

# The new rules of the game in the Indian steel market

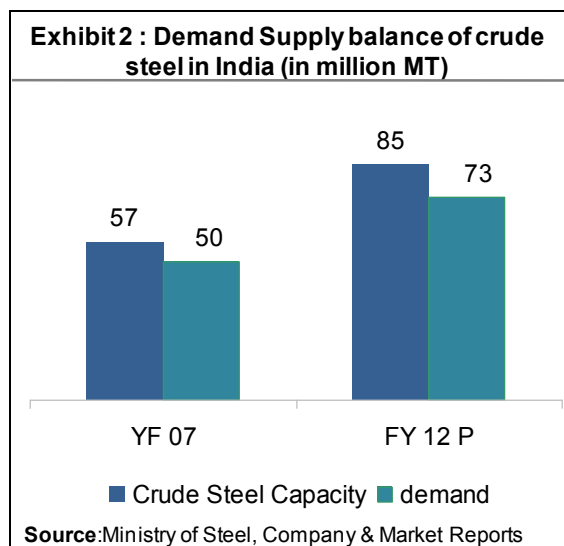
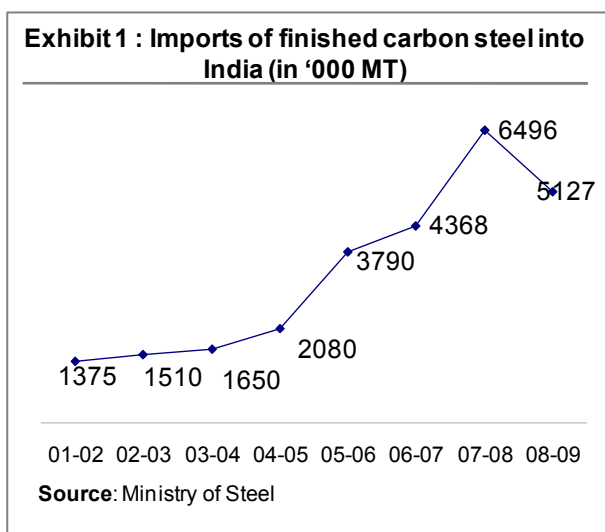
In the near future, the Indian steel industry is likely to witness increased competition due to a supply glut. Simultaneously, customer needs are becoming more complex as the industry evolves. Customers will increasingly prefer suppliers who offer customized service, reliability of supply and local processing of steel products. Only those steel suppliers who embrace these new rules of competition will survive and grow in the marketplace, say *Shripad Ranade* and *Achal Saran Pande* of Tata Strategic Management Group.

Globally, the steel industry is **on the path to recovery**, after some difficult months of dipping demand and tight credit. By October 2009, global crude steel production had rebounded more than 36 % after bottoming out last December. Our research shows that over the years, India's steel consumption has had a high correlation, of the order of 98 %, with GDP. Hence it is only to be expected that steel demand would revive even quicker in India, as the Indian economy is recovering quickly from the downturn. The Indian steel industry is already witnessing a revival in demand in key sectors like transportation. However, even as the industry heaves a collective sigh of relief and looks forward to better times, there are **underlying competitive trends** that have continued to gain momentum through this downturn.

In anticipation of the revival of demand, a host of domestic players are proceeding with **capacity additions**. This explosion in capacity is compounded by India entry plans announced by global steel majors. At the same time, existing players are diversifying into new segments, niches, and broadening their geographic reach. There are external pressures as

well. With India being one of the few buoyant economies globally, foreign players are keen to push their products into the Indian market. Thus, **imports** have increased rapidly over the past few years, driven by cost arbitrage and lower tariff barriers (Exhibit 1). Availability of **higher strength grades** of steel at competitive prices in the global market are likely to continue driving imports, with only some import substitution possible by domestic manufacturers. A case in point is steel plates imported from the CIS region. Meanwhile, major financial sector participants expect the **Indian rupee to appreciate** as much as 10 % against major currencies over the next couple of years. This could make imports even more attractive to Indian customers.

Over the next few years, these trends will work in tandem to create significant **over supply** in the Indian steel marketplace. We expect this to result in a domestic capacity overhang of over 12 million MT by FY2012 (Exhibit 2). This will dramatically increase the intensity of competition in what was hitherto a largely closed, stable market where each major player enjoyed an entrenched market position.



Till very recently, steel marketers in India have employed traditional sales techniques, which sufficed in retaining the market shares carved out in a largely closed market. Actions such as tactical pricing, OEM customer value management, targeting selected geographies, and differentiating on product quality have been the mainstay. However, the tactic of pure price play is short-lived and unsustainable, and customer centric programs have largely been targeted only towards large customers and OEMs. In the process, the smaller manufacturers and component suppliers, who represent as much as half the total steel demand in certain product categories, have been “**under-serviced**”.

When the **entire steel market** is looked at, including smaller customers served through “trade”, it is clear that customer requirements are complex, and they vary not only across customer segments but also **within the same segment across geographies**. Requirements differ not only on product specifications, price appetite and credit needs, but also on service expectations, logistics needs and the **degree of processing** required.

**Case: Some segments have latent product processing needs**

- When supplying to **automotive wheel** manufacturers, it is necessary to offer the full range of specifications (typically this is 5 to 15 mm thick plates for commercial vehicles and 2.5 to 5 mm HR coils for passenger cars)
- The wheels are produced out of two components - The steel sheet is slit, sheared, bent, welded and subjected to cold flow forming to make the “rims”, but it is simply blanked and press formed to make “discs”.
- The material yield when producing discs is only about 80 % - the wheel manufacturer could hence benefit by buying blanks, rather than sheets, for making the discs
- Whether he chooses to pay for blanking would however depend on factors such as his sunk investment

All in all, our research across sectors in the Indian steel marketplace suggests that **new ways of competing** are evolving. The cornerstones of the new approach are reliable supply, the ability to provide a processed product to the customer, in line with his requirements, and most importantly, customized service. A beginning has been made,

with some market players now identifying and addressing latent opportunities for processing.

**Case: Delivering processed products**

- **Steel reinforcement bars (rebars)** are traditionally fabricated at construction sites, employing labour and semi-automatic machines. Although cutting and bending steel rebars is relatively straightforward, a “**service centre**” is better equipped to maintain quality and accuracy and achieve proper fit. One leading player has invested in top-of-the-line imported fabrication equipment to cater to this sector in an area of Northern India. The setup delivers dimensionally accurate stirrups and complex shapes on a just in time basis.
- In the automotive sector, OEMs increasingly see value in receiving **processed flat steel products**, shipped in alignment with their assembly line schedule. For example, a leading service center in Southern India fabricates and supplies **chassis long members**, rather than sheet metal, to a manufacturer of commercial vehicles.

However, it is not enough to include a standardized processing or service component in the offering. Our extensive research shows that **each steel consuming hub in the country differs in its service requirements from other hubs**. It is hence essential to see the market not as one homogeneous territory but to **customize the service strategy** to each of the hubs. How should steel marketers equip themselves to compete in this way?

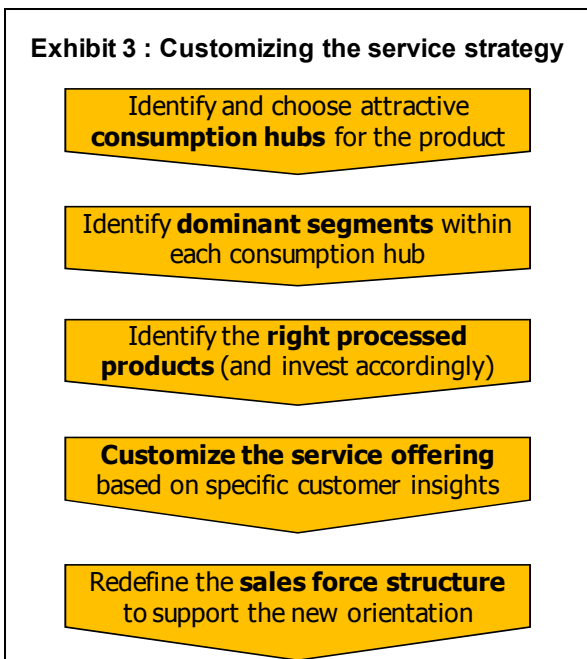
Customizing the service strategy requires a structured process to be followed (Exhibit 3). Such an exercise would result in a **customized** “service centre” solution for each consumption hub.

**Case: Requirements within a segment vary across geographies**

- Sheet steel requirements for **automotive exhaust systems** vary widely, across OEM designs and additionally because of the lower quality expectation of the after market. But overall, most demand is for **cold rolled or stainless steel**, rarely thicker than 1.6 mm. However one major consumer in Northern India uses much thicker **hot rolled** sheets, as thick as 4.5 mm
- More interestingly, we found that while several exhaust system producers maintain a **sheet steel inventory worth a week of production**, one producer keeps a month’s stock – while another producer in Western India successfully operates on **just 2 days of stock**, depending on reliable local supply from a leading steel supplier

Some leading Indian steel suppliers have started building service centre networks across the country to channel their products. The critical decision at the moment is to choose the **right service centre configuration** – captive / third party / mixed and in some cases only an upgrade of the existing channel.

- A large primary player, in a joint venture with a company specializing in flat products processing, has set up a service centre **close to its integrated steel plant**.
- Another player has chosen to have their **own service centres** at several hubs around the country, and uses its existing marketing setup.
- A group company of a leading automotive OEM has set up a **dedicated service centre** near the automotive plant to serve only that OEM's requirements.
- Another large private player has tied up with a global player in the service centre business and established **service centres at several hubs across the country**, with a different processed product mix at each hub e.g. rebar processing for the construction industry, coil processing for the automotive industry, and plate cutting for the off-road vehicle industry.
- In some smaller hubs, or where demand is fragmented, putting up processing facilities may be unviable. In such markets, the **existing trade channel can be upgraded**, to customize the offering to some extent and to gain market insights.



In more evolved markets, service centres have become the **dominant model for product delivery** and offer a **large basket of customized services**. The Indian steel marketplace is yet to evolve to this level of customization.

- One of the major European steelmakers is a leader in the marketing, processing and just in time distribution of **high-grade automotive flat steel** in **North America**. Apart from standard processed products like precision slit coils, blanks, pressed blanks and cut to length sheets it also provides services like metallurgical testing and engineering services, part sequencing for JIT delivery, and sub-assembly services (including kitting, labeling and bar-coding). For example, it suggests suitable joining technologies for every steel product in its portfolio, and conducts research on new joining techniques.
- For the aerospace industry, this player provides supply chain management support to companies like Boeing, Rolls Royce, and Bombardier. This includes coordination of order management, purchasing, storage, processing, packaging and delivery.

While the primary objective behind setting up a service centre network is to secure and grow market share, many other important **benefits** accrue as a result –

- efficient **demand aggregation** for the steel mill
- higher **productivity** for the mill and the customer and reduced total cost across the system
- reduced **handoff and logistics costs**, translating into cost savings for the supply chain
- a direct window for the steel maker to gain **customer insights** and develop products for the future

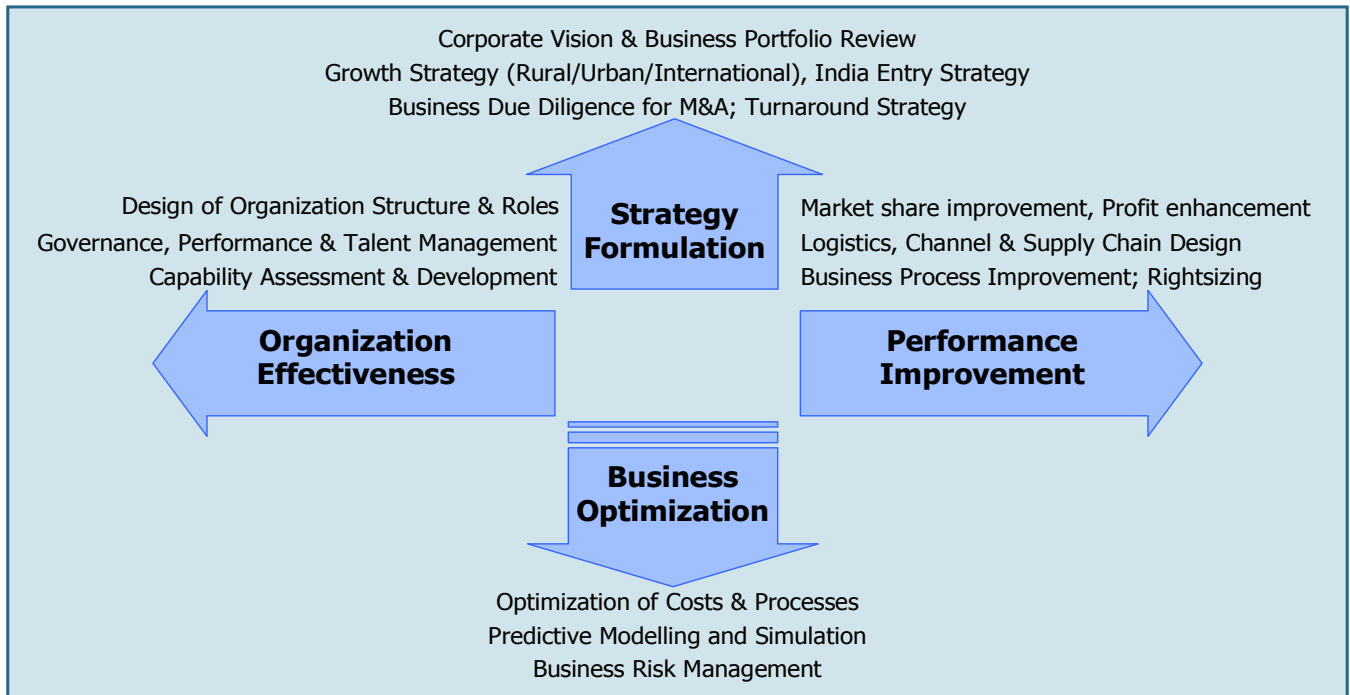
As the Indian steel market evolves, augmenting and customizing the service component of the offering will become **not a choice but a necessity** for survival. Only proactive players, who adopt these new rules of the game before their competition does, are likely to **secure and grow their market share** in India in the coming years.

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**About the Author:**

Shripad Ranade and Achal Saran Pande are part of the Automotive and Engineering Practice at Tata Strategic Management Group.

Shripad has about 12 years of experience in industry and consulting. He has worked with leading international and Indian companies in the metals, automotive, and retail sectors, in competitive / growth strategy formulation, India entry, business planning, process improvement, cost reduction, supply chain management, sales management, and international business development.

Achal has about 7 years of experience in industry and consulting. He has worked with some of India's leading companies in the metals and engineering sector, in competitive / growth strategy formulation, feasibility assessment, process / performance improvement, steel mill operations and maintenance management.



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