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Current Issue

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The Strength of Samson

Macsteel Group's owner and founder Eric Samson is bullish on America.

The Macsteel Holding Group, which operates in 39 countries worldwide, is undeniably huge. Macsteel's service center activities, international trading in iron and steel, and shipping account for more than 25 million tons annually, and total revenue exceeds \$6.4 billion. Even so, Macsteel, headquartered in South Africa, has not yet begun to tap its full potential in North America, owner and founder Eric Samson says. Most recently, the Group's focus has been finding ways to build on Macsteel's many opportunities in the United States, Canada and Mexico.

Why is there such great opportunity for service centers in North America?

Our expectation is that U.S. markets will continue to grow in spite of their maturity but in new and dynamic areas. A good example of this would be the development of the SUV and its popularity. This added a new dimension to the automobile industry, and the market responded positively. A second and an equally good example is the explosion of high-tech equipment as a result of developments in information technology. Again, a new market was born.

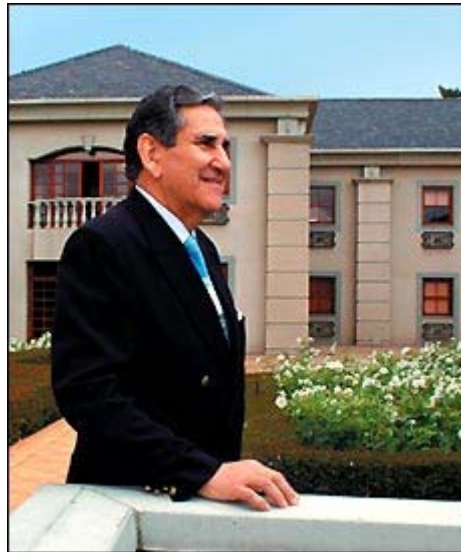
Furthermore, steel mills in the United States do not own service centers as do their counterparts in Europe. So there is a greater opportunity in the United States to grow and consolidate because of less competition from our suppliers. There will be and should be further consolidation in the service center business in the United States over the next 12 months.

Our view is that global outsourcing is a natural consequence of an attempt to lower costs. The negative effects of this are likely to decline as currency rates find better balance. Appropriate changes in infrastructure, elimination of unnecessary back-office costs, and improved technology will help to reindustrialize more mature industries in the United States. For service centers, adding value with additional services will help this process.

It is possible that this will lead to some increased activity in the United States, but certainly, a new tier of focus for us is this continuing shift in industrial and manufacturing activity. This has led to growth for us in areas such as technology, HVAC, computer equipment, defense, transport and others.

What are the most striking differences between service centers around the world, and what can North American executives learn from those differences?

Globally, there has been a shift toward investment in equipment to facilitate flat product processing—cut-to-length, slitting and blanking to ensure better finishes and tight tolerances. America is on the cutting edge of technological development, and this technology is very readily available and very obvious in the operational areas in plants where they relate to machinery and equipment, as well as information technology.



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All service centers have recognized the need to focus on working capital management, especially receivables and inventory. The biggest lesson to be learned from U.S. service centers would be their capability to centralize operational and back-office activities in the quest to contain costs.

We achieve this by ensuring that we understand the cost pipeline thoroughly. There are obvious benefits to be gained by rationalizing accounting and administrative functions, and less obvious benefits that flow from understanding how to approach hidden operational costs to drive down expenses, such as scrap management systems. All of these efforts reduce total costs and result in better efficiencies.

Service centers worldwide continue to make necessary adjustments to provide a better service and to better recognize their customers' needs. This affects their commercial and investment philosophy. In the United States, we have multiple producers and substantial finished steel imports that provide real alternatives for our customers.

Geography in the United States is intimidating. You have large geographic distances and differences in the approach to the business in the various states. Production capability varies substantially among the states. This diversity in attitude, approach and logistics demands a fluid approach to investment and focus.

What economic conditions will either smooth your way or slow you down as you continue to pursue aggressive growth?

Presently, we have a very substantial investment in carbon flat rolled products, especially in the eastern part of the United States. We have a satisfactory market share in this product.

We are committed to further growth in North America and are reviewing opportunities in Eastern Europe and Asia. Our immediate strategy is to continue to grow by both expansion and acquisition. We do not focus on short-term economic conditions but prefer to take a long-term view of where we want to be, by product and geographic area, to support our business plan and provide the very best service to our customers.

We achieve this in all our various businesses by ensuring that we are the lowest cost bidder in a relevant market. Of course, we are very conscious of the fact that one should cut out fat but not muscle. Sometimes this means accepting the negative implications of a down market for a period of time. Patience is always a virtue when markets are difficult.

We also recognize that it makes no sense to pursue sales at reduced margins in a declining market.

In terms of the world economy, what advice would you give executives in the service center business?

The two emerging dominant economies are China and India, which will experience the greatest growth pains. Growing quickly and substantially has to result in periods when inherent demand outpaces infrastructure capability. Industrial undertakings, including service centers, will have to learn to cope with these setbacks and enhance their working capital management disciplines and fixed investment pay-back estimates in recognition of these circumstances. As these emerging countries compete for available raw material and other resources, this process is inevitable and will have to be managed.

However, it seems the world is heading toward more stable and better times, mainly because of the growth in China and India. Also, because of the consolidation of steel mills worldwide, prices of steel should not fluctuate at the same rate as in the past.

Some countries, for political reasons, have artificially managed currencies. It seems to me that most government authorities are aware of and alive to the need to remove or diminish artificial restrictions in the interests of a free market economy. Recently, we have seen a weaker dollar following an obvious recognition by monetary authorities that a weak dollar will encourage exports and discourage imports. That is good news for American manufacturers. It makes American products cheaper in global markets and helps manufacturers in their marketing efforts.

There will be price corrections, especially if there is a hiccup in China. The saying now goes, "If China (no more USA) sneezes, the rest of the world has pneumonia." However, because of the high price of steel, caused by raw material supply shortage and increased shipping rates, we feel service centers should now watch their inventory and receivables more closely than ever before, as some price corrections could be up to \$50 a ton some time during 2005.

How has your management style changed over the years with changes in business conditions?

I was originally involved in the wire and steel agency business. It was a natural move to go into the metal service center business. As a steel merchant, I learned to adjust quickly. If I saw an opportunity, I took it. After 46 years in business, I realize one has to change with the times or be left behind. I have always been an opportunist.

For example, my father's business [which Samson joined in 1958] originally was an agency enterprise that developed into a steel merchant exclusively involved in "wholesale" activities. That is to say, we bought steel from the South African mills and resold it to various end-users.

At the early stage of those activities, I realized that our business had to move into areas where we added value. It was that realization that signaled the beginning of Macsteel's thrust as a genuine service center performing and adding value for its customers.

Also, my belief then and even now is to stick to what you know best. I love negotiating a deal and then seeing it succeed. What keeps me going is to watch the business grow according to Macsteel's strategic game plan.

How would you describe Macsteel's management style and what part does that play in achieving results?

Our global business is divided into four segments. One part is our international trading joint-venture, which has two components, steel and iron ore trading, and international shipping. Our additional segments include service centers in South Africa, service centers in the United States and service centers in Middle East.

Each of these business segments is entirely autonomous, with separate operational groups and their own management. All of them share one common characteristic, in that they have very flat management structures enabling leadership to interface readily and easily with every aspect of the business.

We strive for bottom-line profits because that is what counts at the end of the day. We also expect efficiency and perfection from the executives and our workforce, which is not always easy.

Our management style is to ensure that CEOs and presidents are traders who are involved in all aspects of the business and make the final decisions. That is why they are hands-on. An entrepreneur is a person who has flair, takes an opportunity, controls a business and remains very much involved in the business. That is what is meant by "hands-on."

We encourage business managers to branch out where they see it makes business sense to expand, but we also ensure that the risk will not cause problems for the present business and management. A good example of this is when we acquired Edgcomb Metals in 1995. They were on the East Coast, and our facilities were on the West Coast and the Gulf area of the United States, so the acquisition fit us like a glove and gave us nationwide exposure.

Where do you look first when a business unit is struggling?

When a business is struggling, we first look at the manager of the unit and then take the necessary action to turn the business around. Our group philosophy is to first examine whether deficient areas are a result of our own inability or the line manager's inability to deal with circumstances that reduce profitability. This is a permanent effort to be self-critical so as to be better at what we do.

For example, we recently acquired a trading business in Europe that had good line management but ineffective board control. By realigning responsibilities and providing more effective executive management, the business was very soon restored to acceptable profitability.

If efforts like these are unsuccessful, the executive in charge will try to sell the business at the best available price or close it down. We are a believer that your first loss is your best loss.

However, if a business unit is succeeding, then we look first at how this can be maintained and then try to grow the business accordingly. It is imperative that when we nominate a person for an executive position, I want to ensure that the person has honor, integrity, ability and will be an asset to the Macsteel Group. I have been let down with a couple of my assessments over the years, but I have still managed to build a strong, reliable and honorable management team in all the various business units of the Macsteel Group.

Why is it so important to bring an acquired business in line with your company culture so quickly? Where do you look to boost the bottom line in these companies?

Culture is very important to us. When we acquire a company, we spend a great deal of time transplanting the Macsteel ethic of loyalty, hard work, entrepreneurial capability, management independence and flair. Our senior executives focus on these areas to ensure that the transition takes place efficiently and quickly.

For example, we recently acquired Middle East Tube Co. (METCO) in Israel. This has been an outstanding success because we are able to transplant our core competencies, METCO fit in with our geographical strengths, and the business is a direct complement to our steel activities.

In an acquired business, we keep a number of criteria in mind:

- Can we reduce or eliminate costs, especially in the back office, by immediate integration?
- Can we transplant our administrative information technology and accounting knowledge to reduce costs?
- Can our systems and management style add value to asset management techniques?
- Is it possible to rationalize equipment and infrastructure?
- Is the product offering and geographic location consistent with our expansion strategy?
- Is it complementary to our strategic plan?

Executive management should be cognizant of their balance sheet, especially with regard to working capital.

Macsteel Snapshot

Ranked among the 10 largest service centers in North America with sales in excess of \$1 billion, Macsteel Service Centers USA's customer base already is diverse, with its largest industry segment HVAC, followed by refrigeration. With a network of 30 locations throughout North America, Macsteel Service Centers USA processes and distributes carbon, stainless, aluminum and specialty metals. These products include a range of flat rolled, plate, tubing, pipe, bar and structurals.

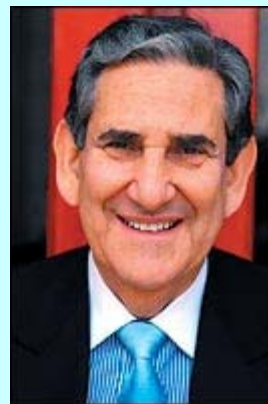


Macsteel Service Centres SA, an important contributor to the global Macsteel Holdings Group, is South Africa's leading and most extensive distributor of steel and value-added steel products, with sales in excess of a million tons per year. Macsteel Service Centres SA consists of multiple business units operating a network of 60 service centers and branches and employing more than 4,500 people. Macsteel Service Centres SA controls approximately 50% of the distribution market in South Africa, with its largest focus on the engineering/construction and appliance industries.

In addition, Macsteel operates service centers in the Middle East that generate approximately 220,000 tons of sales annually and include one of the largest tube mills in the region.

Macsteel's Growth Strategy

1. Focus on known and understood strengths regarding steel activities.
2. Engage in opportunities that provide a platform to be or become a dominant player in that area of activity.
3. Ensure that estimations of opportunities provide the ability to transplant core competencies.
4. Concentrate on geographic areas of focus—ignore opportunities no matter how good if they are in countries where Macsteel does not wish to be.



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