THE PROCESS OF STEEL AND METALLURGIC PRODUCT DISTRIBUTION IN POLISH MARKET

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PROCES DISTRIBÚCIE OCEĽOVÝCH A HUTNÝCH VÝROBKOV NA POĽSKOM TRHU

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Abstrakt

Príspevok opisuje zmeny, ktoré sa realizujú v procese distribúcie oceľových a hutných výrobkov na poľskom trhu. V Európe sa tovar predáva prostredníctvom sprostredkovateľov, zástupcov. V Poľsku oceliarne organizujú predaj svojich výrobkov. Vo svete sa distribúcia uskutočňuje pomocou sietí a centier s najlepšími informačnými riešeniami. Spolupráca v rámci informácii je základným prvkom distribučného systému.

Abstract

The paper shows what changes are realized in the process of steel and metallurgical product distribution in polish market. In Europe goods are sold by mediator, agents. In Poland steelworks plants organize selling of their goods. In the World distribution is realized by nets and centres, that have got the best informational solutions. Channels co-operation are the basic elements of distribution system.

Key words: distribution of steel and metallurgical products**,** distribution channels, distribution networks, simultaneous marketing (SM)

1. Introduction

As a product manufacturer, a steel company is also directly or indirectly involved in the process of steel and metallurgic product distribution. Distribution is a marketing tool used for arranging accessible and convenient spots for the buyer and organizing different product sales methods. Distribution is a process employs all management functions (planning, organizing, managing and controlling). Distribution channels constitute the base of the distribution process. In the metallurgical industry distribution is a specific structure of the steel products sales. The structure is made up by all business entities whose role is to offer the products to customers [1]. In contrast with the European Union states, where the steel products distribution is predominantly handled by specialist distribution companies (or a distribution network), in Poland distribution is directly dealt with by manufacturers (steelworks). Consequently, Polish manufacturers incur excessive cost and risk. In the future the steelworks

will seek specialized, metallurgic product distribution networks. This article presents the principles of metallurgic product distribution, taking into account the key directions of changes.

2. The principles of steel products distribution

When proceeding to the distribution of steel products their manufacturers take into consideration a variety of factors such as the localization of points of sale (purchasers), the sales volume and type, service methods or the scope of additional services provision. The steel products distribution channels may vary in length, depending on the number of intermediaries, as well as in width, depending on the number of intermediaries on the same level. The shortest distribution channel is direct distribution which takes place when the metallurgic products manufacturers themselves provide their products to customers. Table 1 below shows the classification of basic distribution channels.

Table 1 Classification of distribution channels in metallurgical sector [1]

Classification criteria	Channel types
Participation of intermediaries	direct, indirect.
Property type	own, external.
Channel structure	short, long, narrow, wide.
Flow	steel and metallurgical products, information, payments.
Channel's importance for the manufacturer	basic, auxiliary.
Degree of innovation in the channel	conventional (traditional), modern (network).
Type of relations linking the distribution channel participants	long-term cooperation agreements, the so-called partnership agreements, short-term agreements, other, e.g. periodic orders, cooperation within internal and specialist communication networks, traditional cooperation (telephone, fax, e-mail, personal contacts).
Channels' range (localization)	domestic (distribution within a given country) foreign (international sales networks), combined.

Having analyzed the sales process in the metallurgical sector one can indicate specialist companies that handle the sales of metallurgical products, distribution networks, company agencies, shops and manufacturer's trading branches (table 2).

Prior to the distribution process planning, steel companies analyze customers' needs, define the distribution strategy, identify possible variants of actions and make a selection of the best distribution channel [3]. The most common criteria used by steel companies in the choice of a channel include: the structure of the distribution network, frequency of purchases, the size and absorption of the market, distributor's marketing position. In the customer service process state-of-the-art IT solutions are used. Through the distribution channels the flow of both the steel products, copyrights, payments and information (purchase order, quote, sales contract) is made. Considering the aforementioned flows, banks, advertising agencies, warehouses, transportation, logistics and forwarding companies are also participants of the distribution channel.

Table 2 Basic forms of steel products sales [2]

Type of trade intermediary	Scope of activity
Sales distributors	Sales distributors purchase products directly from the manufacturer or manufacturer's agents as well as from manufacturer's trading branches with a view to selling the products to end-customers or other intermediaries.
Distribution networks	Distribution networks are created as a result of partnership strategy (cooperation, consolidation) in order to gain a competitive advantage. The are based on an efficient computer network, maximization of the customer service quality, modern distribution channels and strategic and cooperative connections.
Manufacturer's agents	Manufacturer's agents are independent representatives of a given manufacturing plant or, in fact, its products (they tend to sell products of one or several different manufacturers). They sell products to sales networks or directly to end-customers.
Manufacturer's trading branches (offices)	Trading branches are set up by a manufacturer to handle product distribution to sales networks or to sell products directly to end-customers.

3. New trends in steel products distribution

The economy of the EU member states attempts to adjust to the global economy where fierce competition is prevalent due to limited possibilities of manufacture products sales. Manufacturers increase their production designing new product models and patterns and reorganizing distribution processes. Businesses responsible for steel product distribution, on the other hand, establish distribution networks and service centres based on modern technological and IT solutions. Market analysts claim that metallurgical products innovation strategies, manufacturing engineering strategies (new manufacturing technologies) along with the distribution and customer service system play a key role in competition on the global steel market. It needs to be stressed that those three systems i.e. manufacturing, distribution and customer service should apply the so-called simultaneous marketing (SM) [4] in order to accomplish the end result inertia which is the growth of product sales. The latest reports on changes in steel products distribution demonstrate that dramatic changes will soon take place in the metallurgical sector. The product delivery cycle in domestic and international transportation will be shortened [4]. At present, owing to the development of electronic communications, those cycles already function faster. Products offered by various companies are presented on their websites and customers are given an opportunity to communicate via the Internet and other internal and specialist communication networks. Goods can now be purchased off the Internet and in such a case a given product is automatically set aside by the manufacturer or distributor. In the metallurgical sector a very wide assortment of goods is distributed, while an effective use of IT tools assists customers in making the right choice and purchase. The distributors of metallurgical products are required to place purchase orders systematically, to budget costs, to thoroughly plan sales and, first and foremost, to meticulously follow and keep trace of individual transactions. Thanks to the latest IT solutions distributors can manage the assortment of goods sold in a multitude of sizes and sorts (type, quality parameters). IT systems enable their user to avoid problems related to inventory and analysis of goods purchased in individual steelworks and their parameters (such as heat, diameter, pipe or sheet type, the angle or radius of cutting and bending, reductions, diameters, welds). It is also possible to obtain any analytical comparisons and define detailed sales volume for the whole assortment. The information acquired in this way is the basis for the preparation of a competitive offer. The high value of a single purchase order does not allow the distributor to make mistakes in its processing. The

electronic circulation of documents allows for diminishing the error rate and accelerating purchase order execution. In addition, IT systems provide information about the customers. Access to this information is helpful in setting terms and conditions for regular and special customers (amount, prices, delivery conditions, etc.). It must be added that a modern distribution system is founded on operational controlling. Operational controlling is a process involving the assessment and correction of the tasks carried out in terms of the evaluation of targets met. It consists in collecting, estimating and analyzing information that aims at correcting improper elements in distribution as well as in identifying the possibilities of improving the process. Controlling enables distributors to rationalize delivery costs. It is implemented by specialized task groups that comprise: coordinators, planners and controllers. [5]

Nowadays it is steel distributors that are responsible for the quality of the metallurgical assortment on sale and, therefore, each delivery is accompanied by attestations and certificates. Those documents allow for the traceability of goods whereas modern technological and IT systems, increasingly common in metallurgic products distribution, make it possible to track and monitor the path of a given batch of products and its quality parameters. As regards the frequency of purchases, steel plants may apply an intensive distribution strategy with frequent deliveries, a selective strategy with periodic deliveries and an individual strategy which is tailor-made to suit a given customer's specific needs.

In Poland the dominant type of steel products distribution is direct sales, i.e. sales directly from steelworks to the end-customers. The market share of sales via distributors i.e. intermediaries is around 18-22% (fig. 1).

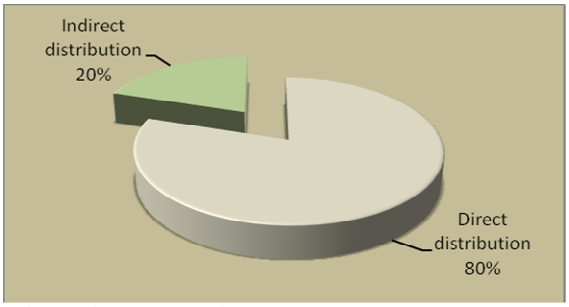

Fig.1 The key forms of distribution of steel and metallurgical product in Polish market [6]

In the rest of Europe, however, the situation is reverse. Over 65% of steel products are sold via wholesale intermediaries and specialist distribution networks equipped with, among others, modern service centres (fig.2).

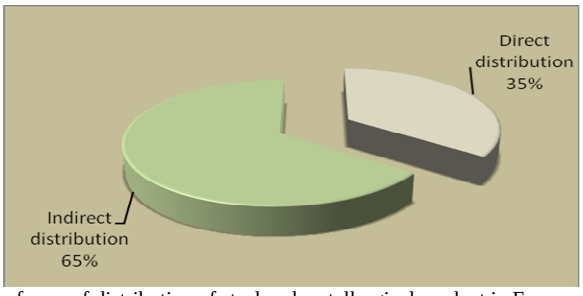

Fig.2 The key forms of distribution of steel and metallurgical product in European market [6]

Table 3 Ranking of the biggest Polish distributors of steel [8]

Lp.	Firma	Income from sale net	Profit net	Own capital net	Net weight from sale	Employment
		01.01.2007-30.06. 2007	01.01.2007-30.06. 2007	in 2006	01.01.2007-30.06. 2007	31.12.2006
		in 2006	in 2006	in 2005	in 2006	31.12. 2005
1.	GRUPA KAPITAŁOWA ZŁOMREX www: www.zlomrex.pl	1 569 241 000 1 942 514 000	81 382 000 97 100 000	lack of data	628 000 932 000	lack of data
2.	THYSSENKRUPP ENERGOSTAL SA www: www.thyssenkrupp-energostal.pl	939 730 000 1 506 400 000	lack of data 77 556 000	207 842 000 169 131 000	259 148 477 892	698 683
3.	STALPRODUKT SA www: www.stalprodukt.com.pl	834 802 000 1 312 823 000	191 963 000 273 153 000	572 209 000 339 403 000	lack of data	2 084 2 043
4.	GRUPA POLSKA STAL SP. Z O.O. www: www.gps.net.pl	398 905 173 620 360 680	652 832 689 652	4 210 557 3 521 000	180 770 lack of data	14 13
5.	GCB CENTROSTAL BYDGOSZCZ SA www: www.centrostal.pl	377 484 400 632 363 410	5 669 100 16 352 030	47 391 210 lack of data	127 429 251 000	479 lack of data
6.	GRUPA KAPITAŁOWA SAMBUD-2 K. STĘPAK I WSPÓLNICY www: www.sambud2.com.pl	336 284 000 620 000 000	9 772 000 20 300 000	lack of data 59 459 000	153 000 308 000	258 250
7.	NOVA TRADING SA www: www.nova-trading.com	307 973 000 475 820 000	lack of data	lack of data 39 813 000	19 138 33 050	187 173
8.	BODEKO SP. Z O.O. www: www.bodeko.com.pl	305 064 980 501 988 000	12 632 097 12 023 000	35 321 000 44 743 925	136 421 248 341	188 199
9.	CENTROZŁOM WROCŁAW PRZEDSIĘBIORSTWO PRZEROBU ZŁOMU METALI www: www.centrozlom.com.pl	276 483 000 461 162 000	lack of data 13 726 000	lack of data 116 240 000	47 000 lack of data	408 lack of data
10.	STALPROFIL SA www: www.stalprofil.com.pl	268 225 000 466 199 000	12 104 000 26 798 000	136 823 000 118 933 000	110 022 205 870	lack of data 107
11.	BSK RETURN SP. Z O.O. www: www.bskreturn.com.pl	240 481 929 lack of data	6 199 593 lack of data	lack of data 7 400 000	193 707 lack of data	lack of data 68
12.	STALEXPORT SA www: www.stalexport.com.pl	231 236 000 528 041 000	lack of data 1 990 000	105 775 000 1 399 000	79 700 225 222	lack of data 280
13.	KEM SP. Z O.O. www: www.kem.com.pl	221 187 000 420 754 000	2 938 000 1 040 135	lack of data	55 611 103 084	lack of data
14.	MONTAN STAL SP. Z O.O. www: www.montanstal.pl	184 768 100 286 763 268	3 370 170 4 309 041	16 871 604 12 562 562	78 540 130 630	lack of data 50
15.	DROZAPOL-PROFIL SA www: www.drozapol.pl	152 179 000 149 217 000	7 074 000 6 584 000	19 996 500 32 849 682	70 000 75 000	lack of data 146

The distribution system operating on the Polish market (direct distribution) is ineffective and generates costs for the manufacturers. The market of distributors, rather fragmented now, is bound to undergo changes in the next few years. A certain consolidation of distributors is already visible on the Polish market, which may result in a change of the steel

products distribution methods. Distributors are making investments in modern service centres and steel yards and extending their service offer. Cutting metal plates into sheets has become a standard now. The newly established service centres also process hot-rolled metal sections offering a wide range of services including cutting, painting or sand-blast cleaning. Large steel companies, on the other hand, such as ArcelorMittal focus on the improvement of their supply chain. Currently ArcelorMittal has 35 trading branches in 24 European countries and plans to create a uniform and compatible product distribution and sales system, the so-called 'one face to the customer' system. The new sales system will be based on three parameters: delivery, quantity and quality. Complete and timely deliver, flexible response to customer's need, computerized services, long-term agreements, negotiating prices, service prices as well as metal sheet cutting and processing services are just a few in a number of changes introduced by ArcelorMittal to its product sales system [7]. In table 3 the ranking of the biggest Polish distributors was presented.

4. Summary

In Europe the sales of steel products is carried out via specialist companies. Due to high costs and risk involved manufacturers handle distribution to a very little extent. In Poland, however, direct distribution remains prevalent and steel plants sell their products to end customers. Nevertheless, certain changes can be observed, such as: the consolidation of distributors in the metallurgical sector, distributors' investments in modern service centres offering steel products cutting and processing, putting emphasis on the preparation of a competitive offer. In addition, IT companies provide increasingly good solutions for distribution and product tracking in the distribution channel. ArcelorMittal, the biggest steel company, has already adopted a supply chain improvement strategy. The new system solutions are based on IT compatible solutions that take into account the three fundamental parameters: delivery time, process costs and quality of products and services rendered.

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