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Systematic Approach to Growth

Macsteel USA leverages its size, systems and services to satisfy a diverse and growing customer base.

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Managing Editor

With more than \$1 billion in sales expected this year, Macsteel Service Centers USA, headquartered in Newport Beach, Calif., is among the top 10 metals distributors in the United States. That kind of dominance took 20 years to develop and is still a work in progress, according to three of the company's top executives.

Metal Center News spoke with President and CEO Michael H. Hoffman, Senior Executive Vice President and Chief Commercial Officer Richard O'Toole and Senior Executive Vice President and Group Marketing Executive Russ Delaney about the company's most recent acquisitions, operational management and plans for the company's future.

The Samson family founded Macsteel as Pan Africa Staalhandel in 1949, primarily as a trading organization. Macsteel began opening service centers in 1969, and landed on the U.S. West Coast with the 1983 acquisition of Ferro Union, Torrance, Calif. Starting in 1995, Macsteel entered a joint venture with Usinor Sacilor's U.S. distribution unit, Edgcomb Metals, and subsequently acquired Edgcomb entirely, expanding its presence on the East Coast and in the Midwest.

Switzerland's Duferco sold Baldwin Steel Co., based in Laurence Harbor, N.J., to Macsteel in autumn 2002, and Britain's Corus Group sold Regal Steel Supply, Stockton, Calif., to Macsteel last spring. Last June, Macsteel built a new facility in Mexico, and this February, the company acquired Hokin-Katz, a service center in Los Angeles that specializes in close-tolerance slitting and precision blanking.

The service center chain is actively pursuing further acquisitions, the executives say, only with companies that offer a strategic fit.

"We are [also] looking at joint ventures and supply partnerships, but we don't want to be more explicit than that," Hoffman adds. "These options are explored with companies that can add value to our business. We continuously look at such possibilities with suppliers, customers and competitors."

Meanwhile, Macsteel is integrating its recent purchases. "In 2003, we did location consolidations in several regions. On the West Coast, we rationalized our largest facility in Torrance and set up three distinct business groups now in separate facilities, based on acquisitions we made in the last year or so, one being Regal Steel on the structural end, and the other being Hokin-Katz on the flat-rolled side," Delaney says. The Macsteel branch was integrated into the Hokin-Katz facility. In Houston, the Baldwin service center was merged into the former Ferro Union plant in the same city.

"It has been transparent to the customers. They call the same phone number and talk to the same people," he notes.

The rationalization of facilities and centralization of back office functions has meant that 200 jobs were eliminated over the past three years. For the remaining employees, "we train [them] in the Macsteel philosophy, which is why we think we are successful with our acquisitions," Delaney says.

Diverse customer base

Macsteel USA's customer base is diverse, but is largely concentrated in the United States and Mexico. "We sell to everybody from very small job, machine and sheet metal shops up through large

conglomerates like UTC [United Technologies Corp.] and Ingersoll Rand," Delaney says. "Our largest standard industrial code is the HVAC business, second is sheet metal work and third is metal stamping. We do sell a fair amount to smaller distributors, not by commercial design, but just due to our size."

"We [also] have made big inroads to the appliance market over the past 15 months," adds O'Toole.

The Baldwin acquisition added a building products division to the company, which was a new area for Macsteel. "That's a large percentage of the Baldwin tonnage," Delaney says. "It's mostly prepainted roll-formed shapes and prepainted coils, so it's a higher end product. The market is seasonal, but it's a good one for us."

O'Toole estimates that with the growth in new business, as well as through acquisitions, the company will ship 1.5 million to 1.6 million tons in 2004.

Inventory control & purchasing

As a large player, Macsteel is acutely aware of the importance of tight inventory control. It shoots for a target of eight weeks of inventory.

"Over the breadth of our products, we try to have six turns a year. On certain products, the turns are higher, and on others, we consider them slower movers. We consistently have better than five turns," O'Toole says.

Macsteel purchases about 75 percent of its steel from domestic sources and buys the other 25 percent offshore. On carbon flat-rolled steel, the company has five core suppliers, "but we certainly we buy from all the major mills," O'Toole says.

Due to the tight supply of steel, the mills currently have Macsteel and its competitors on controlled order entry. "Right now [early April], the mills are just opening up June, so they are out 60 days on their rollings. It's probably more like 90 because most mills are running late. When they open the month, we book our tons," he explains.

Being able to get into the mills' rolling schedules has not been a problem for Macsteel because of the company's consistent buying patterns over many years. So far, the service center has managed to maintain its desired eight to nine weeks of supply on hand.

"We pride ourselves on our relationships with our suppliers," O'Toole says. "We are a good customer [because] we live with our commitments. We take our steel on time, we pay our bills on time. We get a pretty fair shake from the mills."

Service centers have no choice but to pass the steelmakers' price increases and raw material surcharges along to their customers, because the margins are already tight, Delaney says. "This is probably the most well-publicized steel market we've seen in many years," he adds, so customers are aware of the current volatility.

Value-added processing

Macsteel's total processing capacity, covering all equipment in 26 plants, is 2.2 million tons. Its capacity utilization rate varies depending on what product is being processed, but Hoffman estimates its machinery is now operating at about 60 percent of capacity.

Macsteel expects to boost its capacity utilization this year and increase its processing revenues. "Judging by the first four months of this year, our growth in volume is definitely in multiple processes. We are increasing the value-added side of our business," he says.

Customer relations

The company continually works on satisfying customers, sometimes by developing customized programs. "We form alliances with a lot of our major accounts where we have see-through programs on pricing. It's a three-way venture between the mill, Macsteel and the customer," Delaney says. "In some cases, the customer is involved in negotiations with the mill."

"We also have on-site representatives at several of our key accounts. In these cases, we actually take over the material management functions for them."

Delaney says that Macsteel regularly conducts customer satisfaction surveys, which are required as part of its ISO and QS certification. It tracks its on-time delivery performance religiously. "Our on-time delivery is very strong, close to 98 percent company wide," O'Toole says. "That's one of our strengths. We have a tough time losing a customer because we service them and ship a quality product."

Management systems

Macsteel USA converted to StelPLAN, from the Canadian software provider Invera, in the mid-1990s.

"We purchased the code so we are on a highly customized version that has been developed internally," Delaney explains. "We are now converting from the flat file system that StelPLAN has historically run on, to a relational database, which will be completed in the next 60 to 90 days."

By doing this, Macsteel has been able to convert all its hardware to two IBM servers, one on the West Coast and one on the East Coast, that mirror each other in real time. This means the company is backed up to the last transaction, which is extremely helpful during disaster recovery, like the blackout on the East Coast and in Canada last August.

"We also have an internal customer relationship management system in place. We have not rolled that out yet, mainly because of the changes we're going through on the [aforementioned] system. When that's finalized, we'll roll the CRM system out this year."

Macsteel managers swear by StelPLAN's activity-based costing. "We have our costs driven down to the line item level on work orders," Delaney says. "Each processing line in our plants has an overhead [number] assigned to it, and we track orders by time. It helps us rank our business activities so we know where our profitability is highest and lowest, and we can make any needed adjustments."

According to Hoffman, Macsteel "tries to be entrepreneurially driven, recognizing commercial skills and putting the customer above everything else." Such a philosophy and growth strategy may raise the company's profile even higher in future.

QUICK FACTS

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Web site: www.macsteelusa.com

Founded: 1949 as Pan Africa Staalhandel

Employees: 1,400

Facilities: 26 operating plants totaling 3.25 million square feet in California, Georgia, Hawaii, Illinois, Michigan, New Hampshire, New York, North Carolina, Ohio, Oklahoma, Pennsylvania, South Carolina, Tennessee, Texas, Virginia, Puerto Rico and Mexico.

Key personnel: Michael H. Hoffman, president and CEO; Richard E. O'Toole, senior executive vice president and chief commercial officer; C. Robert Bowers, senior executive vice president and CFO; Russ Delaney, senior executive vice president and group marketing executive; Jeffrey Samson, senior executive vice president-technology; Burt Weisner, executive vice president-operations; Joe Jackson, executive vice president and chief credit officer; and regional executives.

Products: Carbon steel sheet, strip and plate; stainless steel coil, strip, plate, bars and long products; aluminum sheet, strip, plate, shapes and extrusions; prepainted coils; carbon steel pipe and tube, hot-rolled and cold-finished steel bars; carbon steel structural sections; metal roofing products.

Services: Leveling, slitting, shearing, saw cutting, multi-cut precision blanking, plate burning, roll forming, coil embossing, door skin stamping.

Equipment: Saws, shears, levelers, cut-to-length and blanking machines, plate burning equipment, roll formers, slitters.

EQUIPMENT VENDORS

Amada Cutting Technologies Inc., La Mirada, Calif., saws,
phone 714-670-1704 or 800-877-4729, fax 714-670-2017,
Web site: www.amadabandsaw.com,
e-mail: sales@amadabandsaw.com

The Bradbury Co., Moundridge, Kansas, roll forming equipment,
phone 316-345-6394, fax 316-345-6381,
Web site: www.bradburygroup.net

Braner USA/Loopco, Schiller Park, Ill., processing equipment,
phone 847-671-6210, fax 847-671-0537,
Web site: www.braner.com, e-mail: braner@braner.com

Chicago Slitter, Itasca, Ill., slitting equipment,
phone 630-875-9800, fax 630-875-1201,
Web site: www.chicagoslitter.com,
e-mail: chicagoslitter@therdigroup.com

Cincinnati Inc., Cincinnati, Ohio, processing equipment,
phone 513-367-7100, fax 513-367-7552,
Web site: www.cincinnati-tools.com, e-mail: info@cincinnati-tools.com

ESAB Welding & Cutting Products, Florence, S.C.,
cutting & burning equipment,
phone 803-664-5540, fax 800-634-7548,
Web site: www.esab.com

Herr-Voss Stamco, Callery, Pa., processing equipment,
phone 724-538-3180, fax 724-538-3056,
Web site: www.gen-systems.com, e-mail: ussales@gen-world.com

Hyd-Mech Group Ltd., Woodstock, Ontario, saws,
phone 519- 537-2103 or 877-276-7297, fax 519-539-5126,
Web site: www.hydmech.com, e-mail: info@hydmech.com

Invera, Westmount, Quebec, computer software,
phone 514-925-8558, fax 514-935-3850,
Web Site: www.invera.com

Kaltenbach Inc., Columbus, Ind., saws,
phone 812-342-4471 or 800-825-5729, fax 812-342-2336,
Web site: www.kaltenbachusa.com, e-mail: sales@kaltenbachusa.com

Red Bud Industries, Red Bud, Ill., processing equipment,
phone 800-851-4612, fax 618-282-6718,
Web site: www.redbudindustries.com,
e-mail: rbi@redbudindustries.com

Rowe Machinery/A Mestek Co., Clinton, Maine,
cut-to-length equipment,
phone 207-426-2351 or 800-247-2645, fax 207-426-8868,
Web site: www.runwithrowe.com, e-mail: rowe@runwithrowe.com

SigmaTEK Corp., Cincinnati, Ohio, nesting software,
phone 513-674-0005, fax 513-674-0009,
Web site: www.sigmanest.com, e-mail: info@sigmanest.com