

## TRANSFORMATION ON STEEL PRODUCTS DISTRIBUTION IN POLAND AND SLOVAKIA

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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 and Slovakia focusing on main steel producers activity in distribution as well as distributors response on new market situation.

*Key words:* Steel Products, Transformation, Distribution, Poland, Slovakia

**Transformacija raspodjele čeličnih proizvoda u Poljskoj i Slovačkoj.** Čelična industrija je jedna od najviše globaliziranih grana s utjecajem na opskrbu čeličnih proizvoda i njihovoj raspodjeli. U posljednjim godinama raspodjela čeličnih proizvoda značajno se promijenila glede utjecaja konkurencije u zajedničkom svjetskom tržištu i presudnim globalnim akcijama. Članak daje izmjene u raspodjeli čeličnih proizvoda u Poljskoj i Slovačkoj s naglaskom na najvažnije akcije proizvođača čelika i odgovarajuće raspodjele pri novoj tržišnoj situaciji.

*Ključne riječi:* čelika proizvodi, transformacija, raspodjela, Poljska, Slovačka

### 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 [1]. 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 [2]. 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 [3].

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 [4].

### DISTRIBUTION OF STEEL PRODUCTS IN POLAND

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 develop-

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ment of companies, extension of sales networks and entering into new market segments [5].

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 their efforts on extension of logistics infrastructure and warehouses [6]. New investments aim to ensure faster supply, availability of materials and wider range of products. Modern distribution does not consist in ordinary steel warehousing but it calls for high specialization and implementation of innovative solutions [7].

Thyssen Krupp Energostal is a leading distributor, both in terms of sales revenue and tonnage of products sold in all analyzed period (Table 1). The size of the profit achieved by Thyssen Krupp Energostal also ranked the company at the top of the rankings between 2006-2009. The company ended the 2009 year with profit reaching 19,3 million PLN and it was the second place among distributors of steel products.

Table 1 **Largest distributors of steel products in 2006-2009 [turnover in thousands tons]**

	2009	2008	2007
Thyssen Krupp Energostal	441	530	495
Konsorcjum Stali	418	495	174
Arcelor Mittal Distribution Solutions Poland	397	474	169
Bowim	365	428	367
Budmat Bogdan Więcek	248	331	318
Grupa Polska Stal	242	284	318
Stalprodukt Centrostal Kraków	223	191	198
Stalprofil	196	217	197
Sambud-2	154	251	302
Cognor	151	b.d.	b.d.

Source: [8]

In second place in terms of revenue was Budmat, that held also high places in previous years: 4 in 2008. and 3 in 2007. Budmat was also among the five largest distributors of steel in terms of both tonnage of goods sold and profits made by the company in 2009. (14,7 mln PLN - 3rd place) provides an effective management strategy. Third place in both rankings belongs to Arcelor Mittal Distribution Solutions in Poland, while the fourth company is Bowim. Konsorcjum Stali is the fifth largest in revenue from sales and second in terms of tonnage sold products distribution company in 2009. With the business development strategy, including investment projects, acquisitions and mergers with other companies.

## MANUFACTURERS AS DISTRIBUTORS

Arcelor Mittal 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 Arcelor Mittal plans, production of steel products will be supervised by Mittal companies while Arcelor is expected to manage distribution system. In 2007 in Krakow, Arcelor Mittal 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, Arcelor Mittal 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* [9]. 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 Arcelor Mittal 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 - Ukrainaska 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.

## DISTRIBUTION OF STEEL PRODUCTS IN SLOVAKIA

In 2009, consumption of flat steel products was almost 1 mil. tons in Slovakia. Before crisis demand for these products was 1,4 million ton. Main flat steel using sectors are: construction, automotive industry and mechanical engineering.

Steel leader on the Slovak market is local producer (USS) Steel Košice. This steelmaker covers more than 45 % of the Slovak flat steel demand. Other players are Arcelor Mittal, Voest Alpine, Thyssen Krupp and Dunafer. CIS producers from Ukraine and Russia represent almost 10% of the Slovak flat steel market [10].

We estimate that more than 50% of all steel products are shipped to end-users through service-centers and distributors and it is expected that their share will grow in the future.

Main reasons of the increasing trend are:

- Multi-item orders in small quantities
- Just-In-Times deliveries
- Narrow dimensional tolerances
- Commercial reasons
- Tailored blanks & specific formats

Similar trend, increasing deliveries to Steel Service Centers (SSC) and distributors was also noticed in the whole EU. In the period 2005 – 2010 the share of deliveries to SSC and Merchants has increased from 39 % to 46 %.

The favorable market conditions in Slovakia that caused significant consumption growth before crisis, especially in Automotive and Construction sectors encouraged also investments into Steel Service Centers and steel cutting capacities.

Main distributors and service centers in Slovakia are as follows:

*Ferona Slovakia*, a.s. in Žilina, was established in 1997. This company provides trade of metal products by own distribution network. Assumed annual volume of traded flat rolled products is 60 000 tons. area of warehousing facilities covers 350 000 sq. metres, warehouses' capacity reaches up to 50 000 tons. In 2008 was installed new cutting line in Bratislava. It is interesting that Ferona possesses own railway sidings including own five locomotives and waggons. [11]

*Raven* group consists of 2 joint stock companies: Raven a.s., headquartered in Považská Bystrica (Slovakia), and Raven CZ a.s. situated in Hradec Králové (Czech Republic). The company Raven a.s. was founded in the year 1993 and Raven CZ a.s. was established 9 years later in 2002. In 2008 Raven installed a 120 000 tons per year slitting line at its headquarters in Považská Bystrica. Raven purchases steel from regional mills, particularly US Steel Kosice, Dunafer in Hungary and Arcelor Mittal plants in Poland [12]. Assumed annual volume of traded flat rolled products is 80 000 tons. In 2005, the turnover of Raven a.s. equalled 186,25 milion EUR. The share of sales of Raven a.s. in 2005 had the

following structure: 88 % Inland, 10.5% Export – Czech Republic and 1,5 % Export – other countries.

*Metalex a.s.* was established in the year 1999. Metalex is a member of Montan Voss Group GmbH. Except U.S.Steel, Metalex purchases flat steel from Dunafer (Hungary), Vítkovice (Czech Republic) and Arcelor Mittal Poland. Assumed annual volume of traded flat rolled products is cca 90 000 tons [13]. The company not only trade steel products but also has a service center in Brezno with slitting and cutting lines.

*Arcelor Mittal Gonvarri SSC Slovakia*. This Joint Venture operates in a Service Centre in the city of Senica, 80 km to the north of Bratislava. With a area of 63 000 sq. meters and 19 000 sq. meters in buildings, its aim is to reach sales of around 250 000 tonnes in the next 5 years. [14].

Thyssen Krupp Ferrostav is a member of international corporation ThyssenKrupp AG. This distributor has been active on the Slovak market since 1996. Assumed annual volume of traded steel is cca 65 000 tons, Area of warehousing facilities covers 30 000 sq. meters. [15].

## SUMMARY

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 [16].

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 ac-

tions 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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**Note:** The responsible translator for English language is Rafal Wielgat, Częstochowa, Poland