THE SECRET DATA ABOUT THE PRICE WAR IN THE CYLINDER BUSINESS

“Don’t do any acquiring operation until you’ve read this controversial report!”

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LEADING YOU IN GLOBAL BUSINESS

In this report you will have access to:

- ✔ a case study of a **price war** that occurred in the **cylinder business** during the last 7/8 years
- ✔ **detailed data** showing the actual outcomes of a price war
- ✔ **inputs** and **insights** on the dynamics that came into play

Hi! My name is Luciano Giol and I am recognized as an expert in the **hydraulic and pneumatic cylinder business** with more than 30 years of experience in this field.

I have built my career first as a manager in leading companies in Italy and China and then as an entrepreneur, sharing my know-how and expertise with the players operating in this field worldwide.

In this report, I focus on an event related to the hydraulic and pneumatic cylinder industry, but the story that it reveals is certainly akin to what has happened or might be happening now in other markets.

To those of you operating in this field, this information is even more valuable, because you will have access to **detailed data**, all in one place, laid out in three logical and comprehensive charts.

The event I'm referring to is the **price war** that the **hard chrome plated steel bar**

producers in Europe have been engaged in from 2008 through today. You will see what outcomes it has led to.

Remember:

"When it comes to price wars, carry out an accurate diagnosis of your business, market and competitors before making any move!"

THE 2008-2015 PRICE WAR

The downward price trend in the hard chrome plated steel bars started at the end of 2008, immediately after the global economic crisis broke out.

In my opinion, however, the price war that led to this gradual price decline started before that year and was triggered by Cromsteel and Nimet, two Romanian companies.

Cromsteel and Nimet had made massive investments aimed at increasing their production capacity and, ultimately, at gaining market share and volume.

So, basically, they put a large quantity of product on the market and started to decrease the selling price.

In the past the selling price was generally calculated in an empirical way, such as:

1) you would purchase the raw material at a given price, for instance: steel bars peeled and rolled diam. 40mm at 600€/Ton;

2) you would sell the finished product, for instance, hard chrome plated bar diam. 40mm, at ca. 1200€/Ton (which is 12,00€/m), assuming as a standard practice that this price would cover all the industrial costs and leave some profit.

Moreover, companies were not able to exactly calculate the internal costs, like: peeling, straightening, grinding, hard chrome plating, polishing and packing. Therefore, the general practice was to evaluate production as an average at the end of the month or even year.

Over the years 2000-2007 I would say the market was fair enough for all the main European players. But since late 2008, as the price war spread to all the European players, the final selling price has continuously fallen to a level that nowadays is not able to cover even the production costs.
In Table 1 you'll find a report on hard chrome plated steel bar production by European players in ton/month from 2008 to 2015.

Table 1

HARD CHROME PLATED STEEL BAR PRODUCTION (2008-2015)

	2008	2009	2010	2011	2012	2013	2014	2015
AISA	1.500	1.300	500	1.000	800	600	700	Closed
ELG	400	350	300	400	350	350	350	300
EUROCROMO	200	150	120	180	150	200	150	150
MODERNOCROMO	700	500	700	700	900	900	850	900
SIDERGAMMA	1.200	500	600	500	500	450	500	500
ASO SPS	2.300	1.600	1.500	1.300	1.350	1.250	1.350	2.250
CROMSTEEL	1.200	1.300	1.800	2.500	3.000	3.300	3.500	3.500
STELMI	1.600	800	900	1.200	1.300	1.400	1.400	1.500
OVAKO ITALY	650	450	500	550	500	650	560	500
EUROTHALE	300	180	200	250	300	350	350	130
JUDEMBURG	600	380	440	500	600	600	600	500
NIMET	350	450	800	1.300	1.000	1.700	2.200	2.200
OVAKO TWENTE	800	500	600	700	600	600	550	500
OVAKO HALLSTAHAMMAR	1.000	700	750	800	800	700	600	600
URANIE	4.500	3.000	3.800	4.000	3.000	3.500	2.600	3.000
TOTAL EUROP MONTH	17.300	12.160	13.510	15.880	15.150	16.550	16.260	16.530
TOTAL EUROP YEAR	190.300	133.760	148.610	174.680	166.650	182.050	178.860	181.830

** ELG Steel's data are related to production and commercialization of tubes and crome bars, not to be read as the data of the other companies which are just about production.*

Table 1 shows:

- a list of the main European hard chrome plated steel bar producers;
- the estimated monthly output by each of them;
- the aggregate monthly/yearly amount, which highlights the overall market size;

By comparing the output data, it's easy to see the trend each company has outlined over the years and, through the aggregate yearly data, the European overall market trend, characterized by the volume collapse in the years 2009 and 2010 faced by all producers, except Cromsteel and Nimet.

In terms of price evolution, here are the numbers showing how the price of the hard chrome plated bars diam. 40mm in grade CK-45 has dropped over the years:

Table 2

PRICE EVOLUTION (1997-2015)

YEAR	UNIT	PRICE
1997	Eur/m*	ca. €14,00
2002	Eur/m	ca. €12,50
2006	Eur/m	ca. €14,00
2008	Eur/m	ca. €17,00
2009	Eur/m	ca. €14,00
2012	Eur/m	ca. €11,00
2015	Eur/m	ca. €9,50
*My original report was in the italian currency (Lira) before Euro		

As you can easily see, the average selling price has dramatically fallen (45% in the last 4-5 years), while the raw material price (steel) has decreased 20% at most -- not enough to allow companies to maintain the same production costs at a sustainable level to achieve breakeven.

That means a profit margin loss of more than 25%, which is definitely unsustainable for companies having single-digit percentage net profit at the end of the year.

Nimet and Cromsteel show better performance though, thanks to two factors:

- their convenient headquarters, Romania, which embodies a good opportunity in manufacturing due to low costs of labor and of electricity;

- their strategic USP, which allows them to provide customers with an almost com prehensive offer, fulfilling the majority of their demands unlike many other com panies in Old Europe.

In Table 3, the financial results clearly show the economic condition of the European players in the years 2012, 2013 and 2014.

Table 3.

Financial Results (2012, 2013, 2014)

		YEAR	TURN OVER	TREND TURNOVER 2014/2013	NET RESULT		DEBTS	FIXED ASSEST	EMPLOYEES	EQUITY
1	ASO CROMESTEEL ROMANIA	2014	78.119,80	10,30%	5.476,80	7,00%	23.782,90	17.782,90	417	27.966,90
	RO	2013	70.799,80		3.893,40	5,50%	23.864,50	16.361,10		
		2012	61.244,80		2.964,60	4,80%	21.695,80	16.852,00		
2	ELG STEEL SPA	2014	-		-	-	-	-	83	
	IT	2013	62.836,40		75,2	0,10%	53.843,90	25.924,00		10.710,40
		2012	75.533,10		-2.106,2	-2,8%	68.631,70	26.137,10		
3	URANIE INTERNATIONAL	2014	53.692,80	8,50%	-3.681,6	-6,9%	33.981,40	8.535,90	18	-5.756,5
	IT	2013	49.478,10		-7.216,1	-14,6%	35.259,20	8.784,80		
	01.07.2013 - 30.06.2014	2012	77.152,50		155,9	0,20%	36.988,10	8.904,20		
4	NIMET SRL	2014	37.479,80	26,80%	3161,3	8,40%	15.146,20	12.591,60	375	8.768,80
	RO	2013	29.566,00		1074,4	3,60%	12.974,10	9.280,40		
		2012	26.004,30		794,2	3,10%	8.653,00	5.861,00		
5	STELMI	2014	30.909,00	2,40%	-2.444,0	-7,9%	29.518,00	13.675,00	107	753
	IT	2013	30.194,00		-1.873,0	-6,2%	26.838,00	12.792,00		
		2012	28.290,00		-1.467,0	-5,2%	25.016,00	13.470,00		
6	OVAKO HALLSTAHAMMAR AB	2014	22.476,20	-6,5%	-749,0	-3,3%	3.629,30	3.527,20	65	9.041,00
	SE	2013	24.028,90		-556,4	-2,3%	4.311,80	4.062,00		
		2012	30.527,30		-248,8	-0,8%	5.217,70	4.225,20		
7	OVAKO TWENTE B.V.	2014	10.386,80	2,80%	-1.340,7	-12,9%	2.588,10	2.003,10	28	1.863,60
	NL	2013	10.107,50		-1.177,7	-11,7%	1.341,70	2.159,30		
		2012	12.289,10		-146,4	-1,2%	437,9	2.399,10		
8	OVAKO MULINELLA SPA	2014	17.599,20	20,80%	800,5	4,50%	3.107,60	1.722,30	43	7.292,50
	IT	2013	14.565,90		600,9	4,10%	3.866,10	1.867,00		
		2012								
9	AISA CENTRO ITALIA	2014	-		-	-	-		28	
	Liquidate 10.06.2015	2013	10.088,50		15,5	0,20%	19.161,10	124.269,90		2.270,20
	IT	2012	7.644,80		-5.111,3	-66,9	18.360,20	12.143,50		
10	SIDERGAMMA	2014	9.955,80	9,00%	105,3	1,10%	10.697,50	2.523,00	17	1.652,50
	IT	2013	9.132,10		-87,1	-1,0%	10.992,90	2.103,60		
		2012	3.660,90		53,7	1,50%	3.887,40	3.216,70		
11	MODERCROMO	2014	8.869,10	-2,20%	8,5	0,10%	4.371,90	4.279,70	30	5.345,90
	IT	2013	9.066,50		246	2,70%	4.202,90	4.377,00		
		2012	8.548,40		407,6	4,80%	3.553,50	4.580,00		
12	EURO CROMO SRL	2014	4.680,90	26,10%	-27,0	-0,6%	2.343,80	135,1	17	231,2
	IT	2013	3.710,60		20,1	0,50%	1.924,00	150,6		
		2012	3.649,80		-174,8	-4,8%	1.927,80	192,6		

Here you have clear numbers of the outcome of the price war initiated in 2008

At the end of 2011, European producers like Aisa, Ovako, Uranie, Sidergamma and Stelmi, determined to follow on the heels of Nimet and Cromsteel, drastically cut their prices, hoping to recoup volume loss. The choice proved to be wrong, as end-of-year EBIT shows.

In Table 3 you only have evidence of account balances, but a more in-depth analysis of the balance sheets reveals that many of these companies are undercapitalized and have accumulated debts equivalent to revenue in some cases (sources: Coface, submitted balance sheets and personal discussions with some of the people concerned).

In closing, I leave you with these questions: how long will these companies stay afloat? AISA has shut down production this year: who will be the next?

I spent some time and energy collecting all the data you see in the graphics. They are all available to everyone, because they come from public sources, but I thought I would do something useful in putting them in a more readable form.

I'm happy to share them with you today. I will be back soon with more practical and interesting information related to the hydraulic and pneumatic cylinder industry.

For more strategic resources and valuable information, visit http://**www.lucianogiol.com** and subscribe to my newsletter.

If you want to get in contact directly with me, this is my email:
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See you soon!

Luciano Giol

"Price is what you pay. Value is what you get."

(Warren Buffett)