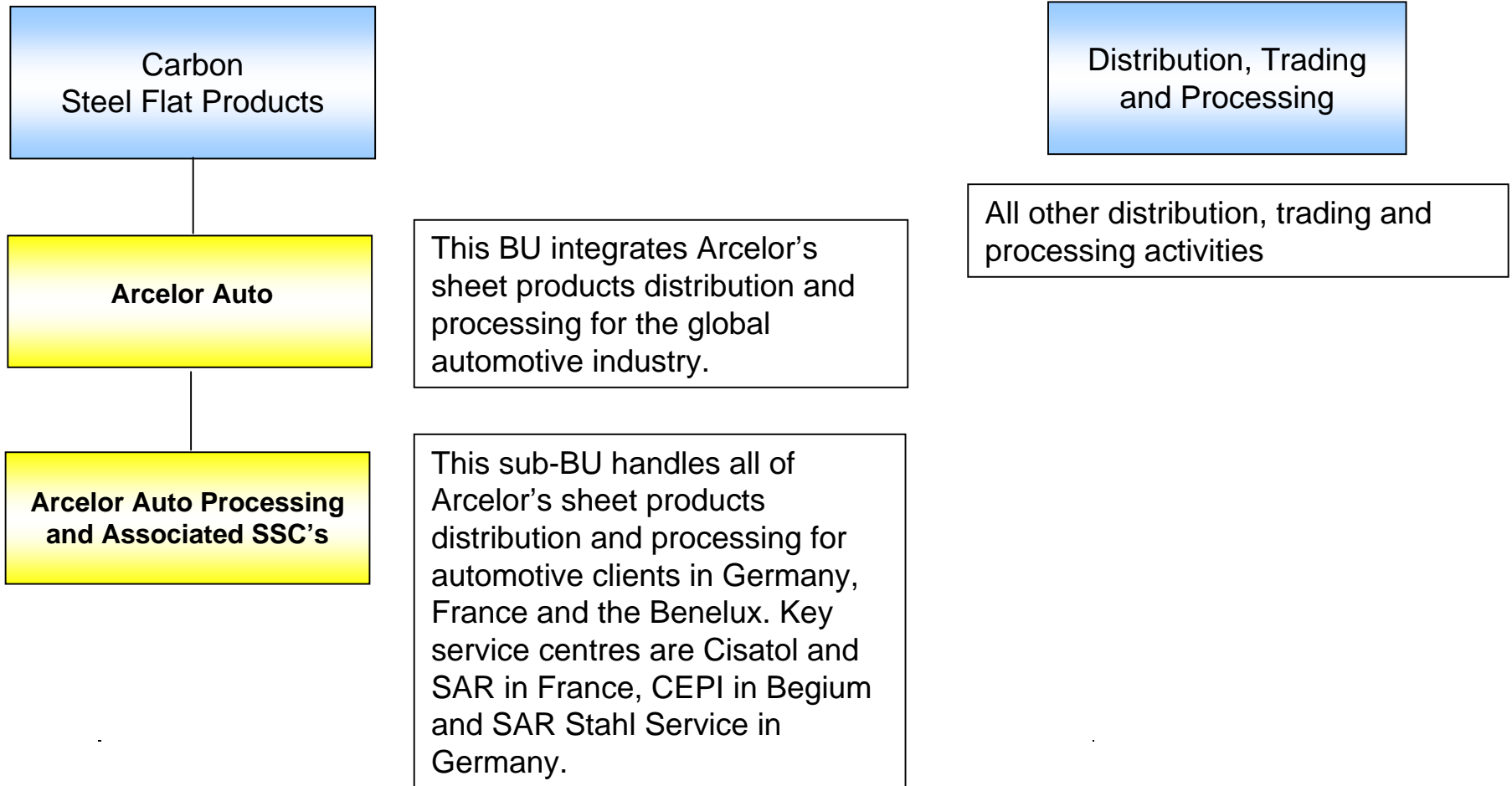
Note: (1) 33% stake (2) Increase of ownership to 100%

Following the merger with Arbed/Aceralia, Arcelor has organised its distribution activities into a separate division with 5 Business Units



Source: Arcelor/Usinor, Hatch Beddows

However, Arcelor Auto and Arcelor Auto Processing integrate all of Arcelor's sheet distribution and processing for automotive clients



Contents

- Introduction
- Distribution of Coated Sheet in Automotive
- **Distribution of Coated Sheet in Construction**
- Conclusions

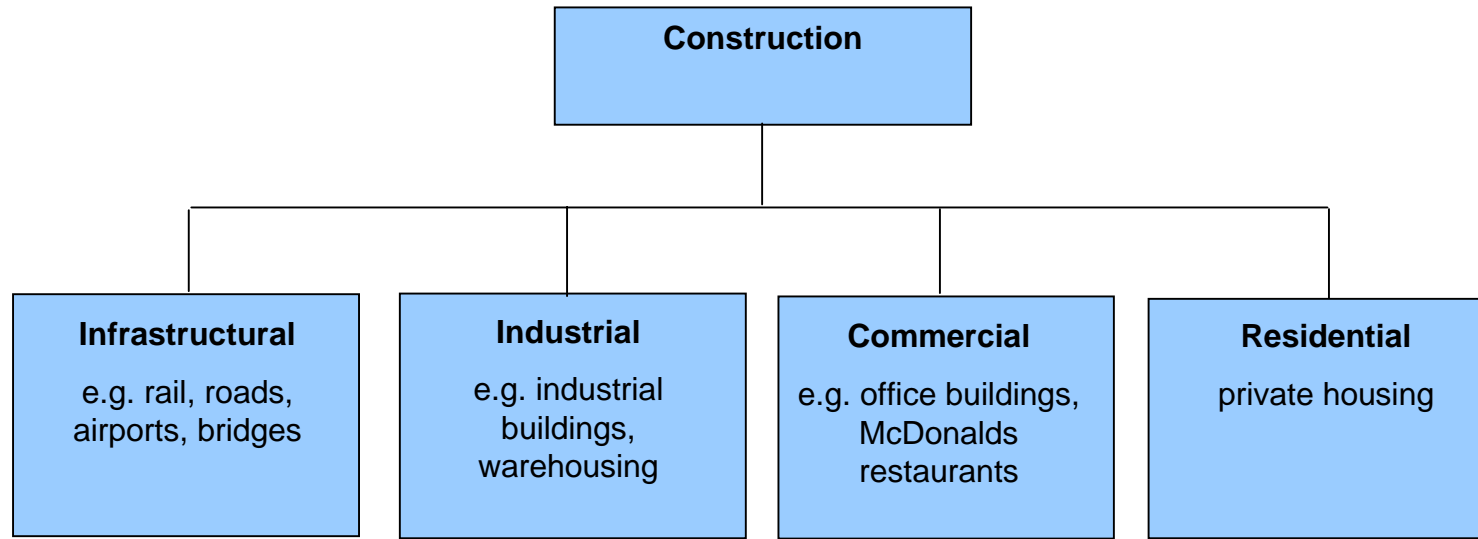
In contrast to automotive, the construction market is a 'pre-industrial' sector

- Construction is currently characterised as a series of sequential and largely separate operations.
- Projects generally consume all raw materials on the location of construction.
- Use of pre-fabricated construction components, systems and modules is still embryonic.
- Most steel products used in construction are of relatively low value.
- Most processing activities are relatively simple, requiring low capital and technology investments (cutting, slitting, profiling).
- Time management and cost control are notoriously slack.
- Supply chain management is relatively inefficient.

However, new pressures are pushing the construction industry gradually towards the automotive supply chain

- Customers are demanding better value for money and more sustainable buildings
- Clients want cross company material offers with supplier involvement
- Increasing use of building systems, components, modular manufacturing and pre-fabrication
- A number of companies are transforming into support service companies
- Non-value adding 'box pushers' are under increasing competition from web based technology

The construction industry can be segmented into 4 subsectors



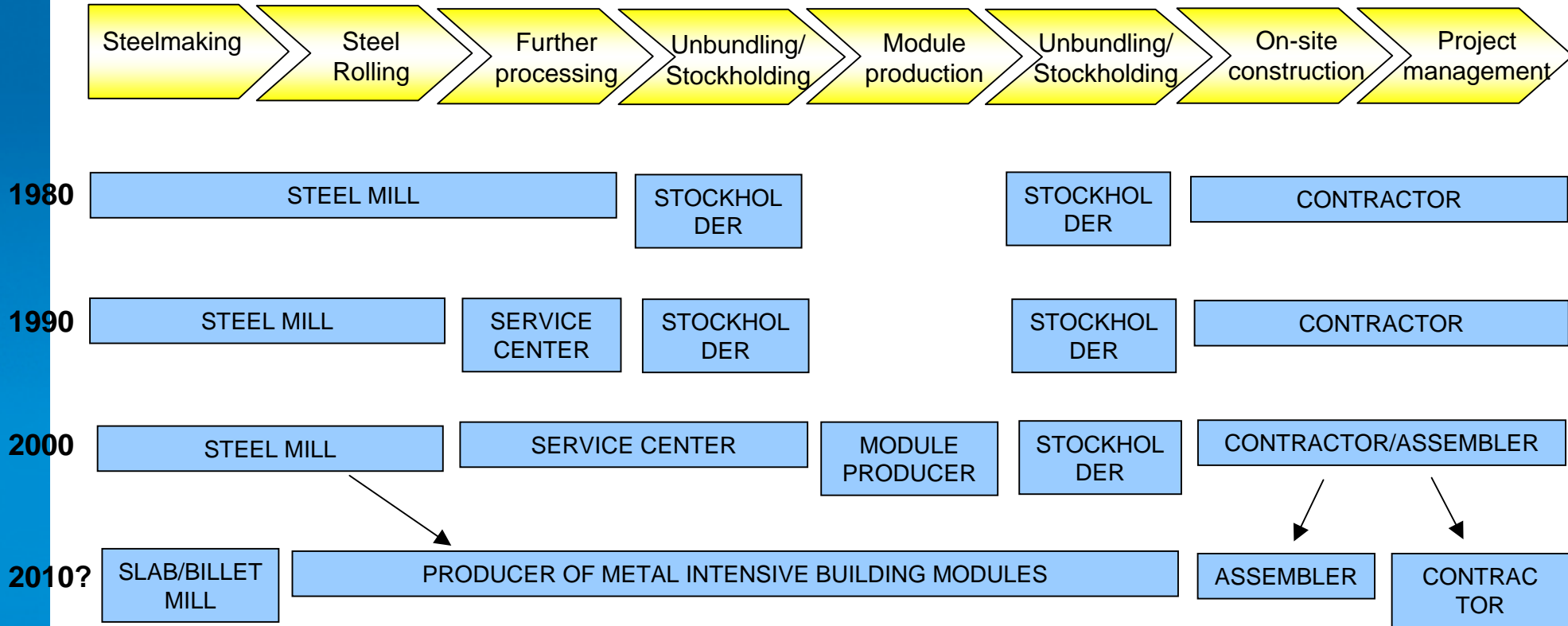
Relatively concentrated
suppliers and end-users

Short supply chain with
limited stockholding

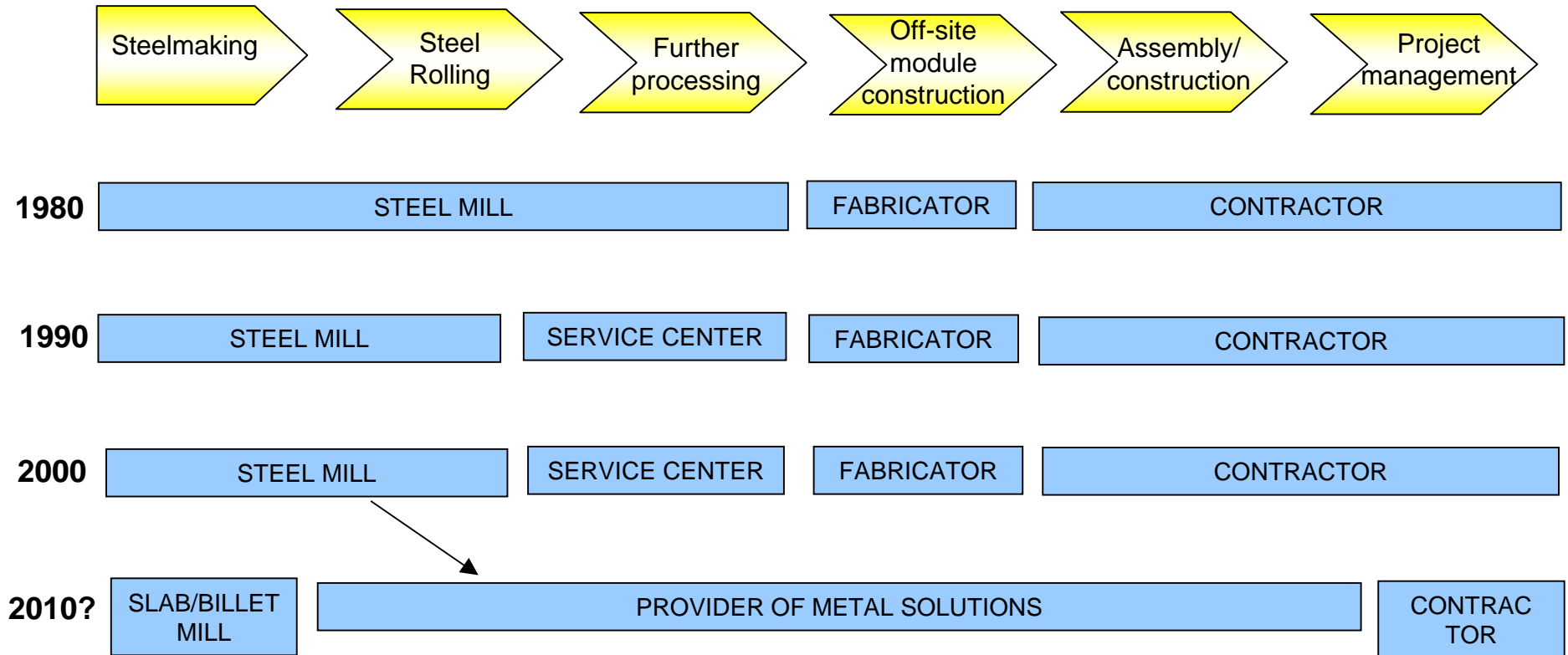
Fragmented suppliers
and end-users

Long supply chain with
much stockholding

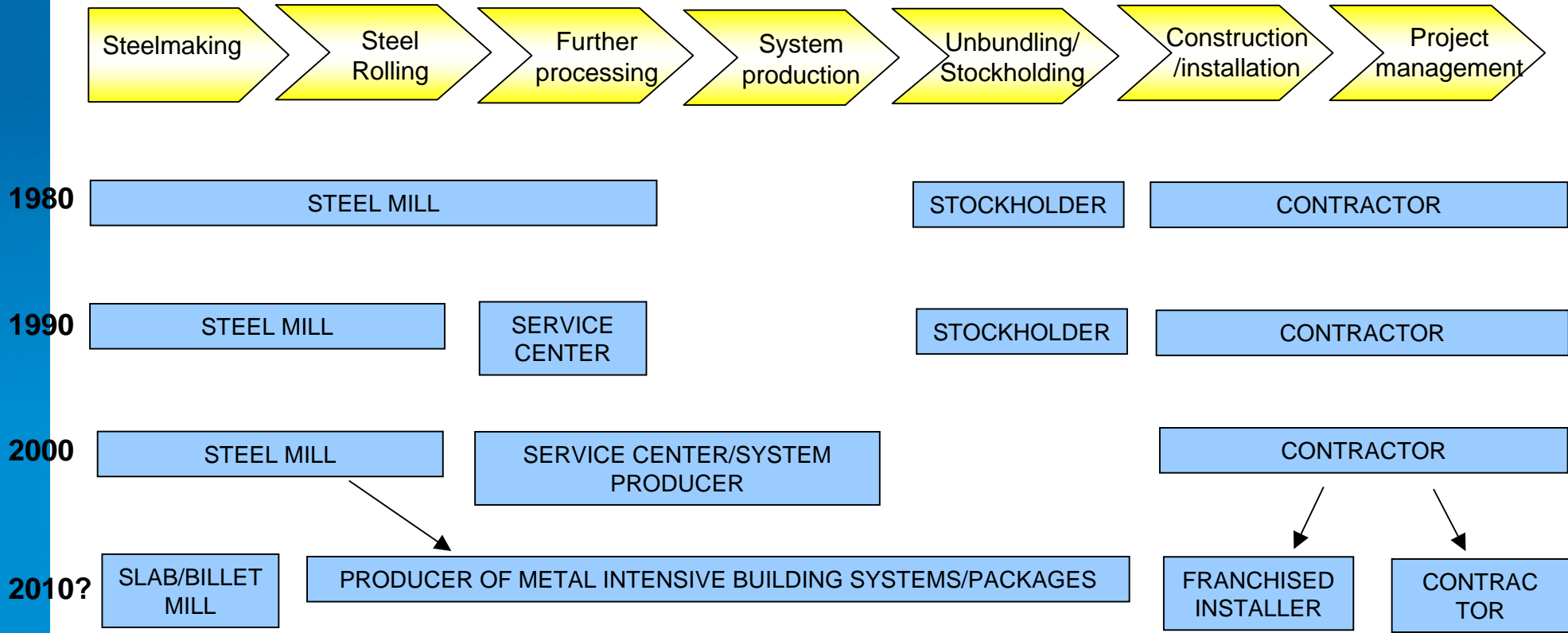
Residential construction: steel mills to redefine their role from supplier of steel products to producer of pre-fabricated metal intensive building modules



Infrastructural construction: steel mills to become full-fledged partner in project team, involved in design, engineering and managing of metal intensive parts of capital projects



Commercial/industrial construction: steel mills are evolving to producers of pre-engineered metal building systems, supplying standardised packages of structurals, enveloping and partitioning products



Steel mills have a role in restructuring and modernising the construction supply chain

Steel mills can use their relatively strong position to modernise the construction supply chain and have a role in:

- Understanding how the performance of construction end-products meets users' needs, and how these needs are influenced and delivered through specific engineering systems, components and building packages.
- Providing systems and components that facilitate site construction/assembly.
- Organising and managing the construction supply chain.
- Detailed designing, engineering and improving construction components that will provide standardised, innovative, robust and easily used "building blocks".
- Reducing non-value adding stockholding.

Contents

- Introduction
- Distribution of Coated Sheet in Automotive
- Distribution of Coated Sheet in Construction
- **Conclusions**

CONCLUSIONS

Steel producers are expected to evolve from integrated steel mills to integrated producers of metal intensive components, occupying a considerable part of the space between steel production and end-use consumption

- The de-integration of steel mills and increased outsourcing by consumers are opening up a gap in distribution activities
- Value is moving away from 1st order processing to 2nd order processing, services and component and system manufacturing
- In search of higher value, steel mills are moving downstream, integrating existing rolling and processing activities with new processing activities, component manufacturing and services
- As component producers, steel mills will no longer be requested to deliver steel but to provide solutions. As a result, they will need knowledge of:
 - complementary and competing materials, like plastics and aluminium
 - component design and production technologies
- Independent fabricators, service centers and stockholders will face increasing difficulties to survive on their own
- Distribution will become an 'internal issue', with component manufacturers integrating all tasks of inventory management, logistics, design, technical support and information management

Thank you for your attention!

Hatch Beddows

9 Dartmouth Street
London SW1H 9BL
United Kingdom

Tel.: +44-(0)20 79065100

Fax: +44-(0)20 72331908

Website: www.hatchconsulting.net