I.C.F.

NEWSLETTER

Issue 41 September 2002

I.C.F.
INTERNATIONAL CABLEMAKERS FEDERATION

P.O.BOX 26
GRABEN 30
A-1014 WIEN
AUSTRIA

PHONE +43-1-532 96 40

FAX +43-1-532 97 69

WEBSITE www.icf.at

New Member

We are very pleased to welcome HANGZHOU FUTONG GROUP CO. LTD. of China, as Full Member, which is specialised in communication cables, optical cables and optical fibres and has a JV with Showa Electric Wire & Cable Co., Japan.

The 2002 Beijing Congress

The registration for the Congress has been going well. Over 160 people including spouses from 40+ countries will meet in this splendid old capitol of China. The Secretary again wishes to remind you to make sure to have a valid visa for China in time before departure.

Chinese Tie

The cover design of this issue is featuring a Chinese Tie. It's a traditional manual art and known to bring good fortune to the holder. There are many different styles and designs. This particular tie is to express Chinese people's hospitality to all the foreign people to be connected and welcomed in Beijing – you will recognize it there as our congress logo. Importantly, the tie also predicts the success of the conference and successful future of our industry!! (You know why we chose this design!!)

The Earth Summit

"The UN World Summit on Sustainable Development" (so called "Earth Summit") was held in Johannesburg recently and attended from almost all countries in the world.
The global warming, CO_2, water supply, etc., more and more such issues become urgent to be solved. The cable industry could contribute to those issues other than political issues by developing green products and recycling of the materials so on.
At the Beijing Congress, one of the sessions will focus on the environmental issues, including the development of those new products and technologies.

Electrical Distributors: In Western Europe

With telecom and data business looking much weaker, focus is returning to the more mundane energy cable markets. The huge general wiring business in energy products aimed at the premise market dominates this segment in volume terms. In developed markets, virtually all product passes through electrical wholesalers and distributors. Rexel, the world's largest electrical wholesaler and distributor, estimates the total market in the thirty-three countries in which it operates at Euro 233 billion. This suggests a global market of nearly Euro 300 billion and cable sales, including distributor margins, of around Euro 30 billion. There are now significant changes underway within the distribution business, which have implications for cablemakers. Change is most evident in Western Europe, which forms the subject of this article.

First, it is worth taking a look at some basic statistics on the electrical distribution business. Based on data provided by the distributors, we estimate that in 2001 their cable sales value in Western Europe amounted to Euro 4.63 billion, down slightly from Euro 4.73 billion in 2000. These figures include the distributor margins of around 15%, taking the sales value as far as cablemakers are concerned down to Euro 4.0-4.1 billion, around 30% of the region's wire and cable market. Most of the cable passing through distributors is energy cable used in premises (building wire and industrial power cable), the Euro 3.5 billion sales in 2001 being around 95% of all sales to this segment. On top of this, there is some data cable and smaller amounts of utility power cable passing through electrical wholesalers and distributors.

The electrical distributors engaged in cable business fall into different categories. The most important are the "closed groups". Dealing in a diverse array of electrical products, each closed groups consist of many outlets forming part of a unified business structure. "Open groups" consist of separate corporate entities that co-operate through common purchasing. "Semi-closed groups" are similar to open groups but the links are closer, involving some cross-ownership or common holding. The true "independents", operating in isolation from other electrical wholesalers and distributors, are comparatively rare.

Big 3 Distributors

In the past decade, the closed groups have come to dominate the electrical distribution business in Western Europe, now accounting for around 60% of electrical goods (and cable) sales. Typically, closed groups are multi-national. Three names now stand out in Western Europe: Rexel, Sonepar and Hagemeyer. Together the "Big Three" multi-nationals account for 35% of electrical distributor sales and 45% of their sales in wire and cable. With strong purchasing power, corporate image and the ability to invest strategically, the large closed groups have proved capable of growing organically more quickly than their competitors. More important, however, has been growth through acquisition as the closed groups have steadily absorbed the independents, companies that are loosely held within open and semi-closed groupings and, on occasion, whole groups. The names of the companies that have been absorbed and even some autonomy in business organisation are usually retained after acquisition. While the generalist closed groups have a competitive edge over their rivals, a role remains for more focussed specialists, including those dealing in cable.

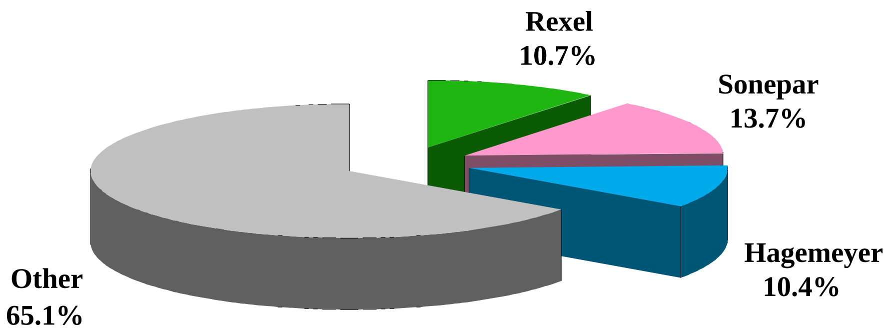
While sales through electrical distributors dominate the general market as far as cablemakers are concerned, the role of cable within the distributors' business profile is relatively modest. In 2002, cable accounted for only 13% of Western Europe's total electrical distribution market of Euro 36.9 billion. The other products sold through electrical distribution channels may be classified under the headings "installation materials" (42% of sales), "lighting" (18%), datacom" (6%), "climate control" (6%), "domestic appliances" (10%) and "other" (5%).

This list of product groups shows installation materials to be by far the largest sector. It comprises of products sold alongside wire and cable in the forming of electrical circuits, including conduit, cable accessories, wiring devices, switchboards, panels, enclosures, switchgear and circuit protection devices. The sales are split fairly evenly between products used in domestic and commercial applications and those used in more demanding industrial environments. Distributors' datacom business can also be directly related to electrical circuit installation, including such items as sensors, detectors, controllers and other automation equipment, but it also includes discrete equipment items serving communication and security functions. The lighting segment includes both lighting fixtures and the lights themselves. Taken together, these three groups,

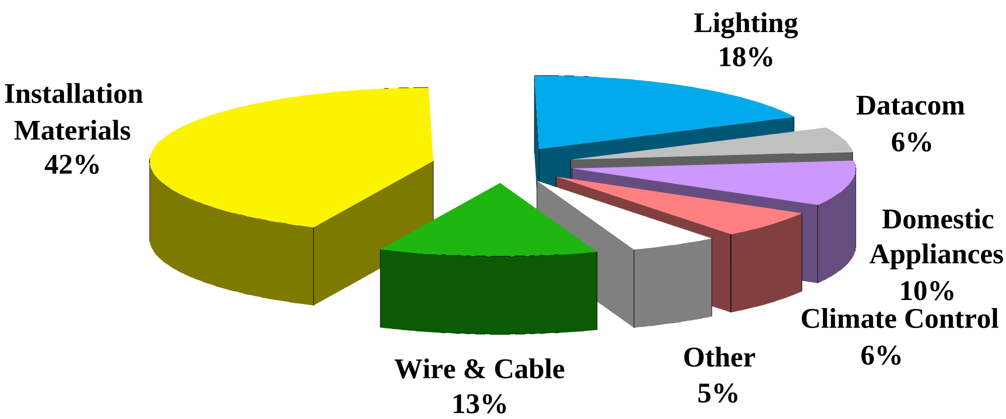
The Big 3 and All Electrical Distributor Sales in W. Europe

Shares of the Big 3 Electrical Distributors in All Products

Total = Euro 36.9 bn



Product Shares of All Electrical Distributor Sales



Source: EUEW, Annual Reports, Metalica Ltd.

with wire and cable, may be considered to be the core electrical business areas, accounting for 79% of all sales. The share of what we would define as non-core business varies enormously between individual companies. This group includes domestic appliances, equipment for space and water heating and ventilation and other items, such as tools.

Market Segmentation for Distributors

Electrical wholesalers and distributors divide their business both by end market and customer type. Rexel estimates that the global market is 30% residential, 46% industrial (including utilities) and 24% what it calls “services and commercial”, a group including office, retail and public building. An alternative customer group segmentation would give electrical contractors around 63% market share, direct sales to industry 17%, public authorities 10% and utilities, resellers, retail, DIY outlets and other customers the remaining 10%. This last category indicates a tiered element to the distribution business, with as much as 5–7% of product passing down a chain from one distributor to another. Sellers at the bottom end of the chain, especially DIY outlets, also buy direct. Much of this business passes through cable conditioners (adding plugs, connectors and packaging) and tends to be exceptionally low margin.

For the main closed groups, the share of non-core business (appliances, climate control and other) is fairly small, while direct service to industry is quite high. For Sonepar, the share of non-core business, as we define it, is 15% of total sales; for Rexel it is only 9%. Assuming that for the Big Three taken together the share of non-core business is 12%, then for the others the share must be around 26% if the market average is 21%, as reported. The difference between the Big Three and others is important, as it means that a large proportion of cable sales, as part of the core business of electrical distributors, is concentrated in the hands of a few companies. Sonepar claims that cable and conduit comprises 16% of its sales, while Rexel quotes a much larger

22%. For these companies in particular, cable is at the centre of the package of products offered for sale. Yet, although essential, cable is by no means the most profitable product line, gross sales margins of around 15% in cable compare with 22% for the electrical distribution business as a whole.

Regional Analysis

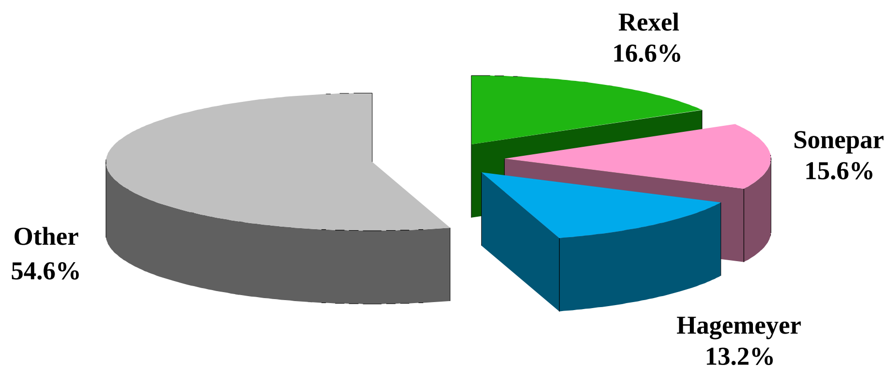
The role of the Big Three distributors in the wire and cable business varies enormously by country. The groups are particularly strong in France, the country of origin for both Sonepar and Rexel, and also in Benelux. In France, Sonepar and Rexel together account for nearly 80% of the market; Hagemeyer is not present. Most of the remainder is accounted for by two open groups and an unusually large DIY sector, which takes 13% of the market. Benelux is also dominated by Sonepar and Rexel. Hagemeyer, with its home base in the Netherlands, has a comparatively modest 8% share.

The share of the Big Three electrical distributors is quite large in the Nordic Countries (55% share), Germany (42%) and the United Kingdom (42%). The Nordic market is highly competitive, with local companies having a significant share. All three market

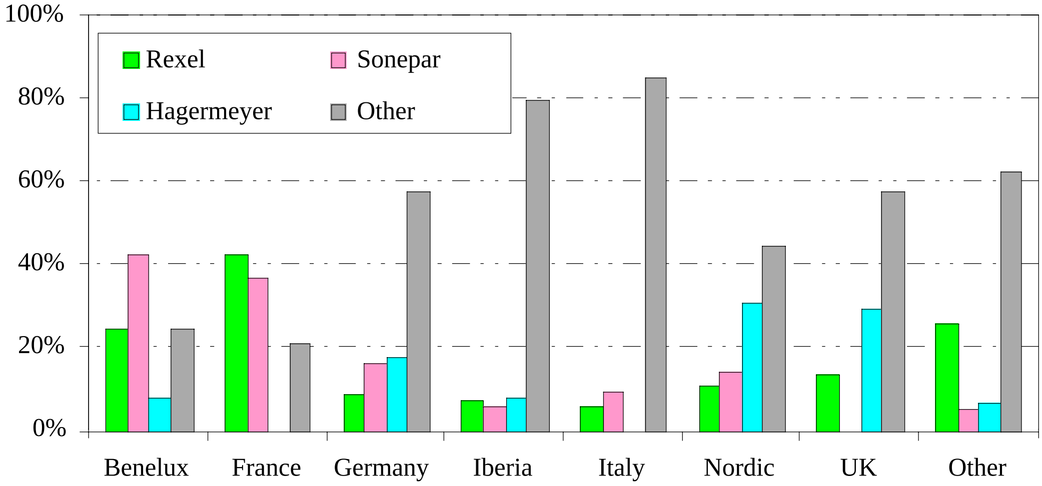
The Big 3 Distributors in Western Europe's Wire & Cable Market

Regional Shares of the Big Three

Total = Euro 4.63 bn



Shares of the Big 3 by Country



Market Shares by Company and Country in 2001 (Euro million)

	Rexel		Sonepar		Hagemeyer		Big 3		Total
	Value	Share	Value	Share	Value	Share	Value	Share	Market
Benelux	81	*25%*	138	*43%*	26	*8%*	245	*75%*	326
France	308	*42%*	267	*37%*	-	*0%*	575	*79%*	727
Germany	79	*9%*	149	*16%*	163	*18%*	392	*42%*	924
Iberia	38	*7%*	30	*6%*	42	*8%*	111	*21%*	532
Italy	35	*6%*	56	*9%*	-	*0%*	91	*15%*	608
Nordic Countries	49	*11%*	64	*14%*	143	*31%*	257	*55%*	465
United Kingdom	98	*13%*	-	*0%*	217	*29%*	315	*42%*	745
Other W. Europe	79	*26%*	16	*5%*	20	*7%*	116	*38%*	305
W. Europe	**767**	***17%***	**722**	***16%***	**612**	***13%***	**2101**	***45%***	**4632**

Source: EUEW, Annual Reports, Metalica Ltd.

leaders have a substantial presence here, the Nordic region being a particular area of focus for Hagemeyer. The United Kingdom is also a major market for Hagemeyer, where Rexel (but not Sonepar) also has a base. While Hagemeyer, through Newey & Eyre, is market leader in the UK, the US-based Edmundson closed group is also a major force. Cable specialists, including CCC, the distribution company for the Polish cable industry, are important in the UK, with the DIY sector accounting for around 5% share. The large German market is a major battleground for the Big Three distributors. None has achieved dominance, although Sonepar and Hagemeyer have gained a larger presence than Rexel. Over 10% of the German market is accounted for by “I-Center”, a former Siemens subsidiary that has a large domestic appliance business. Another major player is the cable specialist Faber; with nearly 15% share this company imports much of its product, largely from Eastern Europe.

While smaller companies remain important in Germany, the market here is not nearly as fragmented as that of Italy or Iberia. In Italy, the Big Three have 15% share; Hagemeyer is not present here. The Italian market is dominated by open groups of buying co-operatives, comprised mainly of small local distributors. In Spain, the Big Three share is slightly larger, at 21%. Most of the remainder of the market is taken up by five purchasing co-operatives comprising of many small distributors.

The share of the Big Three distributors is growing in all the main country markets, especially in Italy and Iberia, where an active acquisition policy is being pursued. The largest recent acquisition here was of Mercantil, Spain’s biggest electrical distributor, by Hagemeyer at the end of 2000. Before this, Hagemeyer did not have a significant presence in Iberia. Sonepar has also been expanding through acquisition in Western Europe in 2000 and 2001, both where its presence has been relatively weak (Austria, Italy and Germany) and in France and Benelux. Rexel, with only an acquisition in Switzerland, has been relatively inactive on the acquisition front in Europe. For all three companies, 2001 and 2002 are years of consolidation after at least five years of active acquisition. In Western Europe, acquisition has been the main driving force behind the growth in sales of the Big Three distributors. Between 1997 and 2001, their sales rose by 30% from Euro 10.0 billion to Euro 13.0 billion in a fairly static market, raising the Big Three share of the region’s electrical distribution business from 29% to 35%.

While the expansion of electrical distribution business in Western Europe has been important for Rexel, Sonepar and Hagemeyer, it has not been the main element in their growth strategy. Each company has made very large acquisitions in North America since 1998, Sonepar first entering the huge US market in that year. More recently, the 2000 acquisition of CamBar in the United States by Hagemeyer and Westburne in Canada by Rexel have overshadowed the European acquisitions. For Hagemeyer and Rexel, growth by acquisition in Australia has also been important. In the past two or three years, all three companies have sought to expand their presence in less mature markets, leading to acquisitions in China, India, Russia, Mexico, Brazil, Argentina and Chile. At the same time, there has been some re-focussing towards core electrical distribution business, with the divestment of non-core activities. This is only really important for Hagemeyer, for which 30% of sales are still in businesses other than electrical distribution, including IT and consumer product distribution. Despite the re-focussing of Hagemeyer, Big Three business other than electrical distribution in Western Europe has grown very rapidly, rising from Euro 3.8 billion in 1997 to Euro 10.4 billion in 2001 and increasing in the share of total business from 27% to 44%.

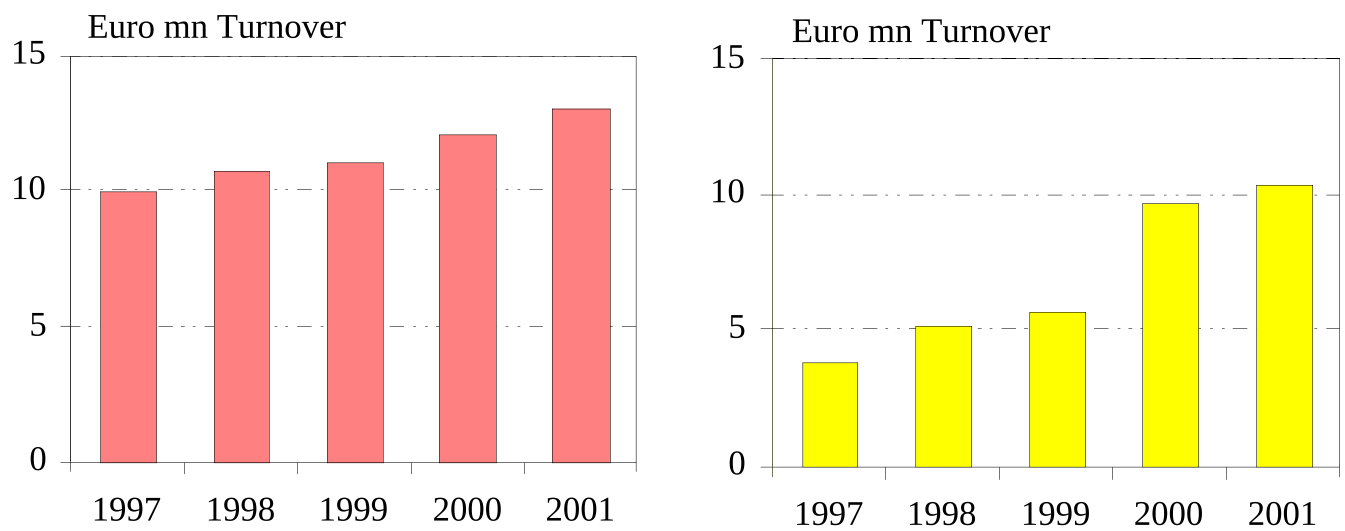
Expansion of Distributor’s Scope

As well as expanding geographically, the Big Three are making steps to increase the range of their business activities while, on the whole, staying within the boundaries of what may be defined as electrical wholesale and distribution. All three companies are attempting to expand in datacom business, offering a wide range of services to compete with specialists in this field. Rexel has formed the dedicated subsidiary Connectis to address this market. Special attention is also being given to the security market, where Rexel has also formed a dedicated subsidiary (called Citidal).

Like these product markets, the dominant distributors have identified better growth prospects for industrial customers than for other groups, and are focussing their attention on them. Potential areas of expansion are seen in “Integrated Supply” and “MRO” business (Maintenance, Repair and Operations), where lessons are being learnt in Europe and Asia from acquisitions made in North America. The MRO market consists of non-capital goods purchased by industry on a regular basis as part of the production process but not forming part of the end product.

Broadening Scope of Europe's Big 3 Distributors

European Electrical Distribution | **Other Business**



Source: Annual Reports, Metalica Ltd.

The term Integrated Supply refers to the process of long-term customer inventory management through linked computer systems, mainly in MRO products. The service to industry through MRO and Integrated Supply potentially takes the product scope beyond that of electrical goods, although only Hagemeyer, which is developing health and safety equipment business, is explicitly addressing these alternative markets.

The wider service offering, especially to industry, implies more and more complex data management systems for the electrical wholesalers and distributors. It is hardly surprising, for this reason alone, that increased emphasis is being placed by them on improving their electronic systems. Electronic purchasing now dominates the distribution business; Rexel claims that between 70% and 90% of all sales are conducted electronically rather than over the counter (varying by country). The next logical step, sale by e-commerce, is still in its infancy, Rexel sales by this means being a modest Euro 37 million in 2001. Growth is foreseen in this area and it is important to the existing distributors that new entrants do not gain a slice of the market through this alternative means of conducting business.

Growing electronic business and customer expectations of abetter quality offering has led the Big Three to improve electronic product cataloguing, technical information and support, this being a particular area of focus for Sonepar. Here, also, the external environment is changing. The major electrical product suppliers in Europe have invested Euro 27 million in Voltimum, an electronic portal serving as a showcase for their products, coming on-line in 2002 and 2003. The founder members of Voltimum were cablemakers Nexans and Pirelli, lighting specialists Osram and Philips, wiring accessories supplier Legrand, and ABB and Schnieder, both with a wide product offering biased towards the industrial market.

In order to achieve their objectives, the Big Three electrical distributors are making changes to the way their business is organised. Large, primarily industrial, accounts are being managed through separate, more personalised sales channels. While this involves some additional complexity in business organisation, however, the emphasis is on streamlining to achieve more simplicity to enable the companies to provide a more complex service offering at a competitive price. Hageeyer made major changes to its business organisation in Europe in 2001, regrouping its subsidiaries into country or regional clusters with the objective of achieving greater centralisation of core functions, including purchasing, and a lowering in infrastructure costs, especially in electronics, by avoiding duplication.

Distributors and Suppliers

Another aspect to the streamlining process is a change in the relationship with suppliers. Alongside more centralised purchasing, we may expect the relationship between the distributors and their preferred suppliers to become stronger and for less favoured suppliers to lose out. Although only Rexel explicitly states that it intends to reduce the number of suppliers, the intention appears to be there in the rhetoric of Sonepar and Hagemeyer as well. Rexel classifies its suppliers into three groups. “Strategic suppliers” are considered to be key business partners, able to sell products through Rexel internationally. “Preferred suppliers” are similar, but do not have global coverage. “Regional and local suppliers” provide products that customers ask for in more local markets, but are not considered to be strategic.

As far as it is consistent with customer needs, Rexel wishes to extend the role of strategic and preferred suppliers at the expense of regional and local suppliers. Both Sonepar and Hagemeyer also proclaim the importance of their partnerships with leading suppliers. The list of main suppliers provided by the two companies are virtually identical; including the European companies Nexans, Pirelli and Draka in cable, Osram, Philips and Thorn in lighting, Hagar and Legrand in wiring accessories, ABB, Schneider and Siemens in other products. They also list a few US suppliers, although not in cable products.

Sonepar is explicit about what it means by a “supplier partnership” today. Sonepar wants suppliers that are market leaders and can provide consistent availability of products that clients ask for in a range that is suitable for all professionals. The company sees the relationship as being a reciprocal one, achieving for its suppliers a broad distribution of products locally, improved logistics, feedback on market behaviour and forewarning of changes, and a shorter time-to-market for new products. Sonepar goes on to claim that through its value-added services to preferred clients it enhances the value of the products its supplies.

While the way Sonepar states its relationship with supplier partners appears to offer some very important advantages, it is worth taking a look at what lies behind the rhetoric. Clearly, the distributor sees itself correctly as having the direct interface with the market that the supplier lacks. While this may not be a problem, taken too far the lack of direct contact with end users may lead to an increase in bargaining power in the hands of distributors when negotiating with their suppliers, especially when the numbers are being reduced. Also, especially in an essential, high volume but low margin product such as cable, the requirement for consistent availability of a full range of products puts on the supplier a great responsibility in achieving a zero-fault logistics system. Although not stated as such, there is an implicit threat that those suppliers that fail to match up to the high standards of the largest distributors will cease to be “supplier partners”.

Although expansion remains in the plans of the leading electrical distributors, the main focus through much of 2001 and 2002 is on improved efficiency and cost control. The change in supplier relationships is part of this process. With lower than expected business volumes in the first half of 2002, a more severe retrenchment is possible. After many years of uninterrupted growth, Rexel scored a year-on-year decline in sales in the first quarter of 2001 of nearly 5% in Europe and more than 10% in North America. The second quarter is not expected to be much better. If, as seems possible, the former mood of expansion by the largest electrical distributors turns to one of cutting back, we need to look very carefully at what this means for their suppliers, especially those with which they do not consider they have a strategic relationship.

(Author; Paul Dewison/ Metalica)

News in Brief

(Provided by Metalica Ltd. UK)

The Axe Falls at Corning: The US-based leader in fibre optics business, **Corning Inc.** has begun to implement its cost reduction programme. At the beginning of June, Corning announced major cuts in telecom sector and R&D activities with the elimination of 1,500 jobs and the offer of early retirement to 600 employees. The initial cuts included the closure of Corning Cable Systems Rio Grande, Puerto Rico plant. This was followed later in the month by the loss of further 600 cable sector positions at Corning’s Hickory, North Carolina plant and then 500 job losses at optical fibre operations in Concord and Wilmington, North

Carolina. Downsizing in the Americas was followed by the announcement of 720 job losses by Corning Cable Systems in Europe, with the centralisation of commercial offices in Berlin, Germany and cable manufacture at Neustadt, Germany. Cable plants at Whiston, UK (already idled) and Berlin, Germany will be closed permanently, while cable assemblies operations at Neustadt, Germany will be transferred to Lodz, Poland. As well as downsizing its core business, a few, smaller, non-core operations are up for sale, including connectors business (valued at around US$ 100 million) and optical components business (valued at US$ 50 million). Plans to build a new optical fibre plant in Oklahoma City and to expand another at Concord in the United States have been shelved.

Cuts Elsewhere in Telecoms: Corning is not alone in its huge restructuring effort. The expected US$ 600 million charge to be incurred by Corning in the second and third quarters should be seen in the context of similar cuts elsewhere. **Alcatel** anticipates a 2002 restructuring charge of Euro 1.2 billion. **Avaya** expects to incur a charge of US$ 150 million in the third calendar quarter of 2002 alone. Although less exposed to the drastic downturn in telecoms, generalist cablemakers are also making major restructuring provisions, especially in the telecom area. **Nexans** has implemented a Euro 120 million programme, of which Euro 54 billion is aimed a telecom business and Euro 33 billion at both energy and electric wires business.

Madeco Restructures Debt: Chilean-based **Madeco,** with wire and cable and copper/alloy products interests in Brazil, Argentina, Peru and Chile, has gained shareholder consent to a US$ 90 million equity issue to cover part of its US$ 120 million short-term bank debt liability. A separate agreement allows the remaining US$30 million to be repaid over seven years. Madeco recorded a net loss of US$ 76.5 million in 2001 and US$ 26.4 million in 2000. Economic crisis in Argentina and reduced sales in Brazil, mainly in the telecom sector, underlie the poor results.

Superior TeleCom De-listed From NYSE: Shares in **Superior TeleCom,** parent to wire and cable giant **Superior Essex,** were de-listed from the New York Stock Exchange on July 19th. The decision by the exchange was expected, as Superior shares had been trading at less than US$ 1 for most of the period since last October. The decision to de-list took shares down a further 15 cents to 28 cents.

LG Cable Raises Stake in LG-Nikko: South Korean cablemaker **LG Cable** gained a controlling 50% stake in the copper smelter/refiner **LG-Nikko** in July, raising its share from 35% with the purchase of shares from **LG International** for Won 54.8 billion as part of a holding's realignment prior to the spin-off of LG Cable from the LG group by end-2003. In the previous month, LG-Nikko was left outside the merger of copper production assets of **Nippon Mining** and **Mitsui Mining & Smelting;** these companies' combined stake in LG-Nikko is 41.4%.

More Details on Changes in Japanese Cable Holdings: The new company combining the winding wire interests of **Sumitomo Electric Industries** (SEI) and **Mitsubishi,** to be formed on October 1st, is to be 80% owned by SEI and will be called **Sumitomo Electric Wintec Inc.** Projected consolidated sales for 2003 total Yen 57 billion. The parallel deal in low voltage energy wires, with SEI and **Hitachi Cable** as the main partners, completed on July 29th, will be called **Sumiden Hitachi Cable.**

Electronic Cable Venture in China: Hong Kong-based **Wing Lee** is to invest US$ 7.5 million in setting up a new plant to make flexible flat cable in Dougguan, Guangdong province, under the **Sony** brand name. The plan follows a joint venture agreement between the two companies, signed in May.

OFS is to Establish a Production Base in China: The former Lucent fibre optic business, now called **OFS** and majority owned by **Furukawa Electric,** is to build a cable facility in China, to be operational in 12 to 18 months.

Leoni Strengthens Special Cable Operations: A majority stake in plastic wave guide manufacturer **FOSystems GmbH** in Neuhaus-Schierschnitz, Germany has been taken by **Leoni Kabel GmbH.** FOSystems products are used in industrial applications, such as control systems for plant and machines.

Electrolux Divests Winding Wire Interests: Electrical appliance maker **Electrolux** has sold its Italian components subsidiary **Zanussi Metallurica** to **ZML Industries,** a company controlled by US investment firm Vester Capital Partners. The components produced by Zanussi Metallurgica include enamelled wires.

The ICF Newsletter is published several times each year by The **International Cablemakers Federation**, P.O.Box 26, A-1014 Vienna

Telephone (+43 1) 532 96 40, Fax (+43 1) 532 97 69
e-mail: renate@icf.at