



SFSA CASTEEL REPORTER

Steel Founders' Society of America

a monthly publication
serving SFSA steel casting industry Members

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Casteel Commentary Highlights:

Modern sales techniques and marketing focus on the presentation of a compelling value proposition to a potential customer. This month's Casteel Commentary argues that many organizations are really risk not value driven. This has important implications for our efforts to work with customers. If we can reduce the risk to our potential customers, we can gain their business.

SFSA Annual Meeting

Most members should have already signed up for the 2007 SFSA Annual Meeting. We have a full business program, a beautiful location, and an important opportunity.

Our program includes key business information about the upcoming election with Howard Fineman, business critical information with a panel on materials and prices and the SFSA Forecast, and an overview of our industry challenges in trade, energy and environment, and other policy challenges.

We are meeting in Alaska at a wonderful resort; most valuable though is the time spent with other executives talking about our industry and the future. We are starting the meeting with a roundtable discussion to break the ice and facilitate those conversations. Registration and other information on the Annual Meeting are found here, <http://www.sfsa.org/sfsa/annmtg>.

Research Review

SFSA is serving our steel casting industry through organizing and managing research in partnership with DoD and DoE. In order to maximize the value to members we direct the research based on your input. One of the best meetings of the year (free to members) is our research review, scheduled for July 18-19 in Chicago. Details for the meeting are found here, <http://www.sfsa.org/meetings/cla-rr.html>.

This is a great technical update, a good training venue for younger employees, and a good place to ask question and get advice.

Eastern Division

The SFSA Eastern Division will meet August 8-9 at Sawbrook Steel in Cincinnati, OH. More information is available here, <http://www.sfsa.org/meetings/eastern.html>

Specification Note

Often designers are uncertain about how to specify a steel casting. As discussed this month in the Casteel Commentary, large organizations are often risk adverse. Design engineers are liable if their designs fail to perform or live. To overcome their uncertainty, they often select the highest or near highest levels when specifying NDE. Unfortunately this does not improve casting performance and adds dramatically to the cost. Even worse, the NDE specifications are subjective and uncertainty at a customer will lead to unreasonably stringent inspection and levels of rework with no improvements in performance. If a steel casting is included in a new design and the

initial prototypes are durability tested, it is often useful to select a steel casting for testing that represents quality that is the least acceptable or marginally acceptable. Selecting the best casting to test leads to the uncertainty of what a typical casting performance would be. It may be useful to include a typical or good casting for the first trial. It remains useful to test marginal quality castings to prove that the standard will provide the desired performance and to avoid the unreasonable and unnecessary stringent requirements of the ignorant designer.

Innovation

In our plant tours on the GIFA tour we saw a few competitive plants. Of special interest was a plant making wear parts in Germany and shipping them worldwide. Germany has some of the highest labor costs and wear products are purchased on cost of performance. These products are especially vulnerable to lower cost producers. The plant had a history of making a wide range of products. In order to survive the challenge of low cost producers from Eastern Europe and maintain a viable business, this plant focused on wear products and abandoned most of their other product lines. Their focus has allowed them to optimize alloy formulation, heat treatment, automate much of their finishing and material handling, develop superior products and establish themselves as a brand name for these

products worldwide. This strategy has allowed them to sell their products into the developing world. Their performance advantage outweighs their cost disadvantage. Steel foundries in North America could take a cue from this success and specialize, innovate and compete based on technology and performance not cost per part or pound.

Market News

The SFSA Trend Cards show declines in bookings for steel castings of all types but that is in comparison to the extremely high levels of bookings recorded a year ago. Shipment remain near flat showing the more stagnant market conditions earlier this year. Steel shipments reported by AISI for April and iron and steel casting shipments reported by DoC both show increases. This is consistent with the increases in orders for capital goods. Orders for these products are stronger than shipments indicating some market growth in the near future. Backlogs also increased in April indicating an improving market.

Continued high commodity prices and stable interest rates indicate that market conditions should remain strong for the balance of the year. It is still reasonable to anticipate improving market conditions at the end of the year and a strong market in 2008. Added market information is found in the SteelGuru document on the Casteel Reporter web page.

Casteel Commentary

Much of our thinking about sales and marketing is out of date. We buy into the idea that our customers are shopping for the best value and that the heart of our sales effort is to create a compelling value proposition that causes our prospect to select our company. Purchasing agents for large and small companies use our efforts to sell our value proposition to their advantage.

Since we are selling a value proposition, shrewd purchasing agents will request that we present our best ideas for product innovation, for enhanced commercial arrangements, and pricing. The purchasing agent will do this while making no commitment to us for business. Then he is likely to use our ideas and innovations to rebid the business with all vendors. In fact, he will often use our bid to improve his current supplier and at the same time squeeze him on price.

Most organizations are established and the ownership is distinct from the management. As a result of this, the purchasing agent is not principally motivated by value but by risk. The value proposition from a potential new vendor is a threat which presents him with unwelcome added risk. His most comfortable outcome is to stay with the same vendor while improving his arrangement. He would respond to the risk of a new vendor value proposition with an effort to use their good ideas but not take the risk of a new supplier.

Successful marketing must shift this risk equation so that the status quo is the riskiest outcome. One way to do this is not to propose a value proposition but to indicate that the current supplier is capable and if the current supply arrangement is acceptable, then you cannot be helpful. Only if the current vendor is a problem is there an opportunity to reduce risk by improving performance. It is not helpful to get into a bidding innovation war and still not get the business. Prior to investing in a bid, it is necessary that the prospective customer indicate that a new supplier that could solve a current problem is necessary. Then instead of full disclosure of all the value that you can provide, you can tailor your proposal to reducing the buyer's risk.

People do not like to change. Unless a prospect can indicate a problem you can solve or a challenge that is troublesome, they are unlikely to be willing to change. If the purchaser indicates some unfilled need then you have a qualified prospect willing to look at a new solution.

Dealing with customers requires that we recognize the central role of risk in their organization. Effective negotiations require that we control the perceptions of risk and provide the low risk outcome. Customers have the risk of too high a price, inadequate quality, late or incomplete shipments, poor publicity, etc. If we can significantly reduce their risk, they are willing to buy.

Raymond

STEEL FOUNDERS' SOCIETY OF AMERICA

MEETINGS CALENDAR

2007

July

12/13 Western Division T&O Meeting, Berkeley, CA
18/19 C&LA Research Review, Rosemont, IL

August

8/9 Eastern Division T&O Meeting, Cincinnati, OH
18/22 SFSA Annual Report, Alyeska Resort, AK

September

TBD High Alloy Product Group Meeting, Houston, TX
18/19 Safety Committee & Human Resources Meeting, Atchison, KS

November

13 Specifications Committee Meeting, Tampa, FL

December

12/15 National Technical & Operating Conference, The Drake Hotel, Chicago, IL

**STEEL FOUNDERS' SOCIETY OF AMERICA
BUSINESS REPORT**

SFSA Trend Cards (%-12 mos. Ago)	12 Mo Avg	3 Mo Avg	Apr	Mar
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Carbon & Low Alloy

Shipments	10.0	5.4	20.9	1.4
Bookings	3.1	-10.4	-18.1	10.0
Backlog (wks)	10.8	10.0	10.4	9.8

High Alloy

Shipments	3.5	-3.9	-4.4	-24.2
Bookings	-4.1	-12.0	-35.0	-23.7
Backlog (wks)	11.3	11.6	12.7	10.8

**Department of Commerce
Census Data**

Iron & Steel Foundries (million \$)

Shipments	1,613.1	1,561	1,593	1,547
New Orders	1,615.5	1,552	1,608	1,535
Inventories	2,255.8	2,388	2,486	2,353

Nondefense Capital Goods (billion \$)

Shipments	66.5	65.4	65.7	65.5
New Orders	76.2	76.7	78.3	80.1
Inventories	114.0	117.9	120.2	117.0

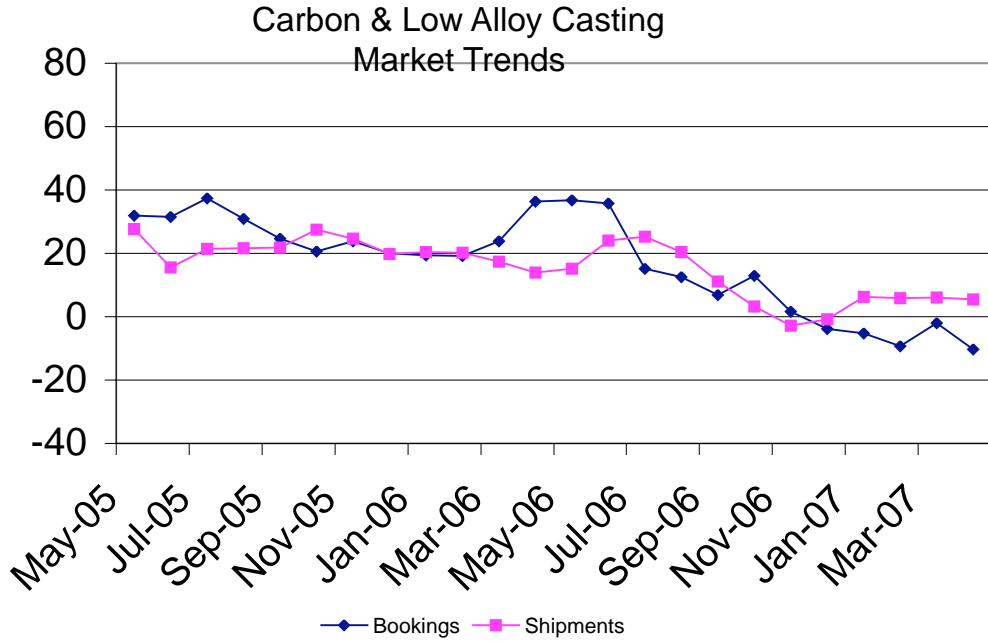
**Nondefense Capital Goods
less Aircraft (billion \$)**

Shipments	61.2	60.2	60.5	60.3
New Orders	63.4	62.2	63.1	63.1
Inventories	95.2	97.3	97.2	97.3

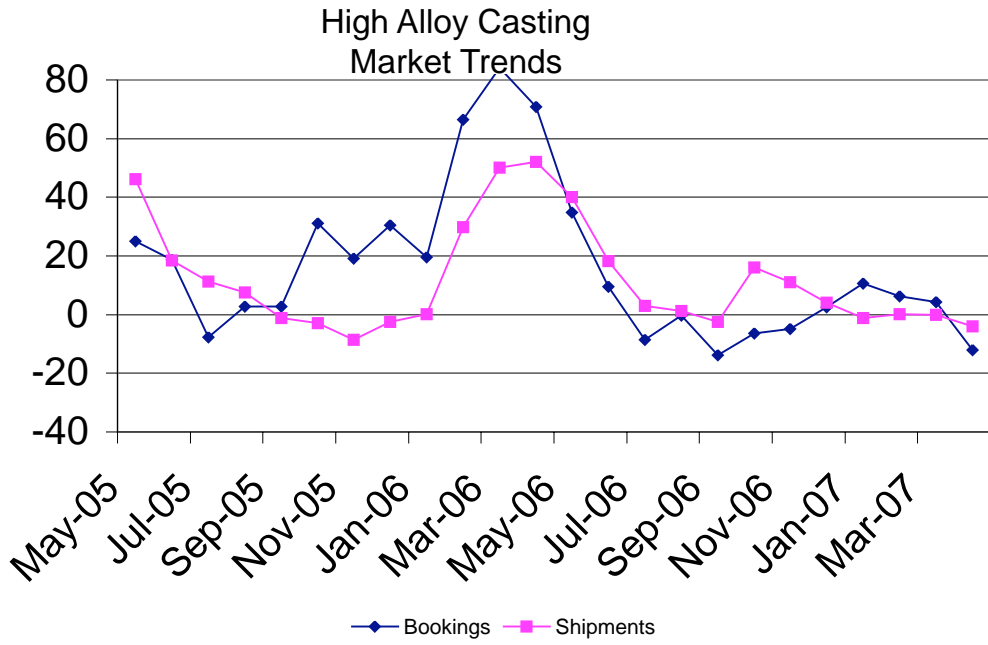
Inventory/Orders		1.57	1.54	1.54
Inventory/Shipments		1.62	1.61	1.61
Orders/Shipments		1.03	1.04	1.05

American Iron and Steel Institute

Raw Steel Shipments (million net tons)	8.9	8.8	8.8	9.3
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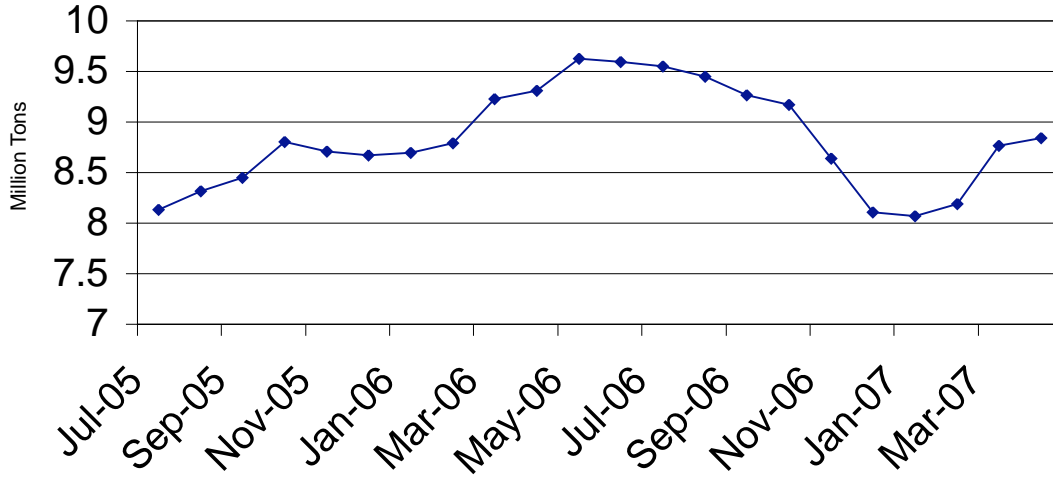
SFSA Postcards



SFSA Postcards

Raw Steel Shipments

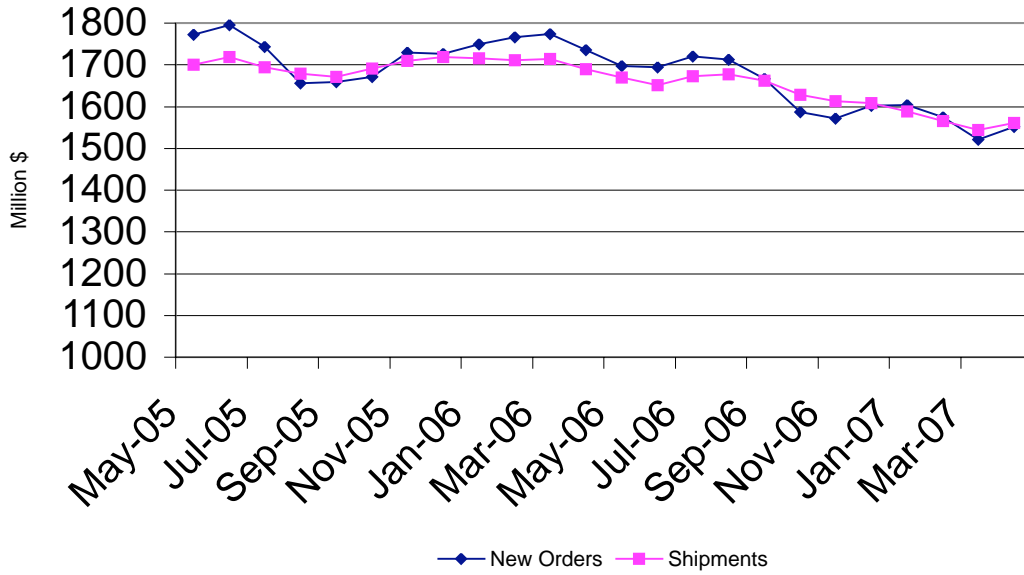
3 month average



AISI Data

Iron and Steel Castings

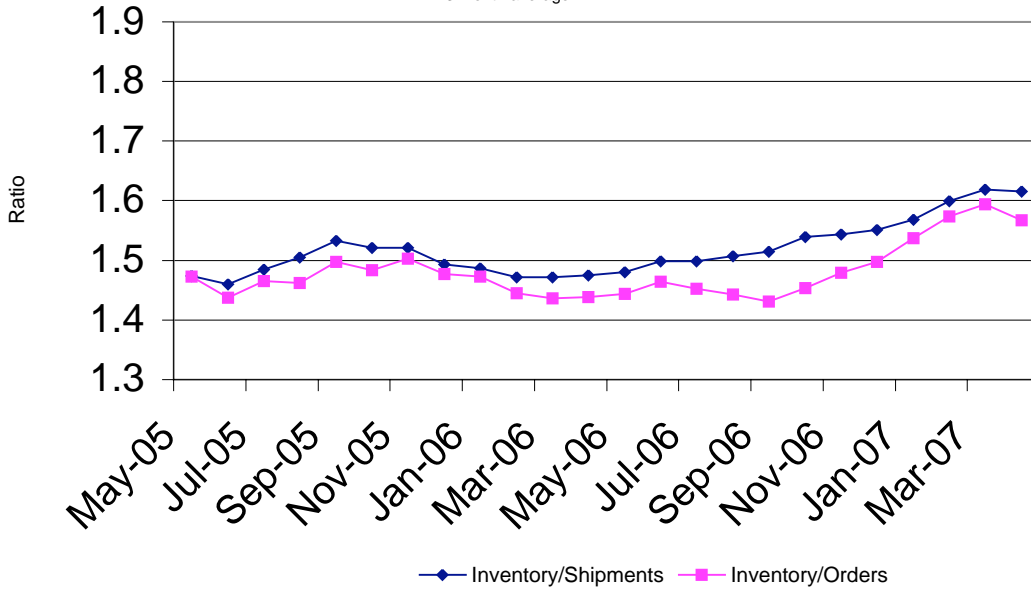
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SFSA

Nondefense Capital Goods less Aircraft

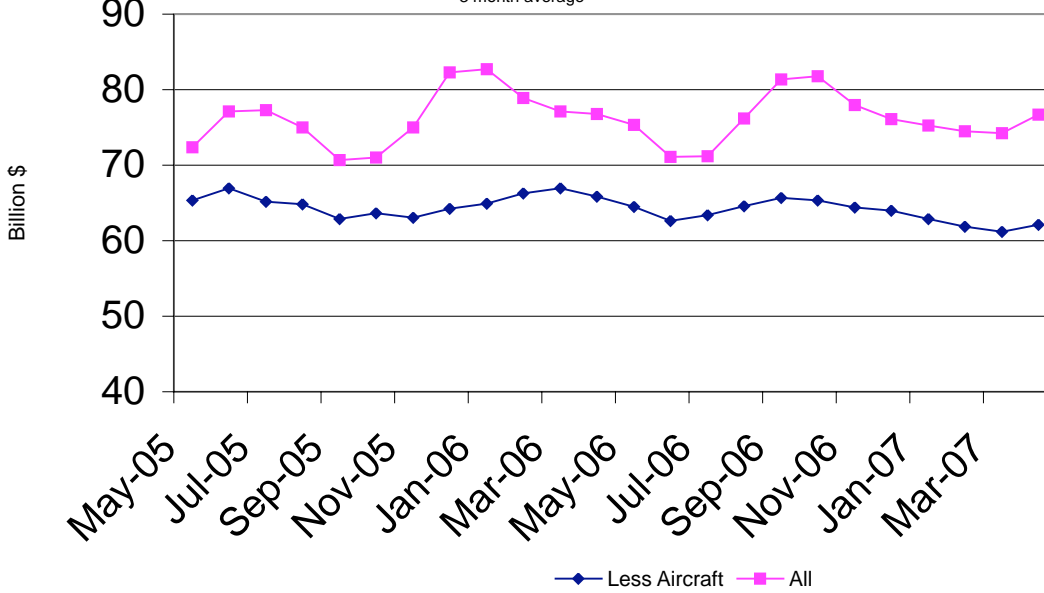
3 month average



Department of Commerce

Nondefense Capital Goods New Orders

3 month average



Department of Commerce