

The background of the entire page is a high-contrast, close-up photograph of metal shavings. These shavings are thin, curved, and highly reflective, creating a complex, textured pattern of light and shadow. They are arranged in a way that suggests a large pile or a continuous stream of material being processed.

McMANN & RANSFORD

Overcoming Commodization of Metals

A Study of the
Metals Industry

Report Overview

The following report is a study on the metals market that includes companies that buy and/or sell steel, aluminum, carbon, and other metals in North America. The objective was to identify ways that the Sellers (i.e., suppliers, distributors, service centers, fabricators, etc.) in this market could better improve their positioning with their Buyers (i.e., customers and prospects purchasing metals). To do so, we conducted a series of interviews with both Buyers and Sellers of various sizes to determine what the leaders in this market are doing to differentiate themselves and grow their businesses.

Rationale for the Study

We are particularly interested in how B2B (business-to-business) companies with a commoditized (or nearly commoditized) product or service overcome their situation by identifying new ways for them to differentiate themselves. These companies are often market leaders for years, only to begin struggling with an “identity crisis” once their competition catches up. As an example, think about big players in the world, like Kodak or Xerox, that were once on top and known for a very particular product, and how, over time, their competitive product advantage dissipated. Many companies fail to make the necessary changes to regain their position at the top of the market – however, irrespective of industry, those that rebound from the *commoditization trap* have observable commonalities.

We wanted to understand if those same strategies that caused well-known companies to rebound from their new-found commoditization would help differentiate Sellers in an industry that is anchored around a commodity.

We have all seen how commodities can be differentiated in the B2C (business-to-consumer) market. For example, look no further than the bottle of water sitting on your desk (Figure 1.1) or try to think of the name of a supplier of bananas other than Chiquita. Marketing wins in the commoditized B2C space, but what about commodities in the B2B environment?

Figure 1.1 – Price Differentiation Among Water Bottle Providers



The metals industry is a ~\$6 Trillion B2B industry and, like many B2B industries, it is experiencing a great deal of change. The most impactful changes affecting this industry are the increase of information available to the Buyer. Access to information across all industries has created a situation where Buyers do their own research and qualification, forcing Sellers to the end of the sales cycle, where price is too important.

Therefore, we concluded that the metals industry is ripe for analysis to determine the best practices for the top performing companies in this industry to stand out from the competition and achieve higher prices, better margins, and greater customer loyalty.

We spoke with representatives from companies of all sizes in this industry (Buyers and Sellers) seeking to understand that very question. Because of the study's objective, the results we found may be most actionable for Sellers within the Metals Industry, but we believe Buyers and even companies in other industries will find value because the findings can be applied to many different types of businesses.



Summary of Findings

When we started this study, we had two premises we that we were seeking to prove or disprove:

Premise #1

Buyers in this market are wanting more than they are getting from their Sellers. We believed we would find a discrepancy between what the market is truly asking for and what the typical Seller is providing.

Premise #2

Despite being a commodity, we hypothesized that the metal industry operates similarly to all other industries we have worked in over the years, and there are opportunities to differentiate and win business based on factors other than **Price**, **Availability** of product, and personal **Relationships** (for the remainder of this document, we will call these 3 levers **PAR** for short).

From our experience with this industry, we appreciate that the PAR levers are still critical and, without them (particularly Price and Availability), nothing else matters. However, we were seeking to find out if in the metals industry PAR has become simply an “invitation to the game,” and that winning the game requires companies to go beyond PAR.

So, what does the data tell us about our premises? The short answers are: Sort of and Absolutely.

Premise #1 – Are Buyers and Sellers in this industry misaligned with one another on “what is possible” from their relationship? Sort Of.

As it turns out, there is some misalignment between Buyers and Sellers, and the most striking example of this misalignment is that Sellers tend to view their personal relationships with Buyers as more valuable than it is in the Buyer’s eyes. We asked both Buyers and Sellers whether their personal relationships were important enough that Buyers would follow individual sales representatives if they left to work at a competitor and the discrepancy was significant (Figure 1.2).

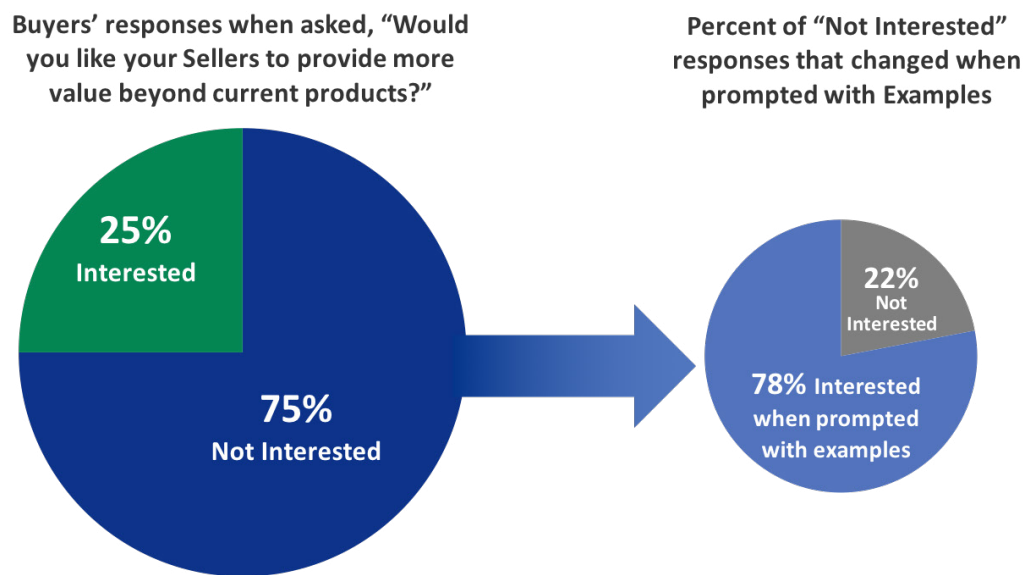
Despite that, only a fourth of Buyers interviewed in the study responded that they are seeking their Sellers to provide new and different things, without being provided examples (Figure 1.2). However, once prompted with a few examples of things that Sellers could be providing (e.g., a wider range of services & features, including online ordering/inventory, value add processing, insights on upcoming pricing variations, industry specific expertise and advisory services) many Sellers changed their responses, saying that they would appreciate similar value-add features. Furthermore, we even heard examples of similar things they had requested from their suppliers.

Figure 1.2 – The Perceived Importance of Personal Relationships



The results present an opportunity for sellers to bring more to their Buyers, even if it is not expected today. Buyers and Sellers in this industry have become accustomed to the status quo and the traditional levers that drive differentiation (PAR). Therefore, they may have blind spots to innovative possibilities that change the dynamic of the Buyer-Seller relationship.

Figure 1.3 – Buyers’ Interest in Sellers Providing Additional Value



“For those willing to act, and act quickly, there may be a lot of opportunities to expand the relationship with existing customers, increase margin, and/or grow market share.”

Premise #2 – Does the industry rely on levers other than PAR to provide differentiation?

Absolutely

Upon digging into the interviews and data, one thing that became clear very quickly is that some of the best practices that are being employed by the most successful and fastest growing companies in this industry are similar to those that large corporate enterprises in other industries have used to dominate their markets and resist competition. These types of things include adopting techniques for understanding their customers and their strategic objectives, and taking on some of the burden of helping their customers more successfully achieve the outcome they are striving towards – even if it is not directly related to the Seller’s existing relationship/product.

The remainder of the document discusses the two strategies that our research discovered were most prevalent and/or working most successfully in the metals industry. Below is a quote from one of the Buyers to get us started–

“As a manufacturer of oil storage tanks, our business is dramatically impacted by any significant changes in crude prices, <our Seller> singlehandedly saved our business during the 2016 oil downturn because they understood that risk we had, helped us conduct a financial analysis of how we could reduce our CapEx without impacting throughput. This allowed us to be more flexible during the downturn, without losing our employees or impacting our ability to meet our customers’ demand once it increased again.”

This quote signifies the power of some of the ideas in the remainder of this document. Do you think the Seller mentioned in this quote has earned a little more freedom to charge more or ask for a greater percentage of the Buyer’s total metal purchases? Of course, they have! Many Sellers might think that they cannot replicate this, but we also spoke to this Seller as part of this research, and their only cost associated with this was the repurposing of an internal financial tool and a little bit of time and focus from someone who had worked with oil tank manufacturers for years.



If we dive into each Premise in detail, it paints the picture of an opportunity for Sellers in this market.

Premise 1 essentially states that an opportunity exists, but the power of the opportunity was not apparent until the respondents were prompted with examples. This tells us that the market as a whole has little awareness about what they need, but if they saw “it”, they would greatly value it.

Premise 2 begins to inform Sellers about how to get started in figuring out what is going to make them stand out and dominate the market, because, in the absence of the market knowing what they want, the opportunity exists for Sellers to step in, take the lead, and define “it”.

The following sections provide two strategies other Sellers have adopted to understand their market and make the right investment decisions.

- 1) **Viewing – and treating – Buyers the way they view themselves:** Applying in-depth knowledge of industry segments to differentiate themselves in the market.
- 2) **Moving up the value chain:** Getting closer to the end-customer by collapsing the Supply Chain.



Strategy 1: Viewing – and treating – Buyers the way they view themselves.

Overview

The validation of our original premises concludes that Sellers who are seizing the opportunity to differentiate on factors other than PAR and working to shape the needs of the market are experiencing more success. Opportunities exist for Sellers to provide more, different value to their Buyers, but since the market has not reached the point where Buyers are actively seeking out additional help and/or services, Sellers need to drive the effort and proactively bring more value to their customers. Some Sellers are operating (and succeeding) under the assertion that the thing that will provide additional value to their customers (i.e., the “it” that we referenced in the previous section) is advice and guidance.

One characteristic of metal suppliers who are winning in their markets is their depth of understanding of the different segments of industry their Buyers are in and their ability to tailor their approach to each segment (e.g., provide industry-specific advice, offer products and services that solve key issues faced by customers in that industry, focus limited resources where they can have the most impact). This approach involves leveraging their knowledge of their customers’ business to act in an advisory capacity and become a partner, rather than a vendor.

Detailed Findings

In a market that is highly-competitive and diverse, some high-performing Sellers have divided up the broad target market into subsets of Buyers that have similar needs, objectives, priorities, etc. and have applied their knowledge of these segments to differentiate themselves. They seem to understand that the market has too many potential Buyers to treat them all the same or to develop unique strategies for each one on an individual-basis. Therefore, their approach is to segment their Buyers, using characteristics beyond simply what they buy and how much, and build expertise in their customers’ lines of business.



Example of characteristics used by Sellers to segment their markets include:

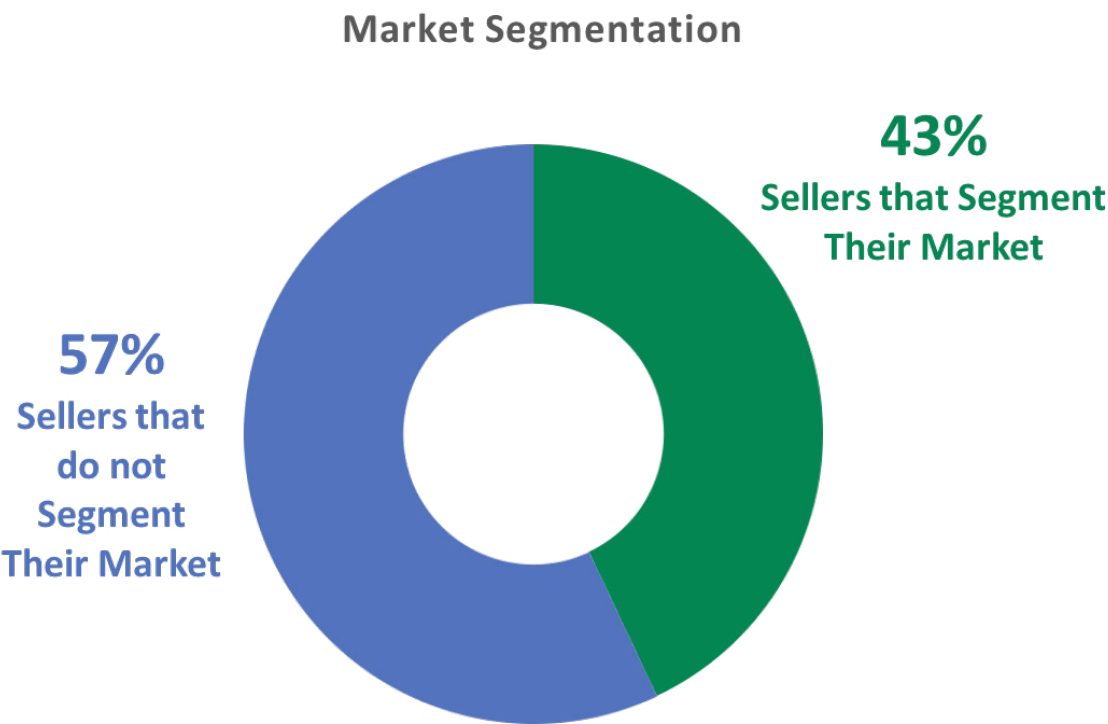
- **Geography** – A common strategy used to segment a market is to divide it into regions, with geographically-focused sales representatives. Although it is a popular strategy for efficiently serving an expansive market, it does not typically account for the unique groupings within each geographical region and, when used alone without other characteristics, does not provide Sellers with enough knowledge to differentiate themselves.
- **Size** – An additional popular characteristic is the size of customers and potential customers. Most commonly it refers to revenue but, in some cases, Sellers use employee size, number of customers, etc. Again, alone this does not provide enough data to develop unique strategies for each segment but, as companies of different sizes have different goals and issues, it is a key characteristic to consider.
- **Industry** – Less common among metals Sellers, but more impactful is the strategy of dividing up markets by the industry of customers (e.g., aerospace, automotive, construction, O&G). This characteristic is key to understanding the unique strategic objectives and needs of customers.
- **Role in Supply Chain** – Another characteristic considered by some Sellers is where their customers fit in the metals supply chain (e.g., fabrication, manufacturing). Each type has different needs, pain-points, etc.

This approach has allowed them to:

- **Tailor their communication to their segments** – leveraging in-depth knowledge of their customers' businesses, and therefore their needs, to communicate the value proposition of their products in a way that enhances their strategic importance.
- **Offer advice beyond their own products** – enhancing the value they provide to their customers by applying their expertise to areas of their customers' businesses that may or may not be related to the products they sell.
- **Invest in unique products or capabilities** – identifying gaps in their ability to solve their customers' problems through their portfolio of products and making changes to their portfolio as a result.
- **Prioritize marketing, sales, and account management efforts** – understanding where they can have the most impact within the broad market and focusing resources on Buyers with the most potential.

Unfortunately, only 43% of suppliers claim they currently segment their market in any way. The remaining 57% simply treats everyone the same, prioritizing resources to their customers that buy the most (Figure 2.1).

Figure 2.1 – The Prevalence of Market Segmentation in the Metals Industry



This is an approach that is highly desired by the Buyers. During the interview process, we learned that Buyers are eager for their Sellers to understand their businesses better and proactively bring them insights for improvement. Unfortunately, most Buyers claimed that they are not receiving the type of guidance they desire – and, when they are offered advice, it is usually directly related to the metals they are purchasing from the supplier.

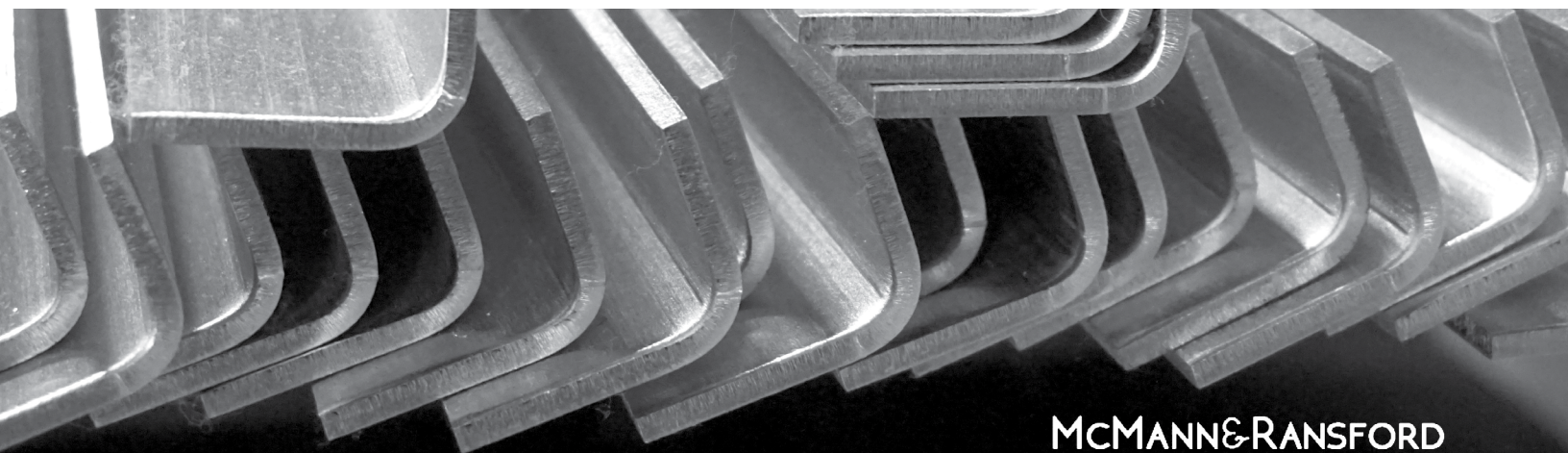
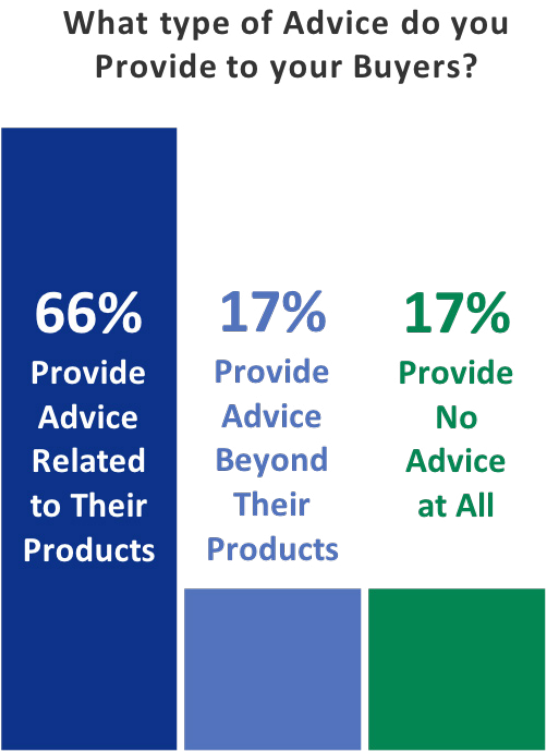


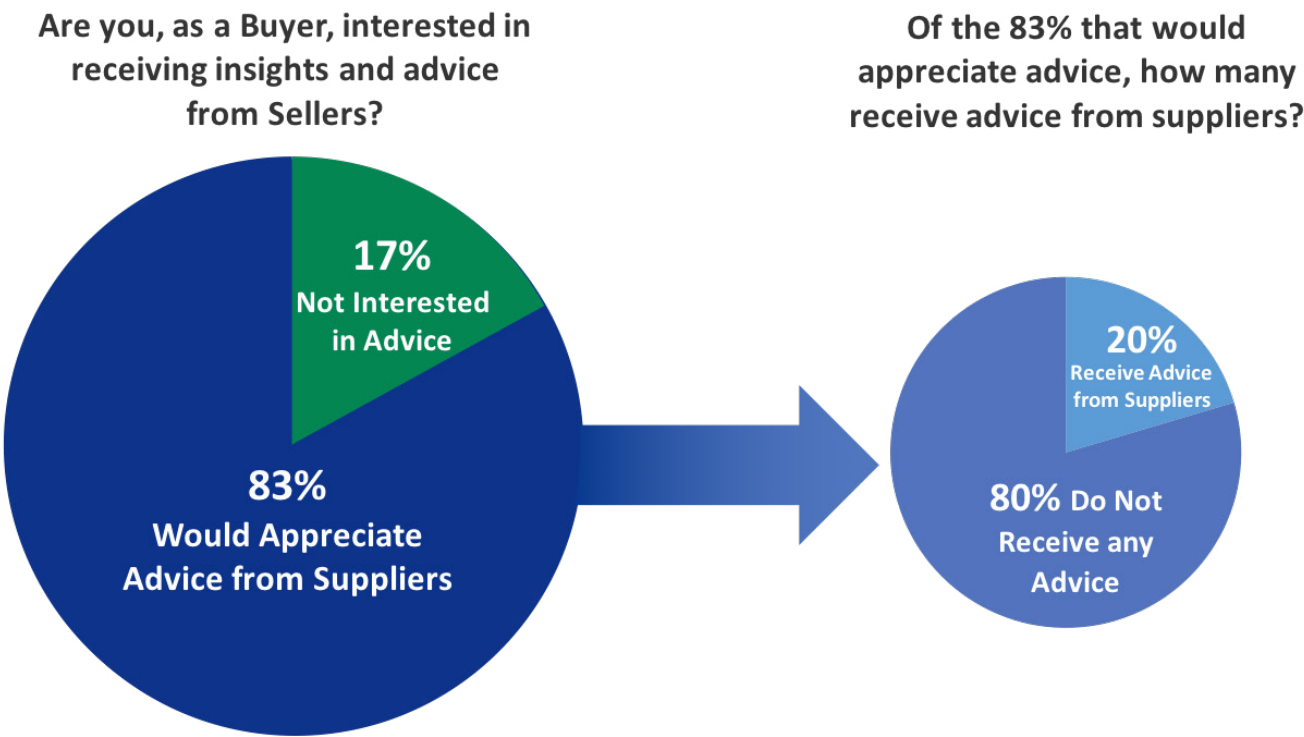
Figure 2.2 – Levels of Advice Provided by Sellers in the Metals Industry



According to suppliers we spoke to, 66% provide advice related to their products, 17% provide advice beyond their products, and 17% provide no advice at all (Figure 2.2).

According to Buyers, 83% said they would appreciate any kind of advice. Furthermore, of that 83%, only 20% said they receive any from their suppliers (Figure 2.3).

Figure 2.3 – Buyers’ Desire for Advice from Their Sellers



Seller Example

Seller X is a relatively new company that has built their business around solving their customers' problems and developing intimate relationships that are based on the value they provide. In fact, the impetus for starting the company was originally to help one particular customer take advantage of an opportunity by purchasing machinery that the customer only required 50% of the production time. As Seller X continued building their portfolio of customers, they gained broad insights into their key customers' objectives, needs, priorities, etc. This caused them to naturally begin focusing on the segments of the market that shared the same characteristics. This focus enhanced their knowledge of the segment even further, which they have been able to leverage to provide strategic business advice to their customers and potential customers. The advice they provide to their customers, on top of operational excellence, has allowed them to win in a highly competitive market, even though their standard prices are higher than their competitors'.

Today, their infrastructure supports this segment-focused mentality. They have five segments they are focused on and organized around. Their transactional, outside sales team is supported by industry-focused sales representatives that have expertise in their respective segments. These industry experts utilize advisory sales techniques, providing guidance beyond the products they sell, including but not limited to:

- Sharing best practices of what others in the industry are doing
- Assisting with cost / benefit analyses on decisions like whether their customer should invest in new machinery or product lines

In addition to “winning in the market”, the segment-focus approach has provided Seller X the ability to:

- Forecast demand in line with the growth goals of their customers
- Become a strategic partner to their customers, rather than a vendor
- Differentiate themselves from competitors on factors other than PAR
- Prioritize and focus their sales on the areas of the market where they know they can have the most impact

Implications of Strategy #1: Viewing – and treating – Buyers the way they view themselves.

Talent implications

Sellers have found that having the right talent is key to success in the segments they serve. They are investing in market-facing talent with the following:

- **Advisory capabilities** – the ability to engage in consultative selling and provide guidance to executive-level customers. This is an important skill required to develop intimate relationships with their markets.
- **In-depth industry knowledge** – to be able to display expertise in the market, suppliers want talent that has extensive experience in their respective segments. One alternative to hiring experts is to develop training programs that focus on industry knowledge. Unfortunately, only 40% of Sellers we interviewed claimed they have the depth of expertise needed to succeed (Figure 2.4).

Figure 2.4 – Sellers’ Level of Industry Expertise



Structure implications

Many Sellers end up organizing their market-facing resources internally around the segments they serve. This allows their sales representatives to focus on and continue to develop knowledge in their areas of expertise. Furthermore, this knowledge of the industry may lead to investments in new product lines that fill gaps in Sellers’ ability to serve the industry and to even more vertically organized structures within the company.

Data Implications

When asked what is needed to support this strategy, Sellers claimed that being able to understand what segments they are in and which ones are truly worth focusing on requires the right data. This strategy is built on knowledge, therefore it requires a clean set of account level data (i.e., lots of information about customers), as well as a way to look at and analyze the data to make key decisions on where to prioritize efforts.

Strategy #1 Summary

The strategy of segmenting the market, building industry expertise, and providing strategic guidance and advice to customers has proven effective for those utilizing it. It represents one way to address the two premises discussed in the introduction.

It is likely that many of Sellers are doing this, at least to some degree, whether they are doing it deliberately or opportunistically. Our experience with other industries proves that when you have leveraged your expertise to solve your customers' problems and help them take advantage of opportunities, you ended up with deeper relationships based on the value you provide. Now, imagine if you were able to accomplish that at critical mass, how would that impact your ability to grow your business and win in your market?

We believe it would provide Sellers with some of the necessary tools to differentiate themselves and be successful in the long-term.



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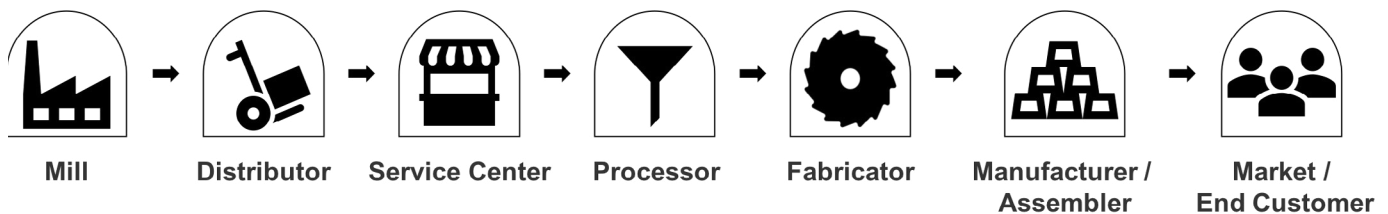
Strategy #2: Moving up the Value Chain

Overview

If you recall, we had two premises we were seeking to validate or disprove during this study: Do Buyers want more from their Sellers (Sort of) and are they willing to enter into partnerships with those Sellers that are more strategic to their business than is “typical” PAR transactions (Yes)

Another effective strategy Sellers are utilizing to take advantage of the opportunity is “Moving Up the Value Chain”. This refers to the practice of getting closer to the end-use customer, or at least the next player in the next step in the supply chain, also known as “Collapsing the Supply Chain” (Figure 3.1).

Figure 3.1 – Simplified Supply Chain Diagram



We do want to make an important distinction here about the use of Value Chain vs. Supply Chain because we have found they are often used interchangeably.

- **Supply Chain definition:** the sequence of processes involved in the production and distribution of a commodity.
- **Value Chain definition:** the process or activities by which a company adds value to an article, including production, marketing, and the provision of after-sales service

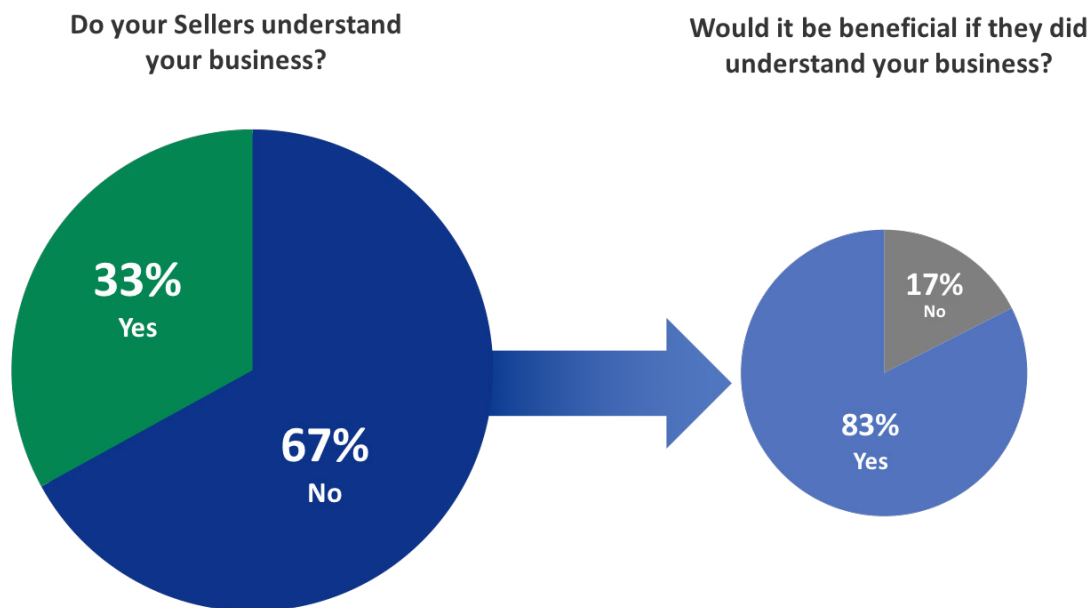
There are many definition variations, and we do not want to dissect them all here. But we do strongly believe that the important takeaway between the two is this: if you see your business as being and operating in the “Supply Chain”, then chances are very high that you are seen and, therefore, treated as a vendor/supplier. However, if you see your business as being in and operating within the “Value Chain”, then chances are very high that you are seen, and therefore treated, as a Partner.

In other words, where a business finds itself in the metal supply chain is a self-fulfilling prophecy regarding the market’s view and treatment of that business.

Detailed Findings

When asked about whether their suppliers know or understand their business, 67% of Buyer respondents said “No”. Furthermore, 83% of Buyer respondents believe it would be helpful and beneficial if they did (Figure 3.2).

Figure 3.2 – Buyers’ Perception of Their Sellers’ Understanding of Their Business



Clearly, there is an opportunity for Sellers to do better at understanding their customers’ business and that knowledge is key to taking advantage of opportunity and beating the competition.

For example, one company we spoke to (we will call them Seller Y) adds as much value to the metal as possible for their customers, and has reaped the following benefits:

- 50% margin improvement of their “value proposition model” compared to their core distribution and service center commodity model (their description, not ours)
- Securing and locking in their own suppliers in order to meet customer demand, thereby “owning” the management of both the input and output steps in their value chain – i.e. both collapsing and moving up the chain
- Increasing their company valuation, allowing them to have increased leverage when making strategic acquisitions and investments
- Smoothing out the typical – and significant – business peaks and valleys driven by the price/cost swings of commodity metals, allowing them to better plan, forecast and invest; providing some protection in down times

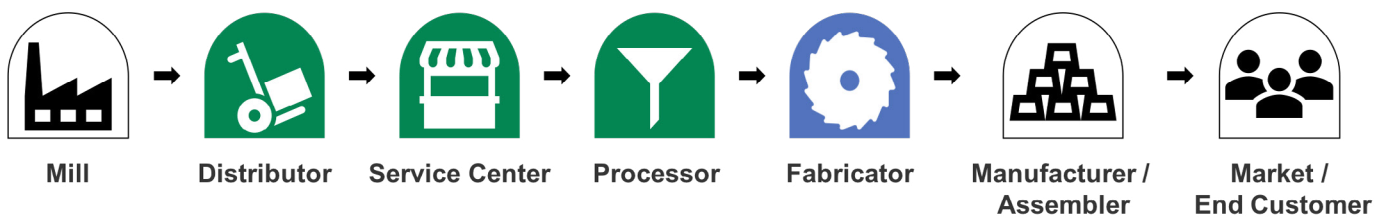
As we have previously stated, Buyers have become more demanding and want more sophisticated outcomes from who they buy from. In other words, “Buyers buy by segment, and are buying outcomes”. From our study, we learned that many Buyers would prefer a more finished product that better met their needs (Figure 3.3).

Seller Y has been able to do the two following things very well:

- 1. They marry their output to their customers’ needs and production schedules, and those customers must be willing to pay for value creation
- 2. They create value by targeting their customers’ operation by focusing on their total cost of the product application, including rejections, yield (being more operational efficient) and scrap reduction.

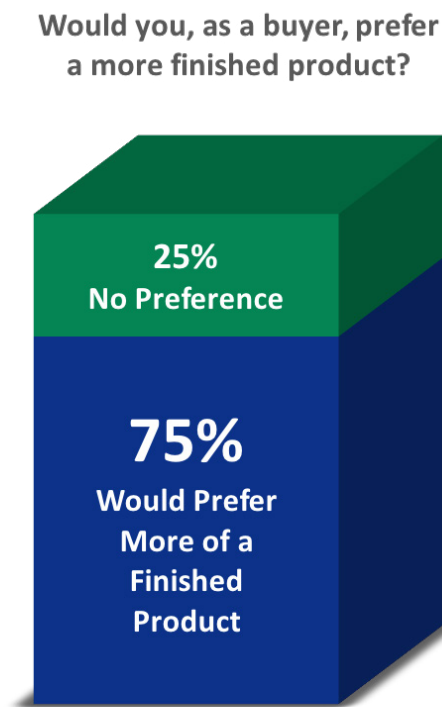
In other words, they are embedded – or entangled – in their customers’ businesses (Figure 3.4). They know and, therefore, can anticipate the needs of their customers and provide more finished products when they need them. This creates a new self-fulfilling prophecy: “Embedding yourselves further in your customers’ business allows you to enhance the value you provide, which in turn makes you a more valuable Partner”.

Figure 3.4 – Diagram of Seller Y’s Supply Chain



Seller X takes this model and creates net new revenue streams for themselves where they had none to start. In other words, knowing where their customers are headed allows them to plan for and become part of their net new value chain even if they are not today.

Figure 3.3 – Buyers’ Preferences Regarding More Finished Products from Their Sellers



You will note that both Seller X and Seller Y have one very important thing in common: They have made an explicit decision in knowing where they choose to play in the overall value/supply chain, and their role in it. Furthermore, one of the company executives at Seller Y stated that up to 50% of that individual's time is spent on making the "value proposition model" their standard way of doing business. Can you imagine an executive dedicating that much time to something? That's how important this is to their business. Ultimately, moving up the value chain increases Sellers' ability to win with their deliberately chosen business strategy and allows them to reap many rewards.

Implications of Strategy #2: Moving up the Value Chain

Operating Model Implications

From what we heard from Seller Y, one significant implication is the possibility of operating two models concurrently. This is not an unheard-of proposition – in fact, many companies in other industries do this already. But it does require both understanding and agreement that these two models have different financial models and outcomes, investment needs, talent needs, etc.

Talent Implications

There are two big talent implications, according to the companies we spoke to:

1. The skills required to move up the value chain include product management (understand customer's business) and product development (mill experience, manufacturing experience, and application experience). And not just the skills, but the capacity of those skills at critical mass.
2. Sales talent that focuses on how to solve customer problems, not just on relationships.

One company we spoke to operating in this model stated that their key talent comes from product development and product management. And that same company says their top sales people spend 60-70% of their time meeting customer executives to discuss customer business issues.

Investment Implications

There are potential investments that are likely going to be made as Sellers proceed with their value chain movement journey. Many consider retiring some products and services in their catalog to free up some capital to make these investments, which include but are not limited to:

- New equipment
- Key acquisitions
- Key partnerships

And naturally, if investments in new equipment are made, then the skills to operate them must exist.

Strategy #2 Summary

This strategy is a powerful force for Sellers to secure many material outcomes for their businesses. And it is a proven one that when implemented does validate the 2 premises we had when starting this study.

From the examples we heard, it is clear that moving up in the value chain creates meaningful differentiation for their business in a commoditized industry.

In fact, many Sellers are doing this or have at least tried and succeeded or stubbed their toe and stopped. But we believe that trying again, or doubling down on it, is worth it - the first metal suppliers to adapt to this kind of environment will reap the most benefits, as some are already experiencing.

Report Conclusion

The two strategies explored in this document have proved successful for the Sellers who have utilized them. Both provide metal suppliers with the ability to differentiate on factors other than PAR and allow them to build deeper, mutually beneficial relationships with their markets.

Now that you understand the two strategies, the next logical question is “what if a company combined them?” The answer is simple – the benefits are more than two-fold. There is a natural way to merge the strategies and each one is made stronger by the existence of the other. For example, the knowledge of customers’ needs acquired through an enhanced focus on valuable segments improve the ability to solve their problems with more finished products that move Sellers up the value chain.

Of course, simply saying “I want these types of business outcomes” is not enough. It takes some planning and dedication to see it through over time. Here are some steps we believe could help Sellers along the journey to adopting both strategies:

1. Identify and select market segments that they are already in and understand
2. Build the knowledge-base of the selected segments and leverage that knowledge to create intimacy with customers by advising and guiding them on strategic issues
3. Evaluate and update the current product and service catalog (i.e. portfolio) – retire some products and services, and add new products and services that to align with segments’ most pressing needs and opportunities
4. Develop a pilot plan with a small number of customers, and start/begin piloting

About McMann & Ransford

For more than 20 years, McMann & Ransford has helped some of the world's leading B2B companies overcome commoditization by realizing the value of customer intimacy as a sustainable business model.

The greatest risk facing business-to-business (B2B) companies today is commoditization of the very products and services that made the company successful.

McMann & Ransford provides B2B companies a means of thwarting the commoditization cycle through Renewable Differentiation, a proven mechanism for returning to growth and margin. We help our clients create True Intimacy™ with their customers and in their key markets. This allows our clients to become members of their customer's management team, as a trusted advisor that leads the way in helping their customers address problems and take advantage of opportunities.

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