CHANGES IN DISTRIBUTION OF STEEL PRODUCTS

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Abstract: Steel industry is one of the most globalized branch, globalization has had the influence on iron ore supply, steel production and distribution as well. In last years, steel products distribution process has changed significantly, because of rising competitiveness due to common world market influence and main global players actions. The paper presents changes in steel products distribution in Poland focusing on main steel producers activity in distribution as well as distributors response on new market situation.

Keywords: distribution, steel industry

1. Introduction

Organization of sales of steel products has been formed in different countries throughout the development of steel metallurgy. A considerable role was played by traditions of commerce in each country and the level of customer expectations. Despite a variety of solutions for organization of steel products sales, some common tendencies can be observed in developed countries [7.]. In the fifties and sixties of the past century, the efforts of steel products wholesalers focused exclusively on control of flow of goods from manufacturers to consumers. Next decades, however, saw development of specialized steel products stores which rendered services of initial processing of the products [6.]. Thus reorientation of the role of distributors has changed, from ordinary *buy – store – sell* towards a more complex model which provided for processing materials into products of the utmost value to customers. This made the distributors to take over the functions previously performed by producers and customers while its role in the market has considerably strengthened.
However, the market of distribution is expected to be changing in the short run. The advantage of steel manufacturers is growing, although it does not mean that distribution companies will be forced out of play. Huge companies will, beyond a doubt, survive. Their position is stable – they own modern service centres, extend the range of covered services and goods. They consistently invest in service centres, steel products divisions and rebar shops. However, it is doubtful whether small commercial companies focused on ordinary trading will survive. Nowadays it is not sufficient to be competitive. In distribution market, the cooperation of manufacturers and distributors is essential [1.].
Current situation in the market consists in coexistence of distributors and manufacturers of steel products and companies owned by the manufacturers and, which is remarkable, these companies sell goods not only to their parent consortia but also to other consumers. The manufacturers also execute huge orders for the industry whereas distributors take advantage of easily accessible wide range of products and value-added services, which allows them for more efficient execution of orders from smaller customers [2.].

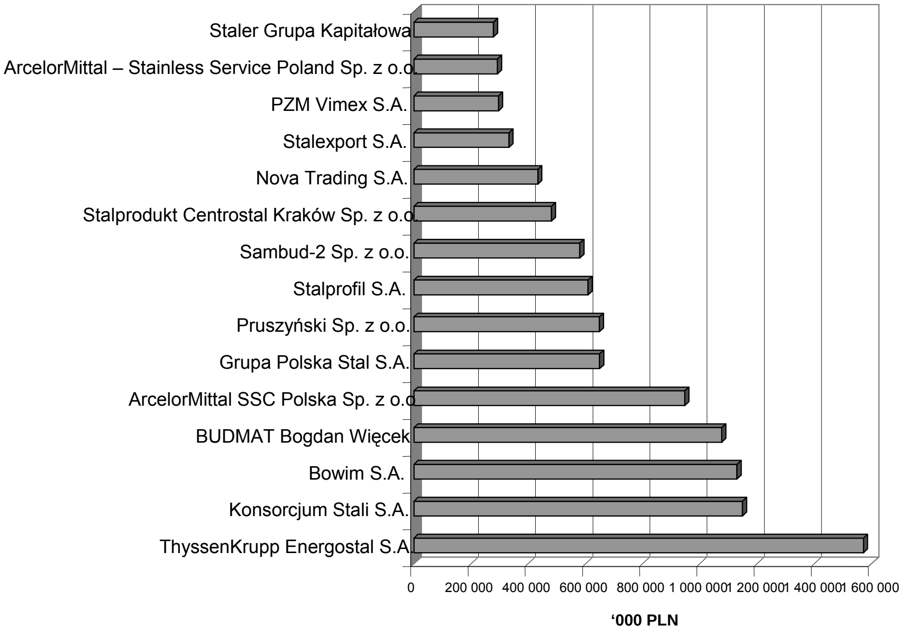

Fig. 1. Largest distributors of steel products in 2008 [turnover in thousands PLN]
Source: Author's elboration based on http://www.wnp.pl/ranking/ranking_dystrybutorow_stali.html

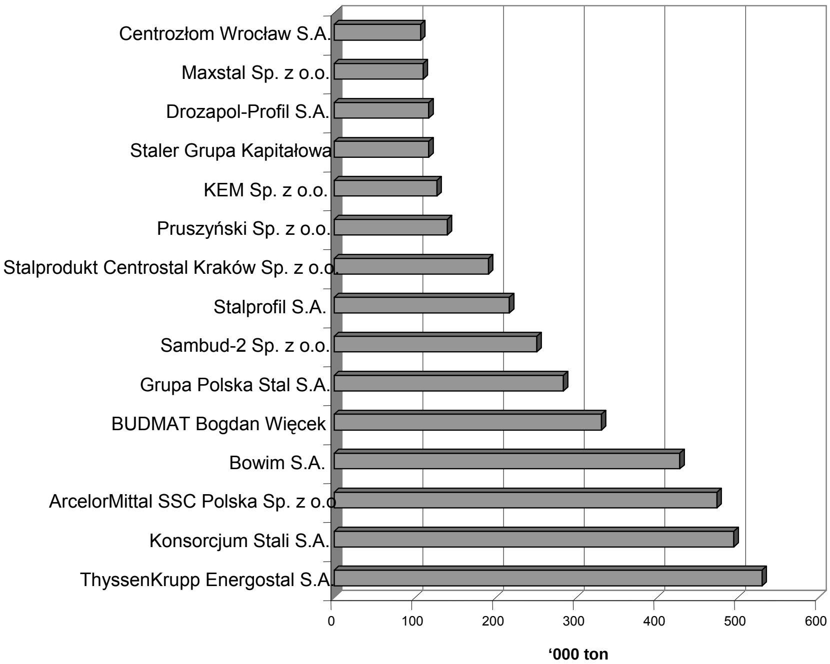

Fig. 2. Largest distributors of steel products in 2008 [tonnage in thousands tonnes]
** comparison does not include all the companies, e.g. Złomrex S.A., which, due to informational obligations towards bondholders, could not disclose the data before the binding stock exchange deadlines.*
Source: Author's elboration based on http://www.wnp.pl/ranking/ranking_dystrybutorow_stali.html

Distribution of steel products in Poland, as compared to the rest of Europe, is still disintegrated. Share of largest distributors in the market amounts to barely 20% whereas in France, five largest distributors hold 70% of the market, in Germany – 50%, in Spain – 45%. This situation is changing since the market stimulates consolidation processes. Distributors, who do not plan acquisitions and mergers so far, invest in development of companies, extension of sales networks and entering into new market segments [3.].
The effects of presence of Poland in the European Union include growing competition between steel products distributors. Western distribution companies are offering customers all-inclusive comprehensive services. They focus they efforts extension of logistics infrastructure and warehouses. New investments aim to ensure faster supply, availability of materials and wider range of products. Modern distribution does not consists in ordinary steel warehousing but it calls for high specialization and implementation of innovative solutions [4.].

2. Manufacturers as Distributors

ArcelorMittal takes a leading position in flat products manufacturing and it is almost certain that the company will plan to develop processing centres. The consumers need steel products which are primarily processed. This, on the other hand, causes that the existing service centres in the company, will want to strengthen their position and control the market. The fight for customers is heating up. Steel consortia offer new goods and services with a view to attract new customers. Distribution businesses, which will not be able to cope with growing competition, will find it difficult to survive in the market.
As results from ArcelorMittal plans, production of steel products will be supervised by Mittal companies while Arcelor is expected to manage distribution system. In 2007 in Krakow, ArcelorMittal opened new steel service centre. This investment was a consequence of the transitions anticipated in Polish steel market, which are going to occur in the near future. Enhanced quality and standards of the provided maintenance services is being expected. In this way, ArcelorMittal Poland is entering Polish market of products with higher value added, where customers' expectations of quality, services and supplies are growing. The consortium focuses on cooperation with customers in terms of sales. The supplies will be improved according to the principle of *On Time In Full*. The improvement in technical service and implementation of new products is also assumed. The company is also launching *One Face to Customer* system.
Implementation of the system was conducted with reorganization of the sales divisions, which involved appointing new managers responsible for each branch. Within the new structure of sales, each manager is responsible for particular markets, e.g. construction market, machine market or civil engineering industry market. These actions show that close cooperation with customers will become one of the main goals for ArcelorMittal Poland in terms of sales.
Other steel consortia which operate in the market also strive to attract customers. Through its own distribution network, CMC Zawiercie SA sales both for large and small customers. Around 40% of steel products in the company are exported. The steelworks could distribute products with good results, considering the fact that over 80 percent of products reach civil engineering sector. For civil engineering, the steelworks offers e.g. ribbed bars and rolled steel wire. The Industrial Union of Donbas (ISD) sells products through their own distribution network. ISD Polska is a company that manages Donbas investments in Poland. Furthermore, ISD Polska owns ISD Trade, which also trades Czestochowa steelworks' products. The structures of the Industrial Union of Donbas also include UGMK - Ukrainska Gorno-Metalurgiczeskaja Kompania, which is a shareholder of Centrostal Bydgoszcz.

Therefore, the steelworks more and more often extend their typical commercial activities, through investments in building new plants and warehouses and development of sales networks, service centres and rebar shops. Thus they are becoming a competition to the distributors.

3. Distribution Companies and Growing Competition

Distribution companies are starting to sense threats and seek niches in the market in the areas of interest of the biggest speculators. The position of distributors can be strengthened only through consolidation. So the process is developing, however not as fast as expected. Consolidation in the market of distribution might considerably impact on strengthening of distributors' positions and enhancing competitiveness.

Consolidation of distributors is not the only action towards defending market position; another strategic activities include investments, particularly in new areas of operation. The market will be conducive to large companies, which were previously restructured, invested in new products and extended the range of services. For example, distribution companies, enjoying prosperity in civil engineering market stimulated by Euro 2012 perspectives, extend the range of their services, consistently implementing the strategy of diversification of operation. In target model of actions, half of revenues are generated from production whereas the rest is earned from steel distribution.

The companies which intend to participate in projects connected with Euro 2012 and are already awaiting these opportunities, invest in building of commercial warehouses, rebar shops and steel products manufacturing plants in order to deliver finished goods as the need arises [5.].

4. Summary

Transitions in distribution of steel products described above, typical not only of Polish market, are the results of global strategies implemented in consortia in order to influence or acquire further links in distribution channels with a view to boosting profits on the generated value added. These actions are also followed by the actions taken by entities which previously focused on distribution in the form of consolidation, extension of the range of products or enhancing the level of customer service. This results in stronger competition and reduced profit margin, which seems to be next challenge for the branch of distribution of steel products.

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