A Study On The Distribution Strategies Of Steel Manufacturers In India

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INTRODUCTION

India, the fifth largest steel producer in the world (more than 56 million tonnes of saleable steel was produced by India in 2008-09), has been steadily emerging as one of the major powers in the global steel arena. Apart from SAIL, RINL (Rashtriya Ispat Nigam Ltd., Vizag) and TATA Steel, who are the main producers, other manufacturers in the private sector such as JSW, Essar and Ispat[1] have emerged as major producers of steel in the last 10-15 years. All the above mentioned players have integrated steel-making facilities and have been constantly upgrading their facilities in terms of quality, quantity and product mix. Though the global economic slowdown has impacted the Indian steel industry also, it still managed to post a modest growth of 0.6 % for the fiscal 2008-09, unlike other steel producing countries viz. US, UK and Japan, which witnessed a sharp decline in the production of steel. Provisional production figures of saleable steel in India for the year 2008-09 are given in Table 1.

Table 1: Production of Main and Secondary Producers

('000 tonnes)

Finished Steel For Sale (Alloy/Non-Alloy)	2006-07	2007-08	2008-09 (Provisional)
Main Producers	17614	18020	17216
Other Producers	40047	43332	45000
Less IPT*/Own Consumption	5132	5277	5800
TOTAL (finished steel)	**52529**	**56075**	**56416**

Source: Adapted from Annual Report 2008-09, Ministry of Steel, Govt. of India, p. 186
*Inter Plant Transfer.

SELLING APPROACH VS. MARKETING APPROACH

Prior to liberalization of the Indian economy (pre -1990), Indian steel manufacturers were not challenged enough in terms of their marketing capabilities and had a comparatively easy time, unlike their global counterparts. Shortages, subsidies and protection offered by the government by way of tariffs and duties did not require the steel manufacturers to be marketing oriented. Added to this, the controls and regulations in vogue, wherein the steel prices also were being decided and monitored by the JPC (Joint Plant Committee) did not call for any serious efforts on the part of the steel manufacturers to hone their marketing skills. Not surprisingly, it was totally a sellers market and buyers considered themselves fortunate if they managed to get even 60% of the quantity required by them of whatever quality of steel was available. Post liberalization, the rules of the game underwent a drastic change. Steel manufacturers, for the first time in several decades, started thinking 'marketing' and talking 'marketing'. Removal of controls and progressive reduction of duties threw up some serious challenges, which the steel companies had to contend with. Threat from overseas suppliers, deregulation of prices, creation of additional capacity by private manufacturers (TISCO was the only integrated steel manufacturer prior to 1990 in the private sector) made the main producers viz. SAIL, RINL (Rashtriya Ispat Nigam Ltd., Vizag) and TISCO to reassess their strategies to combat competition. Customers who had been at the receiving end for more than four decades at last breathed a sigh of relief as they were able to find some alternate suppliers, some of them even better than the existing sources in terms of quality and accessibility.

The developments post liberalization, apart from benefiting the customers, also benefited the steel manufacturers.

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[1]Ispat India Ltd. has subsequently been acquired by Jindal Southwest Ltd. (JSW) in 2010.

They were forced to shed the selling orientation, become more user friendly, and had to adopt a customer-centric approach as a strategic option for their growth and survival. This resulted in dramatic improvement in product quality and in customer service. Development of new products to substitute imports, improve logistics, and providing technical services to customers were some of the pro-customer initiatives taken by the steel majors, which apart from adding to their core competencies, had paid them rich dividends, manifested by their improved all round performance.

LITERATURE SURVEY AND RESEARCH DESIGN

A distribution system should address the basic issue of reaching their products and services to their target customers. While the developed countries have full pledged marketing infrastructure, including distribution systems and logistics, Vachani and Smith (2007) observed that the same is not the case with emerging markets. This perhaps explains the dearth of quality research papers on this emerging subject.

While the distribution system for FMCGs, consumer durables and mobile services is fairly developed in India, for steel and steel products, it has a long way to go.

In a study conducted by Sinha and Ghoshal (1999), customers for steel spelt out the following expectations for patronizing steel manufacturers:

- Better stockyard management ;
- Off-the-shelf availability of material for unplanned purchase and exigencies;
- Equipment-based services such as pre-processing and part-processing of steel.

Value-added services such as slitting of coils, shearing, cropping, etc. would help steel manufacturers differentiate themselves and move away from a commodity culture to focused marketing of branded products, the only way to outpace competition (Mazumder and Ghoshal, 2003).

Mazumder & Ghoshal (2003) also highlighted the need for Indian steel manufacturers to focus on faster delivery of goods to end consumers by having a fully developed distribution network in place. While they were in favor of continuing with the direct distribution, they emphasized the importance of extending the distribution network to rural and semi-urban areas.

Mazumder and Ghoshal (2003) further emphasized the strategic importance of rural markets for increasing the per-capita consumption of steel. They observed that aggressive measures were not initiated by the steel manufacturers to penetrate this segment, one of the major drawbacks being lack of a well developed distribution system. There is a lot of untapped potential for steel in rural areas for applications such as housing, fencing and structures.

Mazumder and Ghoshal (2003) suggested setting up of service centers *"who act as a bridge to meet the gap between steel makers and customers."*

Service centers process steel into smaller lots of tailor-made sizes as per the requirements of customers. Renowned management guru C. K. Prahalad (2005) in his article *"Leading to Learn"* asserts that the conditions are ripe for the Indian industry to assume the leadership position in global innovations, instead of being a mere follower. Steel industry is no exception to this.

RESEARCH OBJECTIVES

The objectives of the present study are as follows :

1. Understanding and documenting the evolution of a distribution system for steel in India ;

2. Evaluating the current strategies and practices of all the major steel manufacturers and;

3. Analyzing the present and future trends.

METHODOLOGY

Information and data collected from secondary sources in line with the research objectives have been analyzed, making use of the author's experience in the steel industry. Case studies based on published information also have been included to substantiate the findings.

LIMITATIONS

This study relies heavily on secondary data and published information and no primary data has been collected, other than drawing heavily from the author's hands on experience of over 28 years in the steel industry.

EVOLUTION OF DISTRIBUTION CHANNELS

While the steel producers started paying adequate attention to all the four Ps of the marketing mix post 1990, special attention was given to distribution and logistics necessitated by the factors detailed below.

Steel, by nature, is a bulky product which requires special infrastructural facilities for handling, storage and transportation. SAIL and TATA Steel being the established players have a number of yards at all the important locations in the country (most of which, however, were set up prior to 1990) .

SAIL has established 65 warehouses and 37 branch sales offices covering all the states and union territories, the largest distribution network among the steel majors. SAIL and RINL, being public sector steel companies committed to social equity, have also taken upon themselves the responsibility of appointing at least one dealer in each district to ensure availability of commonly used items to rural and semi-urban customers. SAIL already has 2406 dealers in the country, covering 625 districts and RINL has 164 dealers.[2]

TATA Steel also appointed distributors at all major centers, who had the required financial capacity and warehousing facilities. These distributors were able to break the bulk and offer material in convenient lots and forms such as sheets/plates to retail customers.

SAIL and TATA Steel offer material in smaller lots (in the case of steel, 20-30 M.T. is the smallest lot) to local customers from their warehouses and yards spread all over the country, providing them with a distinct competitive edge over the other manufacturers.

The second generation manufacturers viz. Ispat, Essar and JSW were way behind the big two in terms of off-plant storage and material handling facilities, when they entered the market in mid 1990s. Creating such an infrastructure called for huge investments, particularly in view of the spiraling real estate prices, and the costs involved for developing the land and setting up the requisite material handling facilities. They initially tried to overcome this weakness by having centralized yards at the plant locations and effecting direct dispatches to customers. This, however, restricted their ability to be pan Indian players, and forced them to sell bulk of their production in the respective regions they were operating in. Realizing this, the above-mentioned steel majors started appointing dealers/distributors at various strategic locations so as to match the competition, though their coverage, even today, is not as extensive as that of SAIL and TATA Steel.

EMERGENCE OF SERVICE CENTERS

The distribution network for steel products, prevalent in 1990s, was grossly inadequate to take care of customers' needs. Dealers of steel majors, apart from charging high margins (ranging from 10-15%), often resorted to unfair practices like charging a huge premium for items which were in short supply, not passing on the benefits of price reductions announced by steel manufacturers in time (increases , however, were passed on very promptly, even for the stocks procured at the pre - revised prices) and hoodwinking the customers by supplying material of a lower thickness (when sold on per piece basis) while charging the price applicable for higher thickness. Further, the facilities they had for breaking the bulk (shearing, cropping etc) were very rudimentary and often resulted in edge damages, dents and burrs. Buying directly from steel manufacturers (whether from the plant or local stock yard) was not a viable option for retail customers, who lacked the material handling facilities and also the financial strength to buy in bulk.

❁**TATA-Ryerson :** A wholly owned subsidiary of TATA steel and Pos-Hyundai, a joint venture between Hyundai Corporation, Posco and POSTEEL (all the partners are major conglomerates operating from South Korea) pioneered the concept of service centers in India in late 1990s. While TATA- Ryerson started their operations in 1997, Pos-Hyundai followed suit in 1998.

TATA-Ryerson defines a steel service center as: *"An intermediary between steel producers and the end users and is the most vital link in the steel supply chain. It supplies steel in the exact quantity and the exact customized form at the exact time that customers require, often processing or adding value to the material."* [3]

A steel service centre procures steel from manufacturers in large quantities, maintains sufficient inventory, and either

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[2] Annual Report 2008-09 of Ministry of Steel, Govt.of India, New Delhi, p. 162.

[3] www.tataryerson.com (official web site of Tata-Ryerson) accessed on 25th October, 2009.

processes it, or simply supplies it in small convenient lots to the customers. Service centers offer a host of *"pre-processing"* services such as slitting, shearing, and cutting to length, pickling & oiling, plate ending etc. so as to make ready to use material available to customers, who are saved the trouble of holding inventories and investing on material handling and pre- processing facilities.

Table 2: Services Offered By A Steel Service Center

Serial No.	Process Naame	Description of the process
1	Slitting	Cutting a sheet of steel into narrower strips to match customer needs. Because steel mills have limited flexibility as to the widths of the sheet that they produce, service centers normally will cut the sheet for the customer.
2	Pickling & oiling	A process that cleans steel coil of its rust, dirt and oil so that further work can be done to the metal. Through a continuous process, the steel is uncoiled and sent through a series of hydrochloric acid baths that remove the oxides (rust). The steel sheet is then rinsed and dried.
3	Cut-to-length	Process to uncoil sections of flat-rolled steel and cut them into a desired length. Product that is cut-to-length is normally shipped flat-stacked.
4	Roll-forming	It is a process of shaping steel materials using rolls. The Sheets are processed at length.
5	Barrel corrugation	It is also a process of shaping steel sheets using corrugators.
6	Dispatch	Materials are transported JIT following all the norms and laws set by the Govt. of the state.

TATA- Ryerson has five processing centers at Jamshedpur, Pune, Faridabad, Pantnagar (Uttarakhand) and Tada (A.P.) catering to the needs of customers in the automobile, white goods, general engineering and construction sectors. TATA Steel also tied up with other distributors such as Ramswarup, Bangalore and Govindaswamy Mudaliar, Chennai who have set up full pledged service centers to cater to TATA's distribution needs in the South.

❁ **Pos - Hyundai :** Pos Hyundai was originally established to cater to the steel requirements of the auto major Hyundai India, located near Sriperambadur. Later on, they obtained necessary clearances to supply ready to use steel materials to customers other than Hyundai India and their ancillaries. They import steel in the form of jumbo coils[4] from their Korean principals and after subjecting them to processes like slitting, shearing and cropping, the material is supplied to customers in ready to use form.[5]

Customers are quite happy with the value-added services offered by Pos-Hyundai, which eliminated a number of pre - production operations. Assured quality and delivery of material in convenient lots, without any transit damages is a big differentiator for Pos-Hyundai. This arrangement has been found to be very attractive not only by automobile customers, but also by a host of SMEs in general engineering and construction sectors in and around Chennai. Essar and JSW also have followed suit. While JSW has tied up with Ranka Steels, Bangalore, Essar is on the look out for a suitable partner in South for setting up a full pledged service center.

SAIL has responded to this need in a different way. As they already have 65 stock yards in all the states and union territories in the country, catering to the requirements of all major industrial clusters, they have decided to set up Steel Processing Units (SPUs) at select locations in those states where there are no steel plants and the per - capita consumption is much lower than the national average of 49 kgs. This, they believe, would result in increased consumption of steel, which is supplied in a ready to use form. The locations identified for setting up SPUs are Bettiah, Mahnar, Gaya (all in Bihar); Lakhimpur-Kheri (U.P); Gwalior, Ujjain, Hoshangabad (all in M.P); Kanga (H.P); Guwahati (Assam) and Srinagar (J&K). While work has already commenced at Bettiah, it is expected to start soon at the remaining locations.[6]

DISINTERMEDIATION

Apart from setting up service centers at all major locations, some of the steel majors started opening their own retail

[4] Coils weighing more than 30 MT.

[5] http://poshyundai.com (official web site of Pos-Hyundai) accessed on 25th October, 2009.

[6] Annual Report 2008-09 of Ministry of Steel, Govt.of India, New Delhi, p. 8

outlets, a practice hitherto unheard of in the steel industry, to have a direct interface with the customers. Their intentions are very clear, and this move signals the gradual disintermediation steel manufacturers are aiming at.

STEEL HYPERMARTS

Essar steel has set up Steel hypermarts at all the major locations in India. According to company sources, *"Essar Steel hypermart is India's first and only real retail outlet for steel. It is perhaps one-of-its-kind models in the world, where a fully integrated plant has opened its own outlets to help you buy a wide range of flat steel products, at any quantity of your choice, close to your premises and with an assurance of competitive and transparent pricing"*.[7]

Steel hypermarts are expected to take care of the steel needs of auto ancillary units, local fabricators and other small and medium industries that depend on dealers and traders, in spite of their lackadaisical approach, as there was no other option. About 80 Steel hypermarts and Express marts (Express marts are dealer owned outlets and will offer Essar products across all key steel consumption centers) have already been set up by Essar, out of which one is in Jigni industrial estate in the suburbs of Bangalore and another is in Hosur, a major industrial hub situated near Bangalore. Essar expects this number to go up to 300 in the next couple of years[8].

JSW SHOPPES

JSW have started setting up JSW Shoppes all over the country. They already have 75 shoppes at all strategic locations in the country, and had plans to add another 100 by March, 2010. The objective of setting up these shoppes is to ensure that the retail customers get the right quality of products at competitive prices at their door-step.

JSW Shoppes provide all necessary technical information about the various grades of steel for different applications to customers, thereby helping them to choose the right material.

JSW authorities are confident that *"this novel marketing initiative will go a long way in creating brand awareness about JSW Steel's superior product quality and will ensure that the customers get full value for money"*.[9]

JSW also has plans to provide the customers with JSW steel cards so that they can earn and redeem loyalty points.[10]

Such initiatives by steel manufacturers will certainly go a long way in creating trust and confidence among the customers. The transparency of this format ensures that customers are not short changed (as often done by some of the traders) and get the right quality of steel at the right price.

DISTRIBUTION GOES ONLINE

Technology has been instrumental in bridging the distance between buyers and sellers and making a wide variety of products available to customers at competitive prices with a mere click of the mouse. Steel manufacturers all over the world have been making effective use of IT in marketing their products. Though it took some time for this concept to catch up in India, the popularity of on-line trading, which is a very convenient option to both manufacturers and buyers has been increasing by leaps and bounds. Almost all the major steel producers in the country viz. Steel Authority of India Ltd. (SAIL), TATA Steel, Essar and JSW ventured into e-trading of steel, and surprisingly, the list also includes Reliance, which is not directly connected to the steel industry.

METAL JUNCTION

TATA Steel and SAIL jointly set up Metal Junction at Kolkata way back in 2001. Today, it is the largest e-market place, not only in India, but in the entire world, with cumulative transactions of over ₹ 45000 crores (450 billion). Efficiency, transparency and convenience are what mjunction offers to its clients, i.e. both suppliers and customers of steel. They have also started dealing in coal. Mjunction offers a wide range of eSelling, eSourcing, and eFinance and Knowledge services across diverse industry verticals that empower businesses with greater process efficiencies.[11]

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[7] Welcome to a whole new way of buying steel, *24 Carat World* (An Essar Steel News Letter), Volume IV, Issue I, June 2007, Mumbai, p. 2.

[8] Essar Steel Hypermart opens at Jigani, *Deccan Herald,* 8th October, 2009.

[9] JSW steel inaugurates branded show rooms in Chennai (press release issued by company circa March 2008).

[10] JSW Steel, Essar Steel setting up retail outlets, *The Hindu*, 28th December, 2007.

[11] http://mjunction.in, accessed on 24th October, 2009.

Buoyed by their success in e-trading of steel and coal, mjunction has forayed into retail space. The company launched a shopping portal 'straightline.in' in October 09 to extend their presence into the rapidly expanding retail e-commerce market, the size of which is about ₹ 2,200 crore. The company was expected to introduce b2c auction by December, 09 and C2C by January, 2010 to further widen the spectrum of their offerings in the retail space.[12]

OTHER STEEL PORTALS[13]

☸ **clickforsteel.com** is the portal launched by Essar Steel and is reportedly churning out good volumes. JSW too is into the fray with its site steelemart.com.

☸ **steelrx.com** promoted by the Maharashtra-based Ferro Alloys Corporation, (it functions as a separate platform) and steelexchangeofindia.com, launched by a group of steel traders and a former managing director of Rashtriya Ispat Nigam Ltd. (RINL) are the portals launched by those other than the manufacturers. Reliance Industries, a Fortune 500 company, have partnered with a group of steel professionals to promote steelnext.com.

More such portals are in the offing, which would make the traditional distribution channels redundant in the coming years. Both customers and manufacturers will benefit by steel trading going online, which is the trend worldwide.

AREAS FOR FURTHER RESEARCH

Further research can be conducted on :

1. How fast the traditional channels adopt themselves to the changed scenario, and how smooth will be the transition;

2. Possible vertical conflicts between the channel members on account of the manufacturers resorting to disintermediation.

CONCLUSION

From an era of controls and regulations, the steel industry in India has under gone a metamorphosis in the last two decades, customers being the ultimate beneficiaries. The need to remain customer-centric has encouraged all the steel majors to come up with a steady stream of innovations in the physical distribution of their products and channel management strategies. Service centers have been set up to provide value-added services to customers. Disintermediation seems to be the order of the day, with manufacturers themselves setting up their retail outlets and promoting e-trading in a big way. However, how quickly the traditional channels adopt themselves to the changed situation is something to be watched closely by all the interest groups.

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4. Sushil Vachani &N.Craig Smith (2007), *"Social Responsibility Distribution: Distribution strategies for reaching the bottom of the pyramid"*, INSEAD Working Papers Series, Fontainebleau, Dec 2007, p. 4.

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