

STEEL FOUNDERS' SOCIETY OF AMERICA

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Developing New Steel Casting Suppliers

As a purchaser and user of steel castings, you have endured similar challenges to ours over the past decades due to tough economic conditions. Public policies and regulations have increased our costs, globalization added competitors that had lower costs beyond the direct cost of production, and excess capacity limited the ability to realize these costs in market prices. As suppliers, steel foundries have faced the same pressures from global sources taking domestic market share based primarily on cost and the loss of domestic customers as companies in your space went global or bankrupt.

These circumstances have changed dramatically in the past few years so that our industries are called on to be reliable and capable sources to ensure economic and national security. There are no longer multitudes of competitors for your products or steel casting producers that are anxious for volume that is not adequately profitable.

Most steel foundries are small or medium size businesses with limited personnel. Your products are proprietary custom parts with specific requirements based on your needs. Your purchase system requires qualifications and internal systems at the casting supplier. Traditional products that were once sourced domestically and then sourced globally, now have expanded requirements to handle the lack of ordinary practices that were included in domestic sources. Steel foundries are not hardware stores, and you are not buying bolts from them.

Sustained success for our common future requires that we develop a collaborative commercial relationship that is profitable enough to allow us both to invest in modernization and innovation. This is reminiscent of conditions after WWII where purchasing's major task was not selecting a vendor from a market full of competitors but to find and partner with a vendor that could provide the products needed for production. Again, in the 1970's, purchasing had to navigate a market constrained by limited throughput and capacity.. Steel casting purchasers should consider their supply chain and look to develop with existing and potential suppliers a collaborative relationship that is value added and profitable to ensure adequate supply.

One artifact of the overcapacity market for decades was the implicit assumption that any casting producer that could make the size, remain in business financially, and agree to meet the purchase requirements was qualified. New suppliers had a functional audit of the capability and stability without adequate evaluation of their expertise and technology. This led to common problems in late deliveries, inadequate quality, and poor perceptions of the steel casting industry.

When purchasers issue RFQs to existing and new suppliers, the quotes can have a large range of pricing. Purchase departments are driven to try to facilitate using the lowest quoted price to gain the market advantage of low cost. New suppliers that are not familiar with the purchaser or the products can make one of two errors, pricing too high or too low. Too high reflects the uncertainty of a supplier who might be the best qualified to be a new source. Too low often reflects a lack of understanding of the

requirements and difficulty of production. Accepting the low price comes at the cost of unmet schedule and low quality.

New suppliers should be qualified by purchasers before they are accepted as capable. This can be done responsibly in a couple ways. If the new source is already qualified or serving the purchaser's markets and makes products that are comparable to similar requirements, they could be evaluated as qualified based on their current capabilities. This can often be established by their public vendor or quality certifications by outside entities. Casting producers already making products for the same market that are similar to the purchaser's needs may be qualified and this will make their price estimation responsible based on their understanding of the business.

New potential suppliers who wish to enter this market but are not currently players should be developed outside of the ordinary purchase activity to allow them to produce prototype or first article parts in close cooperation with the purchaser to ensure that they understand and can make the products required. This historically was done at risk by the casting producer but may in current market conditions require support from purchasers.

Supply chain management will see significant changes to deal with the hollowing out of capital-intensive industries domestically like your company and your suppliers. New suppliers can be recruited or developed but will require new ways of collaboration to provide the steel castings you need. Critical to a profitable future for you is to manage a profitable supply chain that is collaborating to improve your products and invest in their business. Seeking the lowest cost for small lots from multiple suppliers means that your products are made with the least care by the neediest supplier.

Steel foundries will be careful to find customers who want to collaborate and care that they can be profitable and invest to remain capable and provide added value.



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