Refractory Zone
Coping with turbulent situations

In his latest exclusive offering to Asian Glass, Carlo Ratto discusses how continually fluxing situations in world economies affect the outlook for refractory producers.

While struggling in a hot July in southern Europe, under the tyranny of the high pressure caused by the African anticyclone, I thought how much things have changed in the world of glass and relevant refractory materials during the recent group of years, under the pressure of formidable shaping forces, such as globalization, financial and economical crisis.

Something largely unmanageable by the economy traditional tools, similarly to climat changes, far out of control when trying to manage with the traditional maneuvers of politics around the world.

So, after a reality check, we must give up the unrealistic hope of driving the global perturbations, and instead put all our effort in sailing a very stormy ocean to the primary scope of surviving and, yes, being successful with our organization in an extremely selective environment, where even the very concept of competition is changed and every day changing.

In my climatic similarity, only a crazy person could think about changing directly the reality of a Mediterranean Sea warming up out of control, but the wise man will start building tornado shelters where never in the past it was necessary.

When trying to ride a wave of changes, the most valuable asset is, of course, information, the capability of analyzing it and to elaborate medium-long term trends with variable level of reliability. Beside this, the analysis must support a continuous stream of tactical suggestions that dictate how to cope with a rapidly changing environment, scattered with risks and some unconventional opportunity.

Strategic marketing, business development, R&D, are providing the needed technical intelligence to put the financial control room in condition to make the decisions with acceptable level of confidence and on time.

The ideal configuration for an efficient company is therefore including the highest possible capacity of collecting and understanding the most significant information, where velocity is as much important as precision to determine its efficacy; information will drive an equally efficient activity of R&D and the upper management will assume the necessary decisions at a conscious and accepted level of risk.

The question many ask is that “Are global glassmakers and refractorists acting that way, today, in this hot and moist summer?”

Well, looking at it from the limited perspective of a consultant, it seems hard and somewhat unrealistic being able to determine whether companies are driven appropriately, but looking at the evident results of the strategic decisional process, we can note that large global companies are consolidating in a very small number of huge groups, particularly in the area of container, where the pressure of changes is more important; big mergers are putting the whole management structure in a relatively long period of distress; streamlining, divestures, necessary to capture the financial advantage of the mergers and very often to comply to orders issued by public regulatory bodies. All this is not objectively easing the capacity to react very fast to external market changes.

Clearly, the solution should be to disconnect a kernel of management involved in the strategic and tactic decisions (between procurement and sales) from the consolidation struggle, so as to guarantee a fast decisional capability in spite of the inevitable ongoing conflicts.

But, obviously, this is easier to say than to do, in a real organization.

In fact prominent organizations, assuming proper strategies, are making a difference and very often, the utilization of external support in specific technical sectors (such as in the procurement of strategic refractories) can be of significant help.

In the area of refractories for glass, the situation, if possible, is even more complicated.

As a consequence of a diffused global over capacity and a very reduced average profitability of the business, mergers do not make a lot of sense and, on the contrary, the major trend has been, for the recent tens of years, toward de-localization of manufacturing volume in low cost places; this process should have been accompanied with a parallel equal (or better more-than equal) reduction of capacity in high-cost western plants, but this process, mostly due to social implications, has been and still is hard to accomplish, so contributing to increase the over capacity.

On the other side, those who did not successfully de-localize significant volumes in low-cost locations are struggling with a reduced level of sold product (not correspondent to a capacity shrink) and forced toward a cost reduction so severe that leaves very small space for any development program.

Meanwhile, the configuration of the first global low-cost manufacturing hub, almost exclusively focused into China, is exhausting its momentum; China is progressively abandoning the role of a strong low-cost manufacturing hub for the west, due to the large labor cost inflation and to the qualitative...
gap still not bridged, at least for what it is the specialty refractory for glass.

Other places such as India are now emerging as new low-cost hubs, thanks to a lower labor cost inflation rate and a less severe cultural gap.

This is a dynamic process and new locations will, beyond India, replace older when appropriate conditions will become a reality; this continuous change will pose more and more the dilemma of necessarily divest relatively high cost locations when new low-cost units are selected for manufacturing. Former long term strategies are being replaced by medium or short term plans of action, and might become tactical when convenience of more effective new delocalization will start to conflict with the productive investment turnover.

Overlapping this scenario of striving western major refractorists, there is the situation with low-cost independent manufacturers that, referring to the Chinese fused-cast refractory, scenario, are still in large number (more than a handful with western export capability) and with huge overcapacity, serving a large domestic low-quality market (particularly for containers) on a regional basis and exporting in the west with an increasingly scarce profitability of the business, sometime at a loss, due to the manufacturing cost inflation and a persisting difficulty of selling these goods in the west without a delivered price gap of at least -20%.

**China: change is permanent**

Since there is no way of reducing the Chinese labor cost inflation, nor its raw materials and energy cost, and as long as introducing levels of automation (and therefore reducing HC/Ton) will be considered socially unacceptable, for these Chinese manufacturers there is no alternative but to bridge the quality gap for goods and services, turning the low-cost concept into a more “normal” competition game, based on the cost/quality ratio. Doing nothing will push back these once fierce competitors to the role of domestic players, progressively reducing their price pressure on western competitors.

From the angle of view of traditional western producers, the good news, for now (and only for now) is that there are no independent low cost players (at least for fused cast refractory) in the new low-cost emerging places like India, nor in other emerging places in perspective.

Putting together all pieces of this puzzle, we have a really complicated scenario when contemplating today’s fused cast refractory situation:

- we have western manufacturers with low-cost delocalized capacity striving to maintain an equilibrium between average cost, overcapacity and competitiveness of the low-cost component. We also have a western player with only very minor or no low-cost capability struggling to maintain acceptable profitability in a declining volume situation. Independent low-cost players, on the other side, are under the pressure to increase the sale price and to support this necessity with an increase of quality of provided goods and services; another positive effect of this needed evolution will be to gradually eliminate the commercial intermediaries (agents, promoters, traders) that are now providing the necessary sales-related services, but absorbing a significant level of commercial margin. To improve the quality level of Chinese goods and services, though, investments and a change in mentality are mandatory; such a possibility, looking at the present scenario, it is yet to be seen and we must emphasize that the majority of Chinese players would not be in business if they were to meet the rules of capitalist economy.

Things are changing at a fast pace in a turbulent environment; glassmakers must monitor this fluid scenario in order to capture any possible commercial opportunity, keeping under control the level of technical risk associated to a range of very different providers of refractory and services, in order to minimize the ratio risks/advantages.

Large global glassmakers must find the way to react fast in a fast changing scenario, smaller companies must access the necessary know-how in order to take advantage of low-cost sources without assuming dangerously high levels of technical risk. Both exigencies can be covered by available outsourced specialized services, providing on-demand support at a reasonable cost, compared to maintaining in-house dedicated staff.

Individual glass and refractory companies, even the largest globalized, cannot significantly impact the overall economical cycle, the same way not even major states policies can impact the global warming of climate... in both cases the best realistic strategy is adopting, together with medium-long term strategies, tactics that will allow companies and populations to navigate in a very stormy sea, taking a competitive edge in reducing risks and capturing short term advantages, with the aim of resurfacing alive and possibly stronger from this unprecedentedly long and tough cycle, both in economy and weather.