PACESETTER

OUR PEOPLE, YOUR ADVANTAGE

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YOUR INFORMATIVE ADVANTAGE

OUR PEOPLE, YOUR ADVANTAGE

Certified WBENC Women's Business Enterprise

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Proper inventory management is essential to the success of any manufacturer and supplier. This reciprocal relationship thrives when each party clearly understands the other's business, i.e. the consumption rate and trends of the manufacturer and the replenishment capabilities of the supplier. Continuous collaboration between the two helps to ensure uninterrupted supply and less need for "fire drills" or tough discussions about non-turning inventory.

Despite the best intentions and sufficient clarity, challenges may still arise when:

• Correct inventory levels are not maintained to support customer requirements.
• Mill deliveries are late.
• Customer demand surges unexpectedly, perhaps due to increased sales or external forces that fuel unanticipated spikes.
• Forecasts are inaccurate.
• Aged inventory is not addressed timely.
• Obsolescence is not communicated to the supplier.

Depending on the issue, matters can be compounded if the customer is sourced by multiple suppliers versus a single supplier.

Common reasons for utilizing multiple supplier sources include:

• Insurance against material outages (assuming there is allocation within the products, as opposed to segregated and allocated by product).
• Maintaining a level of competition between suppliers.
• Retaining different suppliers who are stronger in supporting different products.
• Assisting with cash flow issues.

Though a case can be made for multi-sourcing, this can increase risk in other ways:

• Quality control and product consistency is sometimes sacrificed and can create inefficiencies in the manufacturing process. Equipment adjustments may be required to accommodate material variation, and yield may be sacrificed if gauge/thickness control isn't monitored.

• Managing multiple suppliers may also incur higher management costs and risks than managing a single supplier.

In single-sourced scenarios, there tends to be a stronger dependency between companies, but a capable supplier will embrace this bond and the resulting need for more flexibility.

Owning the responsibility and elevated need for responsiveness that comes with single sourcing, i.e. they ARE the "back up plan," drives the supplier to stay focused and recognize urgent needs or even developing trends sooner, and respond with a more heightened sense of urgency.

Optimizing inventory flow for all items is critical to ensure consistent turnover and positive cash flow.

Having the right balance of material on hand and in the pipeline also mitigates the risk of supply interruption.

Consistent monitoring to prevent over or understocking is the key to this optimization and requires a strong relationship and understanding between manufacturer and supplier.

STEEL | 3.15.2016 - 3.21.2016

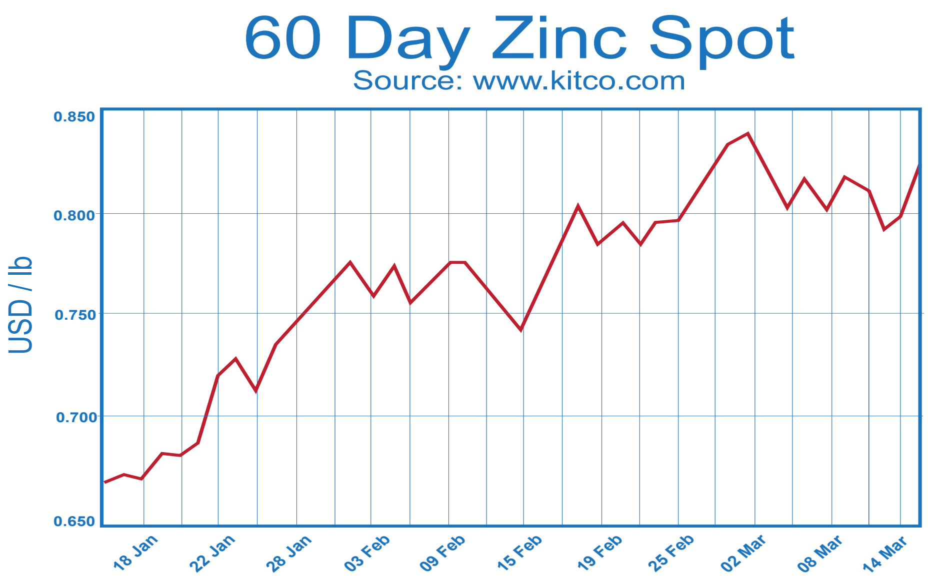
- #1 heavy melt scrap rose to $170 per ton and #1 busheling scrap rose to $195 per ton. This is counter to recent dynamics relating to lack of steel demand. Junk cars are piling up in junkyards all across the country and scrap feeder yards are being closed due to lack of demand. Has the industry hit the inflection point where the supply chain has right sized enough to support price increases, or is the current price spike going to be short lived?

+ Raw steel production rose to 73.6% of capacity.

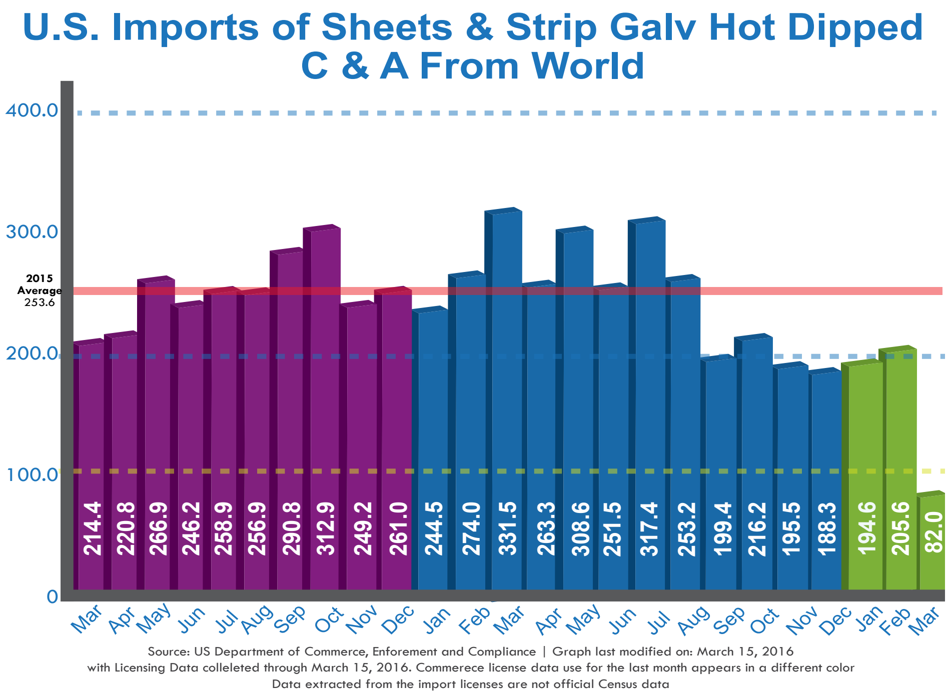
- Domestic mill lead times are steady, averaging 9 weeks for galvanized products.

- Iron ore FOB Chinese ports is up to $54 per dry metric ton.

+ Zinc prices are leveling off.



+ February galvanized imports performed better than expected. March is off to a shaky start.



+ China's steel production fell 5.7% year to date. It looks like the "right sizing" of their steel industry has commenced. It is sending shock waves through the industry, mostly through finishing mills who have enjoyed cheap feed stock from China for a long time. Global prices are going up quickly and lead times are pushing out as far as September.

+ US Steel is planning to restart its iron pellet making plant in Minnesota on May 15. Looks like the current buying flurry, combined with trade cases, has created enough demand that USS is putting the facility back on line.

STEEL | 3.15.2016 - 3.21.2016

- Posco (Korea) is planning $800 million worth of cost cutting to offset the global price correction that occurred last year. 35 non-core business units will get axed or spun off.

+ ArcelorMittal called customers to inform them of a $30 per ton price increase for all carbon Flatrolled products, effective immediately.

+ Nucor Steel sent a letter to customers asking for the same $30 per ton increase.

+ NLMK sent a letter around asking for a $30 per ton increase too.

+ USS Posco on the West coast also published a $30 per ton increase.

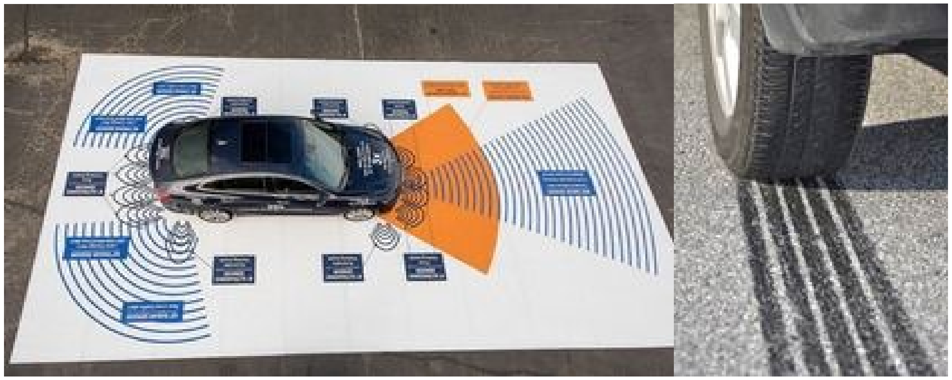
+ Maybe one market is feeding off the other, but ever since the Asian market reopened offices after the Chinese New Year, prices have been on an aggressive up trend and lead times have been pushing out.

- Steel shipments in February from service centers in the US totaled 3,179,800 tons, down 4.6% from last year. Steel inventories totaled 7,842,800 tons, down 20.6% from a year ago. Current inventory represents 2.5 months' supply. Canadian steel service centers shipped 396,900 tons in February, up 2% from last year. Their inventories totaled 1,211,700 tons, down 21.6% from last year and representing 3.1 months' worth of inventory.

AUTOMOTIVE | 3.15.2016 - 3.21.2016

- When is a sale not a sale? When BMW offers their dealers deals to buy more inventory than they need by dropping the price enough so that the dealer uses the cars for a couple months as “demos”, then sells them at a discount to customers who otherwise would not be able to afford them. BMW used this tactic last year to pump up sales figures. Have you ever noticed all the used BMW’s with unusually low mileage on dealer lots? The practice is called “punching”. To me, this is yet another sign of the auto industry on the verge of a slowdown. In 2015 there were 286,832 vehicles in the US that were sold, but not registered in the same month, which is a telltale sign of punching.

- The auto industry has committed to automatic braking by 2022. They aim to prevent thousands of crashes per year. More electronic babysitting means less aware drivers, and eventually less capable drivers on the roadways. Will that be better, or is it best to leapfrog right into autonomous cars for those who really don’t want to drive?

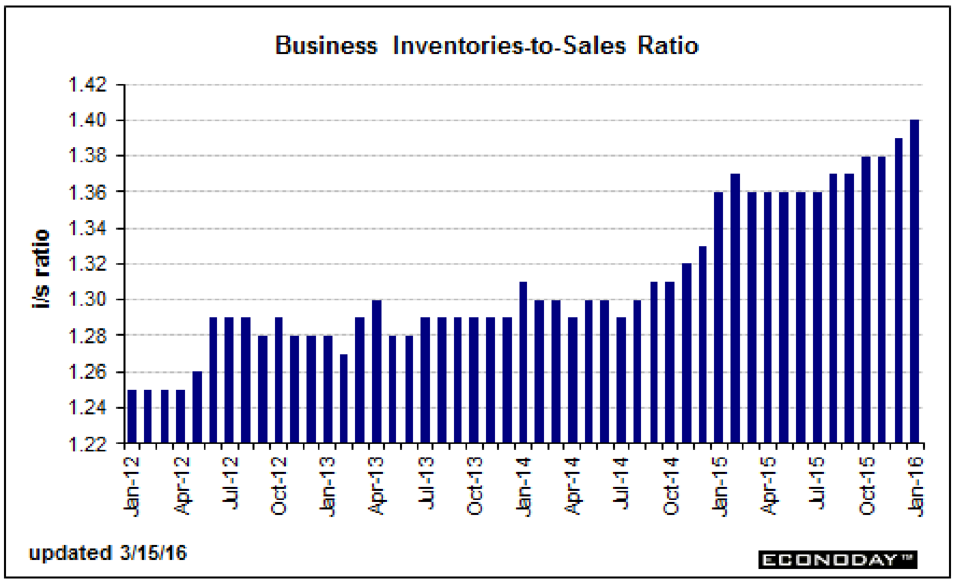


GENERAL | 3.15.2016 - 3.21.2016

- The Fed reviewed short term interest rates and decided to keep them steady at .25% to .5%. The assessment of our economy was downgraded from “solid” to “moderate”.

- Industrial Production fell .5% in February, pulled down by less output from mining and public utilities.

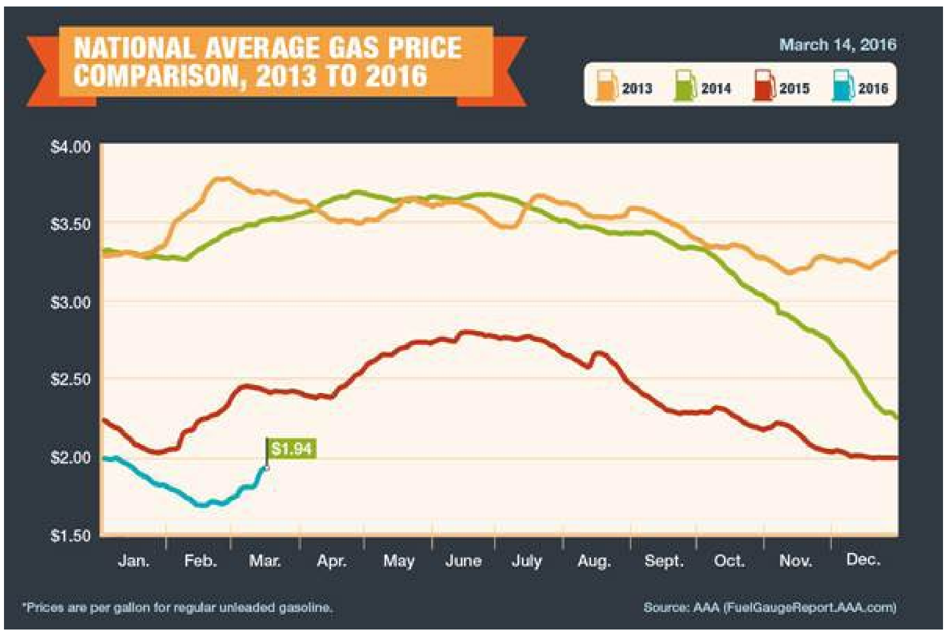
- Business inventories ticked upwards again in January. The stock to sales ratio is a bloated 1.4 to 1.



+ The Producer Price Index fell .2% in February driven by cheaper energy and food costs. The service sector is slowing due to less demand.

GENERAL | 3.15.2016 - 3.21.2016

- Gasoline prices are spiking upwards while crude oil inventory hit another record (523.2 million barrels). Refineries operated at 89% of capacity. Gasoline inventory fell .7 million barrels and distillates fell 1.1 million barrels. Oil futures are steady at $37.50 per barrel.



+ Housing Starts rose 5.2% in February, but permits slowed over 8% pointing to less demand just around the corner.

BILL'S ROUND-UP | 3.15.2016 - 3.21.2016

"The Federal Reserve is keeping interest rates steady as they see signs of a slower economy ahead. Industrial production is slowing and inventory is rising. Inflation is nonexistent right now. Gasoline prices are rising even though there is record crude oil inventory. I suppose the oil companies are raising prices ahead of the summer driving season. Housing construction looked good in February, but permits are slowing. Steel scrap prices are gaining even though scrap inventories are growing. Steel mill output is gaining slowly and lead times are steady at 9 weeks. Iron ore prices are gaining and zinc prices have escalated all year so far. Galvanized steel imports in March look weak. In the midst of a global steel industry trying to "right size" itself, a buying flurry has occurred and prices are escalating at a rapid pace. Our domestic mills just announced another round of increases. Steel shipments from service centers in the US are down, and so is inventory. The US auto industry is showing signs of weakness and their sales tactics are getting more aggressive."

Bill Feier, World Sourcing Manager

PARTING SHOT:

"Endurance is patience concentrated."

– Thomas Carlyle (1795 to 1881)

'TIL NEXT TIME | 3.29.2016

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