

## Metinvest-SMC: We anticipate our customers' needs

Igor Tonev, General Director of Metinvest-SMC



Despite the change in leadership, Metinvest-SMC's priorities remain unchanged: maintaining a leading market position, improving customer service and stimulating metal consumption. The company's general director, Igor Tonev, explains that to do so, they are currently implementing several projects to improve the logistics of warehouse processes and digitalise operations. In addition, they plan to bring to market a comprehensive support service for construction projects and, by the year-end, to launch online metal sales. By introducing these services, the company seeks to anticipate the needs that small customers may face in the coming years.

**– Mr Tonev, you recently took charge at Metinvest-SMC, what are your priorities as the new head of the company?**

– Metinvest-SMC is a leader on the Ukrainian market. Beyond maintaining these positions, the priority that I see for our team is to stimulate metal consumption by our customers and improve our customer service standards. It is no secret that while Ukraine produces more than 20 million tonnes of steel a year, it consumes a little more than 4 million tonnes\*. This is why it is so important to change the situation for the better. Today, we are already developing various mechanisms to stimulate demand: this includes export support programmes for our customers, new pricing tools, new product development and existing product modification for our customers, as well as various other commercial terms aimed at increasing demand.

**– What innovations and changes do you plan to introduce in the company's work in the near and medium term?**

– We will focus our efforts on optimising the internal processes of service metal centres. The primary emphasis is on service quality. To this end, we have already begun to implement several projects to improve the logistics of warehouse processes and digitalise operations: this includes a uniform format for labelling and identifying products, which will make it possible to offer online acceptance and shipment. Starting next year, we plan to introduce an electronic warehouse map and test launch an electronic queue service. Ultimately, this will all have a positive impact on the customer service that we offer.

This year, we created a project sales department and next year, we will actively expand its operations. We began implementing project management with the construction industry, where we plan to bring a new service to the market: comprehensive support of construction projects to maximise the conversion of concrete to metal during construction. This is an absolutely new experience for us, and we already have several successful case studies to date where such comprehensive work with the customer at the early stages (essentially, at the conception or design phase) made it possible to achieve a conversion in which the customer changed their decision to build with reinforced concrete in favour of metal structures. In the medium term, this project sales model can also be replicated with other industries.

**– What consumption trends were characteristic of the Ukrainian metal product market for the first seven months of the year?**

– According to our estimates, the consumption of such products as rebar, wire rod, galvanised steel and pipes increased. In particular, rebar and wire rod were up 2-3%, galvanised steel was up 3-4% and construction pipes were up 9-10%. The consumption of other types of metal products decreased: polymer-coated products were down 2%, while angles, beams and channels were down 3%. Deliveries of hot-rolled steel remained flat year-on-year, without significant changes.

**– Was there any difference in customer activity by region?**

– Yes, we noted varying trends in the consumption of metal products. The western region is growing actively, where the greatest consumption growth is seen. We attribute this to active construction in the region. There is also growth in the eastern region, which I would associate more with a low base for comparison. Kyiv and Odesa have decent metal consumption figures. In central Ukraine, consumption was good in previous years, whereas I do not see any particular trend this year.

**– Why, if there was practically no change in the overall size of the market for long products, was an increase seen in the long product segment and a decrease in structurals?**

– Yes, indeed, the construction industry is perhaps one of the few industries that showed positive trends and consumption growth this year. This is associated with an increase in rebar consumption. I associate the reduction in structurals more with the fact that these products, where possible, were replaced by tubes, which are increasingly used in construction and, unlike structurals, are almost always in stock. I think the trend of tubes replacing structural steel will continue.

**– How does the company view import trends for long and structural products through the year-end? What changes in Metinvest-SMC's purchases of imported products should we expect?**

– Import trends will remain at the current level; we do not expect significant growth in supplies from either Russia or Turkey due to the seasonal reduction in consumption and prices on domestic and external markets, which increases the risks of incurring losses when working with imported products.

As for Metinvest-SMC, imported structurals are products imported from Promet Steel. We are expanding our product range and loading Metinvest Group's plants with orders. That's why we plan to further increase supplies of angles from our factory. In November, Metinvest-SMC expects one more vessel from Bulgaria with structural and long products, around 3,000 tonnes, which should be enough for the market until February 2020.

**– Today, Russian players are developing metal product sales via online stores. How much demand could there be for this sales method on the Ukrainian market?**

– By the year-end, we plan to launch online metal sales. Frankly, while there is not currently a great demand for online metal sales, we are anticipating somewhat the need for an online service that will definitely appear from retail and SME customers in the coming years. It is important to understand that the site and online store themselves will be ineffective without a comprehensive reorganisation of internal processes, logistics, speed and prompt delivery. Investments and several complex organisational changes are necessary in order for online sales to become truly effective and for us to get new customers, and not just transfer existing customers online.

**– How has the company's distribution network changed latterly? What effect have you seen from this?**

– In principle, Metinvest's distribution network has already been formed; in the past three years, we have been actively expanding our network of facilities and growing thanks to partnership programmes, primarily with our distributors. This year, we opened a distribution centre in Dnipro. This is the largest facility of this type in Ukraine with a capacity of roughly 40,000 tonnes of metal products, which in the future will be able to process more than 120 vehicles and 30 railcars a day. We will be able to quickly and efficiently ship products to customers, as well as rapidly restock our warehouses and our partners' warehouses from this distribution centre. As for the future, while we plan to further develop through partnership programmes with distributors, we do not rule out opening our own facilities. For us, it is important to be represented in those regions that are attractive to us in terms of consumption trends in the retail and SME segments.

**– What consumption volumes of metal products, particularly long products, could the Ukrainian market reach by the year-end? What sales volumes do you expect from service metal centres?**

– Overall, we expect that the market could grow by around 1-2%, with an increase of at least 3-4% for long products. That is, this entire growth of 1-2% will be due to the increase in long products. Service metal centres plan to increase sales due to long and galvanised products.

**– Do you think an increase in metal product consumption, particularly long products, can be expected in**

## Ukraine in 2020?

– We don't expect a consumption boom in 2020. We forecast growth in the region of 3-4% that will be seen in practically all traditional sectors of metal consumption. Greater growth will be possible only if there is a significant increase in investment in infrastructure facilities, primarily in road infrastructure.

*\* According to the World Steel Association, in 2018, Ukraine consumed 4.7 million tonnes of steel. This figure includes consumption volumes of finished products: flat and long products, as well as tubes.*

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