

# Part VI

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## *Recommendations*

In the previous parts of this report, especially part III and IV, the opportunities and drawbacks of the World BPSFC markets were laid out. It became clear that the implementation of such a product line for South African manufacturers of stainless steel parts and products will face several market and country inherent subjects that would need to be solved. While not all products presently supplied as BPSFC's in the world, are practical products to look at from a South African point of view, two of them might still be available for a successful implementation. These products are

- value added Laser Blanks  
for the US and W. Europe market and
- Pressings  
for the W. Europe market as well.

While the subject of the Asian companies and their set-up including government assistance, is followed and pointed out in the according parts of the report, the two other subjects – location in South Africa and assistance from South African sources – will be discussed in the following chapters.

This last part of the BPSFC report therefore focuses on subjects connected to a possible implementation of a BPSFC manufacture in South Africa. The following subjects will be surveyed:

- a. Contribution of Interested Companies
- b. Factors of Market Influence
  - 1. The Buyers Role in the BPSFC Market
  - 2. The Suppliers Role in South Africa
- c. SASSDAs Possible Role

## **1. Company's Contribution**

In order for stainless steel manufacturers to exploit the opportunities presented to supply BPSFC's to different markets, these companies should ensure that they are properly positioned to succeed in their efforts. Two re-orientations may possibly be required, namely an export orientation and switching from a traditional manufacturing basis to a production line approach.

This section will provide some guidelines to assist the company in positioning itself optimally to face these challenges. These guidelines will be discussed from the perspective of the three main product variables – price, quality and delivery. It will also expand on some of the marketing options open to individual manufacturers.

## 1.1 Price

Corporate strategy theory distinguishes between two main generic company strategies, namely:

- Cost leadership strategy
- Differentiation strategy

For a company manufacturing BPSFC's, products which are essentially standardised commodities, only the cost leadership strategy is relevant. It is therefore essential that such a company focuses its efforts on minimising its production costs in every way possible. This is even more relevant from the perspective of the fact that BPSFC's are basically low value added products where the unavoidable expenses - stainless steel, transport and duty costs would be close to 90% of the overall cost of the final product. This leaves only 10% of the costs in the manufacturer's control – and this he then has to leverage to his own advantage.

The ideal mind-set for a producer of BPSFC's is actually not that of a sophisticated manufacturer, but rather the mindset of a production line operator. A major contributor to the success of a cost leadership strategy is to maximise throughput and minimise all forms of wastage and loss.

Every possible saving and benefit should be exploited to the manufacturer's advantage. Since volumes can reach tremendous levels in this business, small advantages will eventually add up to considerable numbers. Some examples of benefits that need to be investigated are:

- Minimising material wastage – consider buying strip or cut-to-length sheets to fit requirements.
- Utilising off-cuts, or supplying it to another manufacturer if possible.
- Total scrap recovery and ensuring a good resale deal
- Using relevant DTI incentives – second shifts, exports, export bridging finance, job creation, etc. Some of these incentives need to be applied for before actual implementation.

- Transport savings can be achieved by proper scheduling, using containers, bulkbreak or free-on-deck stowage, etc. Packaging options and the impact on shipping costs should be kept in mind.
- Full container loads (FCL's) are also more cost effective than LCL's (less than container loads), while 40' containers are cheaper than 20' containers if fully utilised. Scheduling and order size may therefore play an important role in costs as well.
- Utilising excess machine capacity or even employing additional shifts while using any labour slack for strapping and packing activities is the ideal configuration for a prospective supplier of BPSFC's.

Although purchasing new equipment is not ruled out, optimal utilisation is required to make financial sense. As an example, utilisation levels of 85% are achieved on laser machines at Roba. The same principle applies to other equipment such as bending machines, press brakes, presses and deep drawing presses where the better utilisation of machinery and labour should be directly convertible to income.

While product design, surface finish, stackability, flexibility, appearance, rigidity and many other product features are important qualities normally associated with stainless steel manufacturing, these aspects would rarely have any bearing on BPSFC's. Low cost is the most preferred feature looked for by clients in this field.

## **1.2 Quality**

Although quality is absolutely critical in most BPSFC applications, it should not be difficult to achieve for experienced manufacturers. Two very important aspects apply to virtually all BPSFC products, namely tight dimensional tolerances and surface finish.

It is normally not required for the manufacturer to apply a certain surface finish, but rather preserving the material's original surface finish. This would more or less require of the manufacturer to prevent scratches and mechanical damage to the material – also after shipping.

In stampings and drawn products, dimensional accuracy, surface finish, proper form and the absence of any unacceptable surface deformations are required. A tight

control is maintained on ridging and roping of ferritic material by both US and European companies. Inspection of incoming material may therefore be very important.

By far the most demanding quality requirement would be for any products where polishing is to be applied after processing (welding, drawing, etc.) since the optical standards for most products are extremely high in both Western regions. A fairly limited number of applications with such polishing requirements were identified during the research.

## **1.3 Delivery**

Delivery would be a distinct disadvantage for South African suppliers compared to domestic manufacturers. Addressing this has been discussed in some detail in the section covering “buyer threats”.

Two specific points may be useful reiterating:

On-time delivery (delivery as promised) is universally considered more important than quick delivery in industry. Until the reliability of shipping delivery and overland transport has been determined to the chosen customer, it may be good judgement to “under promise” and hopefully “over deliver” rather than the other way round.

Whereas single day delays may have a limited impact on local market delivery, a single day delay on exports means a cargo will miss its ship for which delays may vary between one week and several weeks. This will inevitably result in additional costs such as warehousing and financing costs.

## **1.4 Marketing**

Under “buyer threats” a number of issues regarding the marketing of BPSFC’s are discussed which will not be addressed again in this section. It is more relevant to discuss issues relating to finding potential clients and guidelines for growing into the BPSFC business.

In principle, the following marketing approaches are used regularly to penetrate international markets:

- Establishing a foreign sales office
- Trading houses
- Independent and factory distributors
- Co-operative marketing methods
- Commission agents
- Company's own marketing efforts

- **Foreign Sales Office**

Running a foreign sales office was shortly discussed under "industry action points". Even in a co-operative setting, it is an expensive option which most small and medium sized companies will find impossible to finance.

- **Trading Houses**

Trading houses have roots in Europe (Thyssen Handels Gesellschaft, Gerber Goldschmidt, Metall Gesellschaft) but the concept has been specifically successfully applied by Japanese companies such as Mitsui, Kanematsu and Nissho Iwai distributing Japanese products worldwide. These companies however tend to focus either on major industrial commodities such as chemicals, steel and minerals or on finished consumer goods offered to chain stores and wholesale organisations.

The approach of these companies is totally focussed on turning volume over through the business and expending effort on developing new products is not part of their approach to business. Even the smaller versions of the major trading houses would not be interested in any form of unfinished product where potential customers have to be found first and then converted from internal production to imported products.

- **Distributors**

At the outset of the research certain independent (not tied in to a specific mill) stainless steel distributors were thought to be possible outlets for South African BPSFC's. However, these companies indicated the same type of approach to the trading houses – approaching fixed customers with standard commodity products. With limited independent distributors around, this option has therefore been aborted.

- **Co-operative Marketing**

This is an approach commonly followed with agricultural products, wine and other commodities. It has also been mentioned as a possible approach for the stainless steel industry under the leadership of SASSDA.

- **Commission Agents**

This is the first realistic option available to individual small and medium sized manufacturers. Commission agents (agents) also focus on specific market sectors such as electronics, appliances, adhesives, housewares, etc. In many cases these agents are active in a related field (e.g. construction, engineering) and these agencies supplement the main business.

Agents are the most likely group to investigate new options if it seems to have enough potential. If there is good overlap with existing products, without any direct clash, this may well be a good match. However, agency agreements have a very high failure rate and many companies change agents several times before finding a successful fit.

As mentioned before, identifying agents with both good potential and interest in pursuing sales in a product type without an established client base, would be a great difficulty. Possible methods of identifying potential agents would be by doing a search of relevant industry magazines (e.g. kitchenware, catering industry, manufacturing industry, etc.) or at relevant trade fairs (Euro Blech – sheetmetal, NAFEM – North American Food Equipment Manufacturers Annual Fair, etc.).

Short term contracts (1 year), regional limitations (single country) and fixed commission (normally 2½% - 3%) is normally the initial basis for most of these contracts.

- **Company's Own Marketing Efforts**

For a company to do its own foreign marketing is possible, but would need resources and consistent focus.

Up-front preparation of internal information is quite important (see the paragraph on "Preparation" in the section addressing buyers' threats). The main point emphasized in this paragraph is simply that the moment a company offers a product to an export customer, additional information will be required.

The only way to be able to respond immediately to a request for further information, is by having prepared the answers up-front, e.g. a company equipment list, company profile, e-mail brochure, detailed freight information (delivered cost per ton, minimum delivery time) stainless steel price in South Africa, expected delivered product prices, tooling costs, brochures, samples, manufacturing capabilities, etc. – obviously all values should be in the customer's currency.

The following is a simplified example of action steps a company can take to get its own export marketing program going:

1. Compile an export information pack with relevant information as mention in previous paragraphs
2. Prepare a prospective customer list containing company name, contact person (if known) address, telephone number, facsimile number, products produced and if available, company size (turnover or employees) as well as possible product interest (drawn bowls, laser-cut blanks, pressings, stampings, etc.)
3. Establish the name and contact details of the specific contact person targeted (president, CEO, purchasing manager, etc.)
4. Address a letter (one page) to a sample of 20 companies stating the following:
  - a. your company's business
  - b. the products offered – bear in mind that customers are not interested to enter discussions with a company “considering producing a product” – they will only be interested if an actual product is offered (laser cut blanks, pressings, etc.)
  - c. an example of a relevant product including a drawing or photograph, delivered product price (per container load), delivery time).
  - d. make sure to also state the delivered price in US\$ / lb (USA) and € / kg (Europe)
  - e. ensure that apart from telephone and fax details, an e-mail address is included, especially in the case of US companies

5. Include a one page leaflet showing product examples, workshop, staff, etc.
6. Indicate in the letter that a follow-up call can be expected
7. Follow the letters up:
  - a. phone each of these persons (within days after the letter) and enquire to their interest.
  - b. try to obtain drawings of actual products in order to prepare a specific quote. Return the quote within a day and at most three days after the discussion if possible at all.
  - c. even if they are not interested, enquire about other possible interests (similar products, finished products, etc.)
  - d. obtain the price paid for stainless steel for future reference
  - e. if the company sounds of interest in any way, find out whether they would be prepared to discuss possibilities with you on an anticipated visit to the area. This may come in handy if other possibilities are uncovered, or if a concentration of reasonably interested companies are found in one geographical area.
8. Adjust the above letter to incorporate information obtained from previous calls and start with a new batch of 20 companies!

Bear the following in mind:

- Only one or two positive companies out of the whole list are required to get a really lucrative export business going
- Establishing telephone contact with the right person is sometimes a laborious process
- Overseas telephone calls by unknown people are virtually never returned, but always leave a message, since some Americans leave their "voicemail" on speaker and only pick up if they are available at the moment.

Visiting companies may have a better impact, but before the letters have not indicated some interest, it may be a waste of time and money. Tight travelling schedules can be reasonably organised in Germany, Italy and to an extent in the United Kingdom, but in the USA this could be quite difficult. The two main focus areas should be the East Coast and the Mid West (the region surrounding the great lakes).

## **2. Factors of Market Influence**

### **2.1 The Buyers Role in the BPSFC Markets**

A serious point to consider is the very strong bargaining position of the buyers. The strength of their role is ascribed to four factors, namely:

- The threat of backward integration
- The lack of product differentiation
- The high value of the product in “metal goods” and the important external impact it has in most other product applications increases buyers’ focus on the product.
- Especially in “metal goods”, profitability is low forcing buyers to turn their cents over twice.

In essence, the buyers’ strong bargaining position emanates from the fact that they threaten to:

- produce the product themselves, based on competitive raw material prices,
- buy the offered BPSFC from other sources at better prices or based on a lower risk (i.e. from local suppliers).

The research indicated that in only a very few cases were manufacturers already regular buyers of BPSFC’s – in the majority of cases BPSFC’s were considered a replacement for own manufacturing. In all these cases, manufacturers would have

very little difficulty in switching back to own manufacturing if need be. The following discussion therefore relates both to getting customers to switch to outsourcing and to keep these customers to going back to internal manufacture.

Interviews indicated that it would be a contest to get manufacturers to switch away from own manufacturing. The reasons for this are:

- Loyalty towards employees (and country – buy American campaign)
- Doubts about costs, quality and delivery
- Doubts about losing control and the implications of switching
- Resistance to change

Without a concrete demonstration of advantages, manufacturers would be hard pressed to continue with current internal production, or switch back the moment circumstances change. In order to successfully supply BPSFC's to customers in the long term, the following may assist as guidelines:

### **2.1.1 Proper Preparation**

Prospective clients should not be approached before all the necessary preparation was done at home. Clients will invariably respond to an offer of products with requests for one of the following:

- Company profile, manufacturing capabilities
- Brochures, especially a good e-mail version
- Prices, estimated processing price
- Raw material prices in South Africa
- Material specifications
- Tooling costs
- Samples, etc.

Information on each of these issues should therefore be prepared up-front by the supplier. The quicker a well prepared response is received by the client, the better the impression made. When one drags your feet about putting a reply on paper, clients are convinced that delivery of products will be even worse.

### **2.1.2 Basic Export Knowledge**

As in the previous paragraph, potential clients may require information on a number of export issues they are unfamiliar with, such as:

- Delivery costs per container
- Delivery time from ordering date
- Container capacity (weight, units)
- Handling of payments, etc.

If the supplier has little knowledge of shipping, freight and general export details, it is essential to sit down with a knowledgeable source or a freight forwarding company and work through the practical details.

Getting assistance to obtain a few sample freight quotations for shipping ex-works to on-site delivery to hypothetical clients in Germany, Italy, New York and Chicago would give a supplier a feel for the cost implications. The cost differences between different shipping methods (wooden crates, 20' and 40' containers) can be crucial in the cost structure for new export business.

Working through issues such as insurance, clearance, documentation, harmonised system encoding, etc. should give the manufacturer a feel for hidden costs (e.g. duties), possible delays, etc.

### **2.1.3 Correspondence**

In the following paragraphs a few general pointers in terms of correspondence with potential clients in the USA and Europe are discussed shortly.

- The communication standard in the USA is e-mail. Initially, a formal letter can be attached to an email, but subsequent communication is normally acceptable directly on the e-mail. In Europe, e-mail is also widely used, but not always preferred. In these cases, the fax may well be used for all communication.
- In some cases, large American corporations insist that a *posted* letter be sent to the company to open communication channels (to circumvent scams, mass e-mails (spam), shotgun approaches, telesales and all sorts of fly-by-night operations). Although this is much more trouble, obtaining a response is then virtually guaranteed. An indication of this requirement will be given in response to any unsolicited e-mail or telephone call.
- Formal letters accompanied by company brochures or leaflets are sure-fire ways used successfully in the past to make first contact with potential buyers. This may however be somewhat stale and other options should be considered.
- Formal letters, rather than advertising or informal approaches, is preferred in Europe. In the large companies this should be addressed to the person responsible for purchasing, while in the medium to small companies the managing director or general manager should be approached.
- Personal correspondence, rather than advertising or general formal business letters, is preferred in the USA – except in the largest corporations where formal correspondence is still the norm.
- One or two good quality workshop photographs may raise a client's interest, while photographs of the proprietor and (happy) staff would put a nice personal touch on communications.

#### **2.1.4 Pricing**

Prices in the USA have traditionally been considerably higher than in Europe and Asia. However, if the current weakness of the US\$ continues, this may change permanently. US distributor prices should therefore be monitored continuously to ensure that a reasonable price advantage is maintained. Apart from other prerequisites, initial pricing

is especially important since buyers find it hard to change from supplier (especially internal production) for a price advantage of less than 5%.

Any request for a price should be handled as top priority, since a sluggish response will destroy any future opportunity for business.

### **2.1.5 Getting a Foot in the Door**

In order to get a customer to switch to BPSFC's, a foot in the door policy may be worth considering for getting the business going. Possible options are:

- Offer to quote on a range of items for the manufacturer to be able to compare these prices with internal costs (generally not known in detail)
- Discuss “phasing in” supply if pricing is acceptable so that staff could be re-allocated
- BPSFC's are essentially undifferentiated intermediary products with little opportunity of tying a client into by means of innovations and other means of differentiation. However, finding a difficult to copy method of differentiation will make changing much more difficult for the client. This will be much more likely after some relationship has been built up.
- Taking products a step further into the production process is another method of keeping new entrants at bay (e.g. include bending to laser cutting, trimming to drawing, etc.). The greater use of labour intensive functions should in general give South African manufacturing a cost advantage (as long as quality is kept on par).

### **2.1.6 Product Quality**

A number of prospective clients indicated that they have fears of unsatisfactory product quality. Since the stainless steel parts of most products are external, and these products are often judged by its appearance, even the smallest deviation in quality would be completely unacceptable. The client is therefore not only requiring the right quality, but some guarantee that the quality levels will be met continuously. This fear

may go away after some time, but only after a track record of product quality has been established.

The following are suggestions of ways to overcome the initial hurdle:

- Obtain drawings and supply samples. If at all relevant, use different finishes such as No 3, No 4, circle polished, BA, etc. Clients are more likely to have a problem with finish, scratches or the material surface than with dimensional deviations.
- In a number of cases clients indicated that they may even provide the dies or NC programs (or trial-run these programs on their own machines). This should add considerably to their peace of mind.
- Supply samples of similar products if special tooling is required for manufacturing the client's product.
- Supply small trial batches. Depending on the quantity and the nature of the product, either at no cost or simply at a cost to cover the supply.
- Offer the possibility of having a third party inspect the samples before dispatch.
- Supply detail photographs of the product on e-mail to the client.
- In some cases it may be required (or if there is really a confidence problem, offered), that between one and three samples from a batch be supplied in advance of shipment. These samples will need to be couriered to the client and can be costly. This requirement will either disappear in time or will have to be calculated into the price.

### **2.1.7 Meeting Potential Overseas Clients**

A face-to-face meeting is one of the best ways of establishing contacts and have the potential of immediately establishing a relationship on a higher level or quashing false hopes.

- Visiting a number of potential clients on a trip to Europe or the USA would normally be one of the best marketing methods, albeit somewhat expensive. By setting up a tight schedule and focussing on a few cluster areas may save unnecessary costs.
- Exhibiting at a European or American fair may be worthwhile, although the costs are generally very high. A combined South African stand or industry stand may be a considerably cheaper option.
- The majority of industry fairs are however a total anomaly since the exhibitions are generally manned by sales people while the visitors are sales people looking for clients among the exhibitors.
- Therefore, even visiting a fair with the concept of finding clients is normally not directly productive since the personnel on the stands are generally sales oriented themselves. However, a focussed industry fair is a good way to obtain names and details of potential clients.
- Very productive is to arrange up-front with the right people to meet at the fair since they may already plan to visit the fair or at least have an interest to visit the fair for their own reasons.
- Combining visits to a few key clients with a visit to a relevant fair may be the happy medium.
- Export agents and overseas distributors are generally interested to find new products to add to their portfolio. The research has however found that no distributor showed a real interest in selling BPSFC's. Finding a suitable agent is also not viewed as an easy task because of the technical and sales difficulties faced in selling BPSFC's in many applications.
- An agent with good knowledge of the industry (e.g. sales to the food and beverage industry, or stainless steel sales) could be really worthwhile finding. Although agent's fees of between 2½% and 3% are normally charged on all sales, an enthusiastic and capable agent would be worth this fee any day (and save it many times over in overseas travelling). There are also no costs incurred if sales are not forthcoming.

- Contractual details are important since one do not want to be held ransom with a long term contract not bearing any fruit, or a too wide geographical area, etc.
- Most clients are very interested in visiting South Africa, and depending on aspects such as company policy and size, this interest can actually be used to find common areas of interest and give confidence in local production. Inspection of a first production batch is also a good reason for a client to visit the country.
- Until a client is met face to face, the chances of him changing to a cheaper alternative supplier will remain good. Whereas price, quality and on-time delivery may get you the business, only relationships will keep it and even grow it.

### **2.1.8 Delivery**

It would be very important to schedule first deliveries with some sort of phasing in or overlap of own supply to prevent potential disaster if something does go wrong. Although financing of shipments is sometimes a problem, the DTI has a bridging capital program for export financing which should assist to solve most of this issue.

An export client actually has a very secure schedule of products already in transit (i.e. guaranteed finished production) and will know up-front exactly when each shipment will arrive. If a basic safety margin (early deliveries, stock or consignment stock) is brought into the equation, the client should have fewer concerns than with normal unfinished production.

On-time delivery is clearly more important than quick delivery in the industrial market.

## 2.2 Addressing Supplier Threats

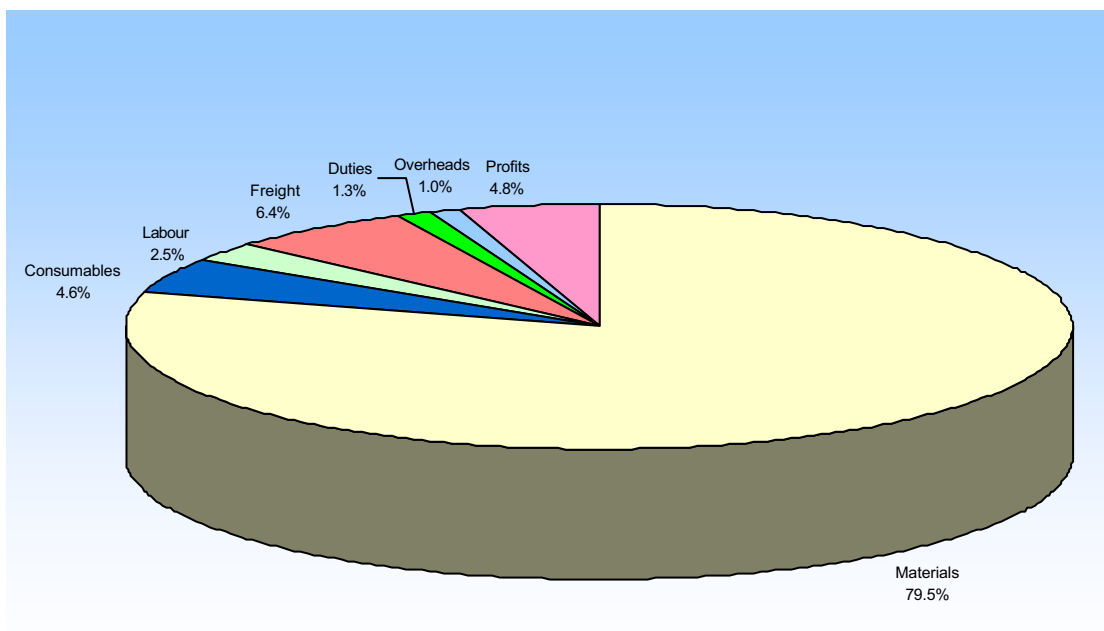
An important factor for an SA manufacturer is the strong negotiating position of Columbus Stainless, the sole stainless steel production in South Africa. Columbus in the past has generally displayed a fairly amicable and accommodating attitude towards its clients despite its strong bargaining position. However, due to the relative isolation of the South African market, prices could easily be increased to fairly high levels without a direct impact on the local demand.

In the cost survey into holloware pressings and laser cut cabinet doors this notion was confirmed when it became apparent that local stainless steel prices were considerably higher than prices in Europe and the USA.

It would therefore be unwise for a manufacturer to invest time and money into travel, market research, equipment, etc. without coming to terms with the single most important cost source in the BPSFC business – stainless steel.

The following pie chart shows an estimate of the sales price components for a BPSFC manufacturer.

### ***Estimated Distribution of Sales Price Components***



The disproportional influence stainless steel will have on the price is a clear indication that virtually any BPSFC manufacturing scheme will be based on selling stainless steel flat material virtually *under the guise* of BPSFC's. Columbus Stainless indicated thus upfront that the supply of blanks should be excluded from the research for three reasons:

- It would essentially be trading Columbus Stainless material but reduce Columbus own opportunities to sell the material in the most lucrative market.
- It was indicated that the success of a new export business should depend on the manufacturer's capabilities and acumen and should not only be based on cheap raw material from Columbus.
- The risk of extensive damage caused to Columbus if prescribed flat rolled quotas is exceeded due to a manufacturer exporting under the same HS codes (or deemed to be exporting under these codes).

The last problem can to a large extent be circumvented by obtaining an up-front irrevocable assessment, and should not be a major concern in the case of pressings, semi-finished components and parts. The principle applying to the first two issues need to be resolved clearly by Columbus since a producer of BPSFC's would be toeing a thin line and any further narrowing of the product range could leave a manufacturer stranded.

With Columbus itself being uncertain of the demands that could be placed upon them by their major shareholder in terms of pricing, and in view of the marketing investment and effort required, it would be absolutely essential to enter into a written agreement with Columbus that includes a satisfactory minimum period and pricing formula.

The contents should include the following issues:

- **Pricing Formula**

The pricing formula is the most critical reason for the agreement. Normally, an export price is determined as the distributor price minus a 10% "export rebate". Even when a different formula is determined, exporters always have the option to fall back on this system if a special agreement with Columbus Stainless runs into difficulties or when it

is advantageous to do so. Since Columbus has indicated that this amount is subject to further negotiation, an exporter may simply follow this route, aiming for a 15% or 20% discount on the South African market price.

Alternatively, a rather simple formula has been developed which directly address the critical cost – freight to the foreign destination:

**Base Price = European distributor price – full Columbus freight to destination**

The “European distributor price” is published weekly in the Heinz Pariser “Weekly Fax Service”, which Columbus Stainless subscribes to. The “European distributor price” also serves as a worldwide indicator of price levels to stainless steel producers. “Full SA freight to destination” should be based on a standard such as a 10 ton, 20’ container.

In our initial assessment the formula results in the following:

- In the case of exports to Europe, it will put a South African competitor on a par with both an Italian as well as a Chinese manufacturer.
- In the case of exports to the USA, it will give a South African competitor a small advantage to both Italian and Chinese manufacturers.
- Columbus would in effect achieve their full European margin plus their agent’s commission.

This formula could be adjusted for US conditions if required.

- **Timeframe**

A sufficient timeframe should be specified to get properly established in this market. While a verbal agreement would be sufficient for the period until the first orders are placed, two years is probably a realistic period to get established in the market before the pricing formula is adjusted.

- **Commercial Issues**

Columbus' indicated their preference that the scheme be based on a rebate basis rather than a straight discount – especially if a manufacturer operates in both the local market and the export market. For an ongoing relationship, the rebate is sometimes deducted from the next invoice.

If sufficient scrap is generated by the manufacturer it may be of interest to Columbus to include a scrap buy-back clause in the agreement. Otherwise it may simply be re-circulated through scrap dealers.

- **Material Quality**

Up-front customer approval of physical samples of all materials is critical. This may be somewhat cumbersome, but many expensive lessons in this regard have been learned. Although some variation is inevitable, it at least sets a baseline for future comparison.

Approved samples should be kept by all three parties.

- **Delivery and Stocking**

*On-time delivery* is deemed as much more critical than *quick delivery* by most industrial buyers. With shipping schedules and clearance issues complicating life considerably for a manufacturer, some basic delivery or stocking agreement would be required.

- **Restrictions**

With both Europe and the USA keeping a critical eye on imports, it is important that the manufacturer refrain from exporting under normal flat stainless steel HS tariff codes and thereby impinging on Columbus' own exports and thereby jeopardizing their business.

In the case of any new product line, or where uncertainty exists, it should be required from the manufacturer to get an upfront irrevocable customs judgement of the product to avoid reclassification (to flat stainless steel codes) with possible unpleasant consequences.

### **3. SASSDA's Contribution**

Through Sassda, the industry has set up an operation to assist its members to obtain a foothold also in the export market. With the support of its constituency, it does have the opportunity of launching actions, which would be directly transferable to finished goods as well. The following are the main points to consider:

- Export education and assistance
- Obtaining overseas market representation
- Providing overseas market exposure
- Establishing a "BPSFC Interest Group"
- Presentation of opportunities

These points follow on from the suggested model for entry but are discussed in terms of current market realities.

#### **3.1 Export Education and Assistance**

Although several SASSDA members have sporadically exported some products or attempted to find overseas markets, only a few have actually succeeded in exporting on a regular basis. There are two main reasons for this, namely finding interested customers and coming to terms with all the complexities of exporting a product. It is this second concern that SASSDA may be able to address directly.

The problems potential exporters encounter are as follows:

- Finding a suitable freight forwarding company
- Obtaining competitive shipping rates
- Scheduling and scheduling flexibility
- Expected time from shipping to delivery
- Freight options (containers, crates, skids) and requirements
- Incoterms used e.g. CIF, FOB, CFR, EXW, etc.
- Which shipping methods is applicable to a specific product: LCL (less than container load), FCL (full container load), bulk, breakbulk
- Documentation requirements
- Role and importance of contractual agreement with client
- Payment method from client
- Risks involved in exports
- Chances of mechanical damage and water ingress
- Insurance options
- Obtaining export financing

Obviously, education and obtaining professional assistance from sources such as freight forwarders or shipping companies can address these issues. Export courses are currently offered at between R 5,000 and R 6,000 for a two-day course. If sufficient interest exists between SASSDA members, a much better tariff should be negotiable. Alternatively, a competent forwarding agent may be more than willing to assist in this regard.

A more ambitious option (depending on the level of interest), but possibly a cheaper option, would be for SASSDA to establish an export help desk. This could be a current staff member (after some in-depth training), but probably rather a current forwarding agent or a person working part-time on a retainer basis (ex SAFTO or freight industry)

who could respond to queries, assist with advice and even assist manufacturers on-site if required.

## **3.2 Market Representation**

The possibility of a marketing agent was mentioned earlier, along with the advantages of the services of a competent agent. However, the difficulty of finding a suitable and interested person / organisation is considered a major problem. Three possible options exist in which a company may be interested into representing South African suppliers:

- SASSDA could establish an industry export office on behalf of the industry
- A deal could be made with an independent agency in Europe or the USA to represent SASSDA members in each region
- SASSDA may also consider assisting a group of interested companies (with dissimilar products) to establish an independent co-operative marketing agent between them

### **3.2.1 Stainless Industry Office**

Establishing a SASSDA office in Europe or the USA, or a South African stainless steel industry sales office, would cause alarm in foreign regions as overseas market participants would react very directly to such a threat. Imports from South Africa would immediately be watched under a magnifying glass, while producer complaints would be lodged at Columbus and SASSDA from every angle.

A fully-fledged SASSDA office will also be quite costly and although different funding models and scaling down on the concept may relieve some of the financial pressure, it would still place a long-term financial burden on the industry.

It may also elicit strong opinions from some SASSDA members: Current exporters may feel that they had to invest substantially in establishing their own export links, whereas other members may be of the opinion that it would not be in their interest to support the idea since exports would never be part of their business.

One can imagine that such an office would also be under continuous fire from the exporters themselves, due to perceptions of even-handedness in trading activities, priorities, etc.

One therefore has to conclude that a representative industry office may create numerous problems for SASSDA and the industry and other permutations may be worthwhile investigating. It is specifically important to be able to distribute cost, influence and benefits more evenly among participants.

### **3.2.2 A SASSDA Agreement with an Existing Trader**

Traders have the advantage that overheads are not the manufacturer's concern, since business is conducted on a pure commission basis. Although traders may accept the SASSDA "package", they will primarily pursue their own interests which mean neglecting some products with less commercial appeal (or outside their field of expertise) and pursue others.

This will again leave most SASSDA members out in the cold and SASSDA with having to resolve these issues.

### **3.2.3 Manufacturer Groupings Establish Independent Traders**

The third option is for a group of (possibly somewhat dissimilar) companies to co-operate to establish a single trader between the different parties. SASSDA's role could be to bring the interested parties together (possibly on a regional basis) and facilitate the process of forming this co-operative marketing scheme.

SASSDA may provide assistance with developing a co-operation model, finding a number of suitable and interested traders, looking after co-ordinating and administrative functions and getting a joint catalogue published.

Once the basic principle is established, the concept can be rolled out to a new group of participants.

The above three models are suggestions of pooling resources to improve scale factors, reduce costs and share scarce resources. Several alternative concepts are possible,

and members of the industry should fine-tune these basic concepts to fit in with their specific requirements.

Apart from the marketing advantages, matters such as export expertise, sharing of loads and own administration of shipping (excluding the forwarding companies) may save group members costs while achieving other scale advantages as well.

In the same way as SASSDA has had great success with industry interest groups, export interest groups have the potential to accelerate the growth of exports of BPSFC's, engineering products and consumer products dramatically within a few years.

### **3.3 Market Exposure**

SASSDA is currently providing an excellent service to the industry with its exposure to the local market through its technical assistance programs, the SASSDA Buyers Guide and the Stainless Steel Magazine. However, these media are all primarily aimed at the local market and not directly transferable to the international market.

The Chinese and the Korean models of marketing and selling in the international market are simply based on the principle of continuously supplying information to the international market. Information is primarily supplied in terms of directories, catalogues, software, internet directories and a continuous flow of brochures and pamphlets from the individual companies.

Together with the supply of information, the Chinese government play a very important role in physically selling these products in the international market. The approach used is however very paternalistic and autocratic (prices and all conditions are determined by the trading organisation on behalf of the manufacturer), and would be impossible to implement in South Africa. South African manufacturers should however be quite capable to negotiate on their own behalf once this stage is reached.

Along the same lines as the Korean and Chinese information distribution, a very useful publication (to distribute internationally) would be a condensed version (~40 pages) of the SASSDA Buyers Guide. This "SASSDA *Traders Guide*", should simply cross index company details with (exportable) products. The mechanics of the SASSDA website

should be easy to transfer to a compact disk and may serve as an alternative or an addition to the *SASSDA Traders Guide*.

On compact disk, it would be easy to allow each company at least three or four pages for company and product profiles.

Although establishing a good quality publication is very important, the distribution of the publication is even more important. The following distribution areas should be considered, namely South African Foreign Trade Offices, international trading houses, European and US importers and ad hoc distribution opportunities such as trade fairs, large engineering houses and buyers for international chain store. If supported by local agents, it would be an excellent selling tool.

It is specifically in the area of trading houses, where SASSDA will have to expend considerable effort to establish a comprehensive and accurate international mailing list – probably the key to success of the whole program.

This mailing list should also be used in a similar fashion to the Chinese and Korean industries that make it available to all manufacturers for the distribution of individual company literature. The literature distributed in this way normally consists of a single page letter plus a single, double sided page with depictions and descriptions of products.

With tools like these, the requirement for a large and expensive industry stand at international fairs may be replaced by a single, much smaller “South African Stainless Steel Desk” supplying interested parties with the disk and the Traders Guide.

### **3.4 Establishing a “BPSFC Interest Group”**

The establishment of a “*BPSFC Interest Group*” is an option to pool resources at this early stage of the project to assist the members to resolve common difficulties and find ways of co-operating for the benefit of all. A similar co-operation model to other SASSDA Interest Groups could be used very successfully at these early stages, since most members will experience similar problems. This group can successfully service the above discussed interest group/s to ensure a smooth flow between supplier / buyer and also to identify opportunities well in advance.

The following are topics which such a group could consider addressing:

- Relevant HS codes and applicable duties for a range of products in each of the target countries
- Shipping rates to a range of destinations
- Investigating the best freight options
- Pooling marketing efforts (e.g. joining forces in a Fair, combined marketing materials, etc.)
- Finding relevant DTI incentives (second shift, export bridging finance, etc.) and how to make use of it
- Obtaining regular comparative international stainless steel prices
- Investigating the possibilities for co-operation between members in order to fulfil large orders or in cases where combined manufacturing may be required
- Obtaining expert knowledge on specific subjects of importance

The knowledge base should initially be able to grow rapidly by combining the existing individual expertise of the participants on various aspects. After this, the agenda for these meetings will change as the members' interests and requirements change.

### **3.5 Presentation of Opportunities**

To create an opportunity for interested companies, and to familiarize them with the results of this study, the concept of presenting the results at a number of the major centres in the country has been mooted – an important first step in the process of exporting BPSFC's from South Africa. Gauteng, Natal, Western and Eastern Cape might be the likely four presentation centres.

The main objective of such a presentation would be to get companies interested in the production and export of BPSFC's, inform them of all the relevant facts and establish a plan of how to support members in achieving export targets.

The following may be relevant topics for the information session:

- Explain the research concept and process
- Explain in detail the specific opportunities available, discuss selected
- Discuss the difficulties that may be expected
- Companies interested in BPSFCs
- Discuss important business considerations such as marketing, pricing, quality, etc.
- Present specific concepts of moving forward to participants.

Detailed workshops may not be possible at this stage, but short workshops are required to establish the following:

- Participants' interest to get involved in the manufacture of BPSFC's
- The interest in being part of ideas such as a co-operative export scheme and a "BPSFC Interest Group"
- The requirement and level of export education required

Depending on the interest indicated also by SASSDA members, several or one centralised presentation might be considered.