

Jacobson & Associates' latest Customer Satisfaction Survey reveals greater dissatisfaction among service centers toward their steel suppliers, particularly regarding price and availability.

BY JOHN JACOBSON

teel producers and service centers are extremely important to each other. Without the producer, the steel service center has nothing to sell. Without service

centers, many producers would have a limited customer base. This article explores the relationship between steel service centers and their mill suppliers and focuses on some mills that are doing a particularly good job of satisfying their service center customers.

The pursuit of total customer satisfaction is like the pursuit of zero defects. The journey is really more important than the destination. Indeed, the customer satisfaction journey is even more important than the quality journey. After all, offering a perfect product doesn't much matter if people don't want to buy it.

What matters most is how well a company meets its customers' needs relative to other options available to those customers. Thus the customer satisfaction journey should be directed by the objective to be better than the competition, especially in satisfying key customers.

A new era in steel

We are now in an era where cost competitiveness and quality have been reduced to entry points, not

The Leaders

Service Centers Ranz the Wills

Top-Rated Mils by Product Category 12 months ended August 2002

Sheet-North Star BHP Merchant Bar/Structurals-Roanoke Electric Steel Plate-Citisteel USA Inc., Nucor-Hertford (tie) Beam-Nucor-Berkeley Structurals Pipe & Tube-Independence Tube SBQ--MACSTEEL

guarantees of business success. In 2002, essentially every remaining steel producer is cost competitive. The cost side of the steel business has never been more important to

survival, and less important to success. As John Correnti of Birmingham Steel has stated in reference to the steel industry's flattening cost curve, "the easy pickings are gone."

Jacobson & Associates conducts a continuous census of major steel customers in the United States and Canada. Using mail, telephone and e-mail, the research firm regularly polls about 2,700 customers, using a

10-point scale to measure their level of satisfaction with supplier quality, delivery, price, service and overall performance. The researchers compile separate reports on sheet producers, plate producers, SBQ producers, beam producers, merchant bar (MBQ) and structurals producers, pipe and tube producers, and sheet processors.

The August 2002 Satisfaction Update, prepared by Jacobson & Associates for Metal Center News, shows that the majority of flatrolled steel producers ranking in the bottom half of quality satisfaction have entered Chapter 11 or closed down over the past two years. On the other hand, none of the flat-rolled steel producers in

the top half have had to curtail operations. Quality is what keeps the doors open and mills humming. Moving from survival to success requires superior customer

Jacobson/Metal Center News Customer Satisfaction Survey

satisfaction across all major performance attributes.

The American Iron & Steel Institute reported a cumulative operating loss of \$2.44 billion for U.S. steel makers in 2001. However, customer satisfaction leaders such as Nucor, Quanex (MACSTEEL in SBQ), Dofasco and Worthington were all profitable in this trying market-place. High levels of customer satisfaction and loyalty will continue to

lead to superior financial returns in both weak and strong markets.

Consistency key to satisfaction

Strong performance throughout a firm is crucial to earning high levels of overall customer satisfaction. Put another way, a problem in any one area of the business will diminish overall customer satisfaction. Each of the five highest-ranking sheet mills selling to service center customers (see Exhibit 1) showed above average scores in nearly every attribute in the August survey. One exception was Dofasco with a below average price satisfaction score. (But then, most mills don't want customers to be *too* satisfied with their prices.)

Similarly, among the Top 10 MBQ/structural producers (see Exhibit 2), the price satisfaction ratings for Cascade Steel, Nucor-Auburn and SMI Steel-Texas are the only attribute scores below average. Otherwise, service centers rate the quality, service, price and delivery scores of each of the Top 10 above the sector average.

Overall, mills receiving the top ratings from service center customers in each product category during the 12-month period ended August 2002 are:

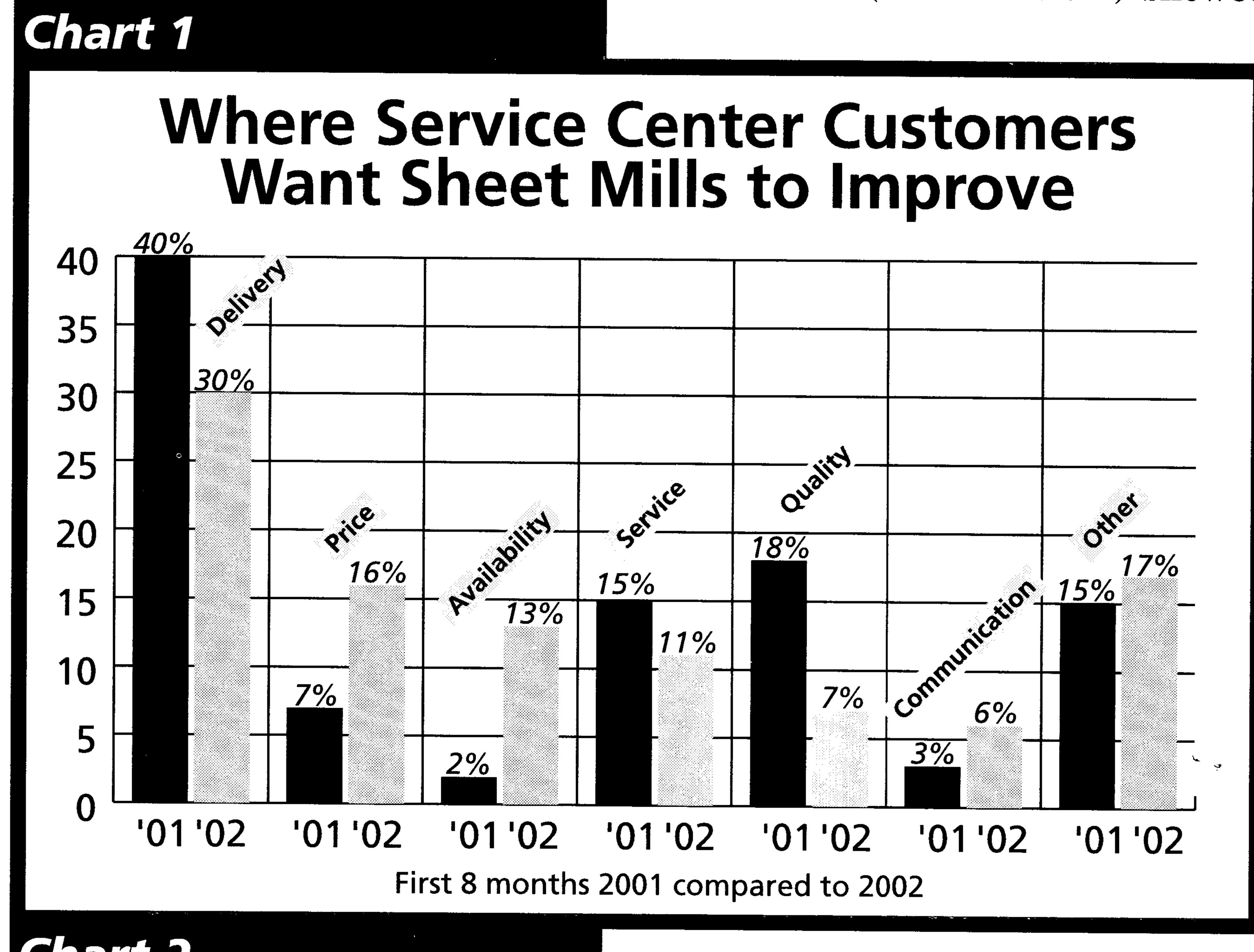
- SHEET—North Star BHP
 - MERCHANT BAR/STRUCTURALS—
 - Roanoke Electric Steel
- PLATE—CitiSteel USA Inc.,
 - Nucor-Hertford (tie)
- BEAM—Nucor-Berkeley
- Structurals
- PIPE & TUBE Independence
- Tube
- SBQ-MACSTEEL

Satisfaction benchmarks

Customer satisfaction measurement is useful in setting goals and measuring performance over time and vs. industry benchmarks. The continuous nature of the Jacobson Survey enables companies to compare their current performance to their performance in previous periods.

The 74,200 customer evaluations collected by Jacobson & Associates since 1994 form the foundation for a variety of industry benchmarks. One useful benchmarking method is known as the Customer Satisfaction Rate, also called the Top 3 Box Percent, or the percentage of all customers who give a rating of 8, 9 or 10 on a 10-point scale.

The August survey update shows



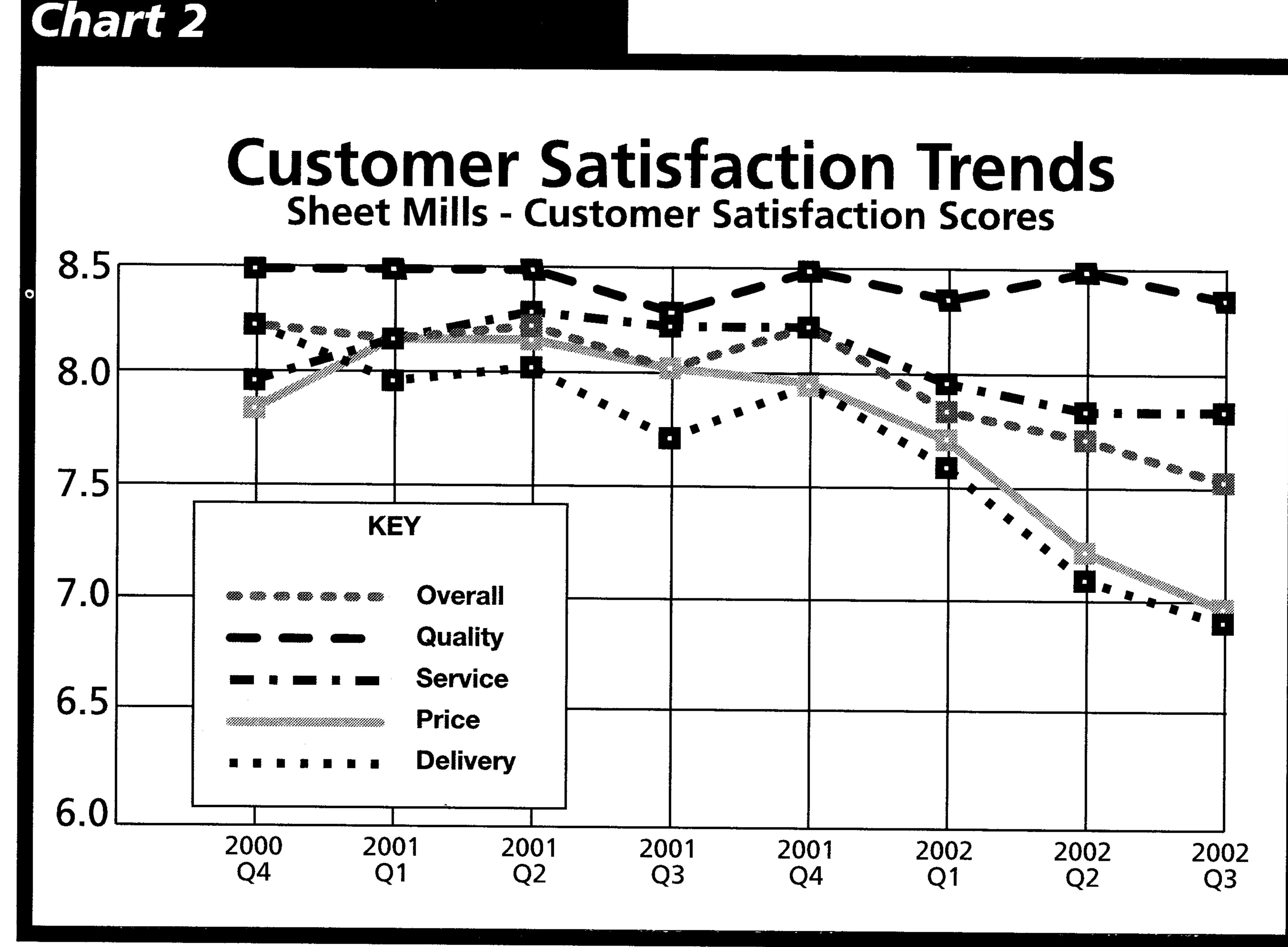


Chart 1: Service centers concerns shifted more toward price and availability this year, vs. 2001. Chart 2: Satisfaction levels among sheet mills customers have trended down since fourth quarter 2001 due to concerns over availability, price and delivery.

that pipe and tube producers, beam producers and MBQ/structural producers earned the highest satisfaction rating from service center customers, tied at 80 percent, compared with producers of the other major steel products. (See Exhibit 3.)

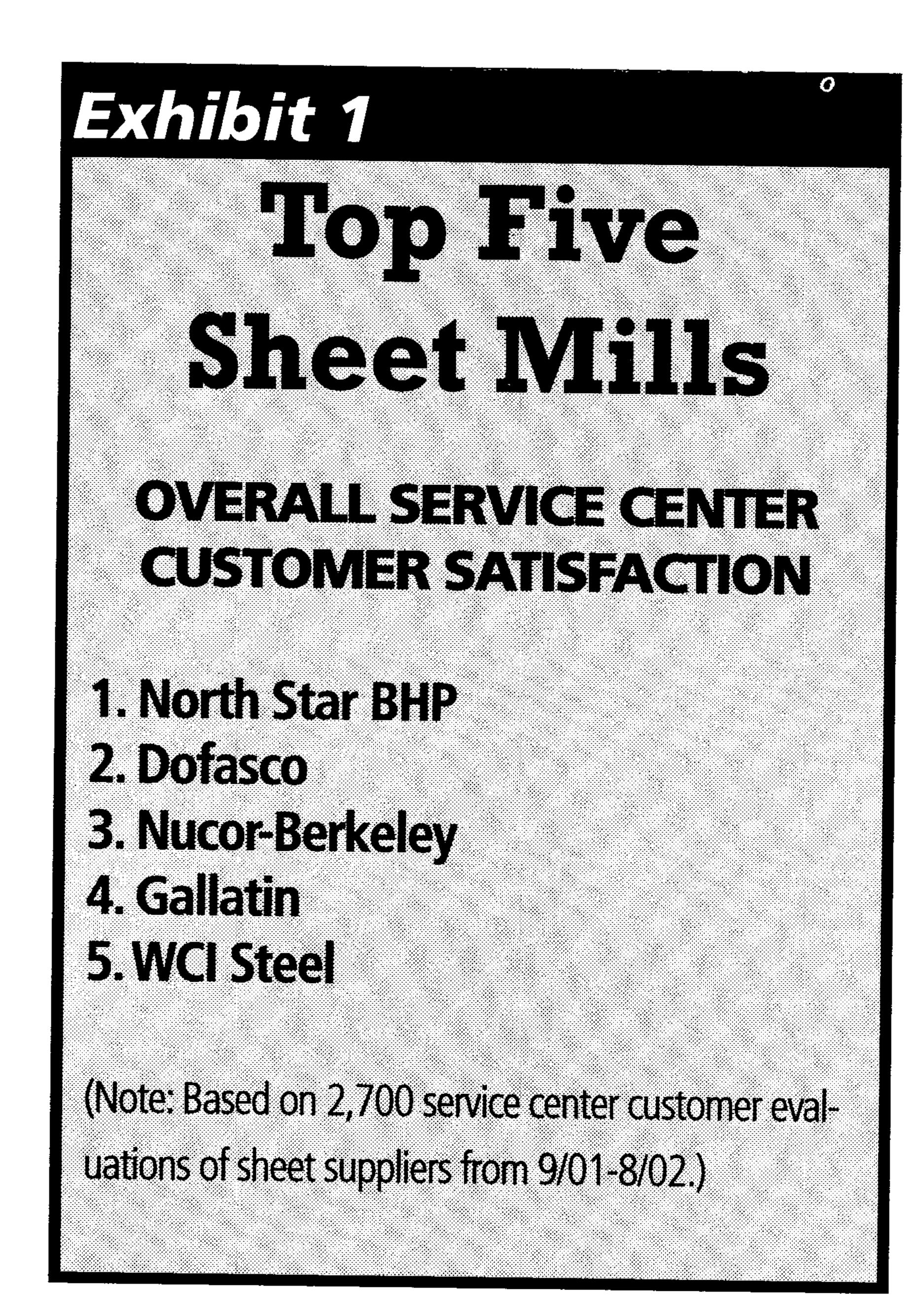
The satisfaction rates across all products average 66 percent for overall satisfaction, 78 percent for quality satisfaction, 69 percent for service satisfaction, 64 percent for price satisfaction and 64 percent for on-time delivery satisfaction.

Beam producers have the highest quality satisfaction rate at 92 percent, while tin mill producers have the lowest quality satisfaction rate at 56 percent. Beam, merchant bar and structural, and pipe and tube producers all have price satisfaction rates of 75 percent and above. Wire rod producers are the only ones with a price satisfaction rate below 50 percent. Plate, hotrolled sheet and tin mill products have the lowest on-time delivery satisfaction rates of about 50 percent.

The Customer Satisfaction Rate is frequently used for benchmarking, as well as other measures for specific attributes such as quality, delivery, service and price. Jacobson & Associates has also established benchmarks for specific market segments and supplier types. The five supplier types covered in the August 2002 Jacobson Survey for Metal Center News are minimill producers, service centers and processors, specialty producers, foreign suppliers and flat-rolled producers.

Minimills show the highest percentage of satisfied customers at 78 percent followed by service centers and processors at 72 percent. The average overall customer satisfaction score for flat-rolled producers, which includes sheet producers and plate producers, is 55 percent.

Another way of looking at customer feedback is to review



"customer dissatisfaction." A look at dissatisfaction is helpful in understanding where improvement is most needed. Changes in dissatisfaction for a particular company may reflect a change in strategy to focus more on, or shift away from, specific customers or market segments.

For example, some sheet suppliers have chosen to focus on value-added products and shift away from hot-rolled sheet. This shift in customer focus has contributed to greater dissatisfaction among hot-rolled sheet customers. The August 2002 update shows that service center sheet customers are most dissatisfied with delivery and most satisfied with quality. (See Exhibit 4.)

Pricing, delivery top concerns

The Jacobson Survey asks customers where suppliers need the most improvement. Not surprisingly, customer concerns have shifted more toward pricing and availability this year vs. 2001. (See Chart 1 on page 2.)

For example, 13 percent of this year's customer improvement statements from service centers regarding sheet products raised concerns about availability vs. just 2 percent for the same period last year.



Service centers ranked the Top 10 producers of merchant bar and structural products above average in quality, service and delivery. Only three received below average ratings for price satisfaction.

Sixteen percent of customer improvement statements this year called for better prices vs. 7 percent in 2001. Actually, a substantial portion of pricing concerns in 2001 were for higher prices and long-term price stability, whereas pricing concerns in 2002 have focused almost totally on getting lower prices and slowing down price increases.

Severe concerns over availability, price and delivery have resulted in substantially lower customer satisfaction for sheet mills in 2002. Quality satisfaction has held relatively constant, while delivery and price satisfaction are down sharply from 2001. Chart 2 on page 2s shows the average customer satisfaction score for the past eight quarters for all U.S. and Canadian sheet mills.

Following is a sample of comments gathered from service center

Exhibit 3

Customer Satisfaction Rate by Steel Product

(12 months ended Aug. 31, 2002)

- 1. Pipe & Tube 80%
- 2. Beams 80%
- 3. Merchant Bar & Structurals 80%
- 4. Reinforcing Bar 77%
- 5. SBO 71%
- 6. Cold-Rolled Sheet 59%
- 7. Coated Sheet 59%
- 8. Wire Rod 57%
- 9. Plate 56%
- 10. Hot-Rolled Sheet 55%
- 11. Tin Mill Products 48%

Average - 66%

Producers of pipe and tube, beams and merchant bar/structurals earned the highest customer satisfaction ratings from service centers in the past year.

respondents this year, telling sheet mills where they need to improve:

Live up to all commitments.

Improve customer relationships.
Don't ask the government to bail
you out.

Be more competitive in the world market without the government. Section 201 has really hurt the economy.

Reduce overcapacity; shut down a few mills.

Steel mills in the U.S. need to manage their companies better. This can be achieved by working towards a "win-win" business model. Steel producers need to have a plan and stick with it.

Have a partnership attitude. Think out of the box.

Everyone can improve their ontime delivery. Domestic mills need to be more competitive with quality.

Exhibit 4

Sheet Customer Dissatisfaction Service Centers vs. End Users

(12 months ended Aug. 31, 2002)

Note: Based on 2,700 service center sheet customer evaluations and 3,200 end user sheet customer evaluations.

Service center sheet customers are most dissatisfied with delivery and most satisfied with quality, according to the latest Jacobson Survey data. End-users are also most satisfied with the quality of their sheet products, but are least satisfied with their price.

Integrated mills have a legacy cost burden; I don't know if they can survive.

Improve internal control. In this day and age, there is no excuse for not knowing what's going on. Commit to shipping what was agreed upon, exact quantity and on-time delivery.

Consistency on pricing; it is hard to understand how prices can go up \$100 per ton so quickly. Suppliers need to improve their relationships. They don't seem to understand that the customer is very important.

Satisfaction linked to trust

Success today is based on selling to customers who really want to do business with you as opposed to customers who feel like they have no choice. Customer satisfaction is tied to the level of trust between customer and supplier. Do you trust your steel supplier to give you a fair price, make product available to you (even when markets are tight), deliver in a timely fashion, communicate with you regarding any problems, and be responsive to your requests for information?

Suppliers earn their customers' loyalty through their actions. Strong customer relationships are built over time and strengthened through continued positive interactions. The relative strength of customer loyalty is one of the most reliable indicators of future cash flows for a healthy business.

John Jacobson is president of Jacobson & Associates, Lake Forest, Ill., a consulting firm with expertise in customer satisfaction research, steel industry economics and strategic planning. Jacobson & Associates conducts a continuous survey of major steel customers in the United States and Canada, which provides an objective third-patty measure of steel customer satisfaction. Jacobson can be reached at (847) 735-7250 or via e-mail at iei@iacobsonsteel.com