

# Steel profits hurt in hunt for sales

THOMAS BIESHEUVEL

London

THE world's biggest steel makers are hurting profits by chasing sales of the metal at any cost, according to Roland Berger Strategy Consultants.

The steel industry, led by ArcelorMittal, has shuttered plants and fired workers after dwindling demand and excess capacity shrank profit margins.

Global steel production rose to a record 1.58-billion tonnes last year. ArcelorMittal, the world's biggest steel maker, produced 96.1-million tonnes followed by Japan's Nippon Steel & Sumitomo Metal Corporation, which made 50.1-million tonnes, according to the World Steel Association.

Steel producers struggling to recover from the global financial crisis have sought to cut costs and

ramp up production to fill surplus capacity. That is leading to lower prices and profits, Roland Berger Consultants will say in a report due to be released next week.

"The major threats — overcapacity, low-price imports — are here to stay," said Roland Berger partner Tom Wendt. "Competing on cost against just about every mill in the world that is by a port is a game US and European mills won't win."

Roland Berger will say that producers should defend prices by offering services such as warehousing and customised payment terms, and building personal relationships that global competitors cannot match. The firm, which has advised some of the world's biggest steel producers, will release its "Challenging conventional wisdom in steel" report.

"Capacity utilisation must be

balanced even more carefully with price; the additional volume can be beneficial, but not at any price," Roland Berger's Isaac Chan said in the report. "Increasing your focus on price has a lot of upside."

Global demand for steel would increase 3.1% this year to 1.53-billion tonnes and rise a further 3.3% next year, the organisation forecast in April.

Rather than cutting costs and selling more steel, US and European producers should focus on services that Chinese rivals cannot offer, said the firm's Kunal Shah.

Rather than price cuts, personal relationships, better communication, and services such as warehousing and customised payment terms can make the product more appealing, Mr Shah said. "Domestic mills must focus on adding value through means other than price." *Reuters*