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BE PRESENTS

a newsletter from BE Group 2009 **Eighth issue**

A newsletter
about the
steel and metal
industry.

See page 4 for subscription info!

Per Horstmann
SVP Purchasing and Production, BE Group:

Paying the price for speculation

The steel and aluminium industry has been going through harsh times for a while and it isn't over yet. However, we do believe that the worst will be over soon and that for some products, demand has already passed its lowest point. Still, we expect the recovery to be quite slow as in general our customers have low order stocks and have cut production significantly. Some have also postponed investments in capacity. This will keep demand low for a long time.

We also believe that many of the companies in our business, including steel producers, distributors and end customers, will continue to have problems for quite some time and some of them will not make it

through the hard times.

The financial crisis and the general acute industrial downturn have done their part in dragging the steel and aluminium business down, but the crisis seems to have hit our business even harder than others. Many steel companies report volume losses of 60-

80 per cent! Why did our business experience such a dramatic downturn? There is no single answer to that, but one important factor may be the negative consequences of large inventories in all the companies in the value chain, not least among distributors, which have served to increase volatility in the business.

BE Group attempts at all times to keep inventories at a stable level, i.e. high enough to support customers' needs but low enough to give us a reasonable Return on Operating Capital and minimize risks. Our strategy rules out speculation. Many other distributors and steel service centres speculate and build up extremely high inventories when times are good, often making large short-term profits in the process. The past 8 months or so have been a painful reminder of the negative consequences of this.

Steel and aluminium producers have



been hit not only by an actual fall in demand, but also by the fact that inventory levels have been much too high. Distributors have preferred to reduce their inventories rather than purchase from producers.

Things have been made even worse by the fact that high inventory levels in combination with lower volumes and poorer margins have forced distributors to offload excess inventory, sometimes at very low price levels, to enable them to meet their financial obligations. This has resulted in a market in which sales prices from the distributors are lower than those from the mills in many cases, thus putting further pressure on producers.

Speculation has caused the market to slow down even harder than other businesses, thus highlighting the element of risk. This is something which is often forgotten when times are good and prices are rising.

“BE Group attempts at all times to keep inventories at a stable level, i.e. high enough to support customers' needs but low enough to give us a reasonable Return on Operating Capital. Our strategy rules out speculation”





Lars Bergström has a background in ABB and Karoline Machine Tools.

Change in leadership but strategy remains firm:

BE Group has a new CEO

Lars Bergström is the new President and CEO of BE Group. He took up the position in early March this year.

BE Group's strategy of more service sales and growth in Eastern Europe remains unchanged despite the new leadership. This is something that Lars Bergström believes in strongly.

"Our strategy is well-proven and remains firm. We will continue to extend our service offering and increase our commitment to our customers by improving their product-flows and

cutting their costs. We also strongly believe in the region of Central Europe in the long term, even though these countries are going through really tough times at the moment".



"Our strategy is well-proven and remains firm. We will continue to extend our service offering"

Lars Bergström stresses the importance of the central group supply function. This improves relationships with suppliers and makes it possible for BE Group to coordinate purchases and concentrate larger volumes in each deal.

"The Product supply organization is the group's main point of contact with our suppliers and long-term relationships with key suppli-

ers are vital to our success. Now, when times are tougher, it is necessary for us to be able to purchase with greater flexibility. We can't run around looking for the lowest price in every single deal".

Lars Bergström is fifty-one years old and holds an MSc in Engineering from the Swedish Royal Institute of Technology as well as an MBA from Uppsala University.

"My background is in the engineering industry. I worked for ABB in different posts for twenty years and spent six years as CEO of Karoline Machine tools. These are companies much like our customers. This means that BE Group's journey towards a greater service component is something I'm very familiar with. While I understand our customers well, the trading expertise which is one of BE Group's trademarks is something that I'm learning". ■

Lean principles improve production services:

BE Group tries out OEE

The use of lean principles has become an effective method for evaluating production and increasing efficiency, quality and delivery performance. Today, BE Group offers a wide range of service products. The implementation of an OEE (overall equipment effectiveness) system in the organization forms an important part of its ambition to deliver excellent service, increase service sales and identify new service areas.

In Malmö, Norrköping, Turku and Lahti, the process of finding the right working process connected with machines has begun. By installing software to track stoppages in machines and report the causes, BE Group can evaluate whether they are caused by machinery failure or by working processes connected with the machinery. By increasing machine performance through continuous improvement and keeping track of capacity usage, BE Group can guarantee an excellent service concept and just-in-time delivery.

"The overall efficiency equipment will

provide us with facts about machine capacity. These real-time facts provide us with greater knowledge to enable us to calculate the right prices and accurate lead-times to sales. They help us work more efficiently and will benefit the supply to our customers in the long run", says Dan Gustafsson, Vice President Production of BE Group.

Knowledge possessed by staff plays an important part in improving procedures in their own work. By incorporating personal knowledge into the process, better working methods can improve performance, increase machine volume output and shorten lead times.

"When the right work process has been identified, the OEE system will be implemented throughout the group. At present, around 35 per cent of orders involve production service and by working more efficiently we can strengthen and develop our service products", concludes Dan Gustafsson.

One of BE Group's prime ambitions is to increase the service share of total sales. Through better use of existing machines and the creation of a culture of continuous improvement and lean thinking, BE Group will strengthen both its range and its position in the market. ■



"by working more efficiently we can strengthen and develop our service products"

"The overall efficiency equipment will



BE Group improves production processes through continuous improvements.



60 sales people will attend BEST training and then train their coworkers.

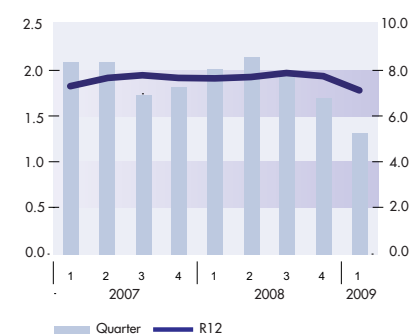
BE Group invests in sales organization

BE Group is a company strongly orientated towards customers and its corporate skills are continually being developed through training and recruiting. The group has been implementing a project to strengthen sales skills within the group and the primary outcome of this was the BE Group Sales Toolbox – BEST – which is an interactive toolbox for all sales representatives.

The BEST sales training is aimed at enhancing sales people's skills to enable them to respond better to increasing demands from customers and a broader range of services.

Around 50–60 sales managers from all over BE Group will attend three BEST training sessions each. The managers will then train their employees on a continuous basis according to the concept of "train the trainer". The training involves around 200 sales people in the group. ■

**Net sales, SEKbn
Quarter and rolling 12 months**



Downturn affecting BE Group

2008 was one of the best years so far for BE Group but it ended with a slump caused by the global recession. Demand fell sharply from the end of the third quarter and 2009 has continued in the same vein with low activity on the market. Sales in the first quarter fell by 34% compared to the same period last year. A cost savings programme was initiated in late 2008. ■

Q&A

R. Hugas, Corporate Commercial
Director of Celsa Group

How would you describe the current market situation?

The current market situation is a consequence of the economic crisis started in United States that has reduced the liquidity everywhere. The decrease on demand is a consequence of a lack of credit and not a consequence of real demand. This situation is, of course, circumstantial and it will recover again in all industrial sectors.

How has the exceptional downturn in the Spanish economy affected the steel market?

Spain was coming from a steel consumption peak and therefore the decrease has been more evident than in the rest of the European Union. In any case, Spain is readjusting the production versus consumption so, in fact, the end result will be similar to the situation in the rest of the European Union.

How has Celsa coped with this situation?

Celsa has a very diversified production, as we have a wide range of rebars, wire rod high grades, merchant bars and sections, and on the other hand we have integration downstream in mesh, cut and bend, drawing facilities and tubes. In addition Celsa has always been very active in the International market and therefore we are in a good position in the actual circumstances.



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Do you think that the global steel market is stabilizing?

Today, we are in the worst situation and what we expect is a market improvement, globally speaking, by the end of this year.

Where do you think demand will pick up first?

The demand is starting to increase in China, which is already looking for importing steel and it is my opinion that after China the United States will come and Europe will follow after that.

What future trends do you think will be significant in the market for steel and other metals in Europe and globally?

Once this circumstantial break is finished, all industrial sectors and, of course, the steel sector, will recover the normal activity level globally. We must take into account that the world needs steel to develop and the growth in emerging countries such as China, India and countries in Africa and South America, is dependent upon steel. ■

Prices vary and market becomes faster

Recession offers strategic opportunities

In times of recession, product area managers face new challenges. With prices constantly changing, making the right agreement with the right supplier becomes an important task and timing is crucial. However, the recession can also open up new business opportunities.

The key to satisfied customers is delivering the right product, in time, at the right price. This requires high quality suppliers, a good offer and well-cultivated relationships with current and future suppliers. Product Area Managers at BE Group enter into contracts with the group's preferred suppliers. They have noticed a change since the downturn in business.

"The market has become faster and prices vary from week to week, making it a challenge to make the right agreement. Nowadays we make shorter agreements since neither we nor the supplier benefit from being tied to a contract that is either too cheap or too expensive", says Christer Dahlberg, Vice President Product Supply and Product Area Manager at BE Group.

For BE Group, it has become more important to control purchase prices in each of the nine markets in which it operates and to manage the flow of materials within the organisation cost effectively. With less stock-keeping, sourcing



material available within the whole group for wherever it may be required is an efficient and effective way of keeping costs down and binding the group together.



"a recession is a golden opportunity to tie strategically important partners to the group and strengthen our position for the next boom"

One aspect of the business cycle that remains unchanged is the importance of maintaining good relationships with important suppliers. Suppliers play an important role in times of reduced volumes. Focus on stock-keeping and delivery capacity and accuracy therefore become even more essential. BE Group works hard to maintain long-term relationships with current suppliers who perform well and also with future suppliers to create a platform for growing the business.

"While finding suppliers with free capacity can be difficult during a boom, recession opens up strategic opportunities. We find that a recession is a golden opportunity to tie strategically important partners to the group and strengthen our position for the next boom", concludes Christer Dahlberg. ■



BE Group's Annual report for 2008 is published. Order your copy at www.begroup.com

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