



▲ Steel processors may be next in line for a spate of mergers and acquisitions. Shown: A worker at Ferrous Metal Processing, Cleveland, watches master coil enter the leveler.

Toll Processing *in State of Transition*

Although intermediate steel processors admit the industry is changing, they are confident that demand for their services has longevity. Most expect a stable and modestly profitable 2005.

By Corinna C. Petry, Managing Editor

The historic consolidation of Big Steel is shifting the prospects for toll processors—some predict positively, others fear negatively.

“The consolidation creates more stability, but we don’t know if it means increased or decreased volume of processing tonnage,” says Fred Weddington, director of toll products for Worthington Industries Inc., Columbus, Ohio. “Some processors

may lose out if a merged company, in order to reduce internal costs, decides to streamline its list of service providers,” he warns, “but demand remains the same.”

Weddington predicts the dynamics of the toll processing industry will change over the next few years, but not until the producer consolidation settles down. Mergers and acquisitions may begin occurring among toll processors next.

Gary Corson, toll processing manager for

Toll Processing



Olympic Steel Inc., Cleveland, sees the market shifting already. “Whereas the mills did a lot of the outside processing, now the end-use customer will be doing it. So the customer base for the [toll] processing industry is changing. The steel is ending up in the same place, but the entity that’s paying for it has changed to manufacturers as opposed to steel-makers.”

Douglas R. Bernd, vice president of outside processing for Mi-Tech Steel Inc., Louisville, Ky., says the full effect of mill consolidation has yet to be seen. In general, the remaining large integrated mills are concentrating on sales to automotive and appliance makers. Minimill giant Nucor has stepped up to fill the gaps in what were formerly integrated markets, choosing them selectively to fit their business plan, Bernd says.

“Processing is not going away, but it is in a state of transition,” he adds. “I hope we will see more tons. I don’t think the changes among producers will bode poorly for processors. I think there are a lot of opportunities.”

Toll processors live on the rise and fall of steel consumption, says Eduardo Gonzalez, president

and chief executive officer of Ferrous Metal Processing in Cleveland. The healthier the customers, the more they consume. FMP saw 23 customers declare bankruptcy between 2002 and 2003. Last year, many of them were able to exit bankruptcy and return to good financial health. “That was the most significant improvement we saw in 2004. They’re all pretty solid now.”

“The [mill] consolidation creates more stability, but we don’t know if it means increased or decreased volume of processing tonnage.”

Fred Weddington,
Worthington Industries

Gonzalez does not expect a high rate of growth for toll processing, however. “If I am correct, total tons consumed won’t change more than 2 or 3 percent. If you want to grow your business, the way to increase your volume is to go forward and backward in the supply chain. You can do more processing that



▲ The tools to grow include eliminating waste, reducing costs and showing customers you can do more, says Ferrous Metal Processing President and CEO Eduardo Gonzalez. Shown: Coils are staged in front of a slitting line at FMP.

the mills used to do, and do more processing that the end users did before. Meanwhile, you have to reduce costs and eliminate waste. We see that as the most likely place for growth.”

The consolidation of steelmaking capacity has worked out well so far for Detroit-based Voss Industries Inc., according to sales manager David Detzel. “In 2004, we saw our business grow significantly. We were fortunate to have relationships with a couple of the major mills. We saw a very nice increase in our business, not only through the mills but also from service centers. Our volume increased about 20 percent last year [over 2003]. That’s a huge number for us.”

The majority of that growth occurred at the Voss-Clark facility in Jeffersonville, Ind., where the

“Automotive customers tell us they expect a year as good, even a touch better, than 2004, which was 16.7 million units.”

David Detzel,
Voss Industries

company saw increased barge traffic. “We are seeing more and more mills attracted to the transplant [automotive manufacturing] business south of there, such as Toyota. Our business at Voss-Clark grew substantially.”

The company also experienced solid gains in the

Motor City. “Both our Detroit facilities had growth in the 15 to 16 percent range,” Detzel says.

Voss Industries had little luck raising service fees, however. “As the big get bigger, they squeeze harder on pricing. Our sales volume did not increase as strongly as our processing volume.”

Ninety percent of the material Voss Industries processes ends up in automotive applications, which puts the processor in a strong position for 2005. “Automotive customers tell us they expect a year as good, even a touch better, than 2004, which was 16.7 million units. The range is 16.5 to 16.9 million units,” Detzel says.

Taylor Coil Processing, Lordstown, Ohio, forecasts that its processing volume in 2005 will equal that of last year, which general sales manager Pete Adamski says was fairly strong.

“We don’t see any significant shifts—either gaining business or losing business,” he says. “With Mittal Steel making acquisitions, and the acquisition of Stelco, it will compress the supply base. Processors like ourselves will grow a bit more dependent on fewer sources of steel than in the past.”

The operating culture of a newly merged steelmaker will play a role in their approach to future outside processing, says Peter V. Walch, chairman of Flat Rock Metal Processing, Flat Rock, Mich. “It will be interesting to see which culture survives the merger of Mittal Steel and ISG. ISG wasn’t wild about outside processing, but they were forced into it when acquiring Bethlehem. Mittal, with the Inland Group, had a history of strong outside processing operation.



Volume at Taylor Coil Processing, Lordstown, Ohio (shown), will equal that of last year.

That's all up in the air now." Short term, Walch looks forward to "a very good 2005."

Capital improvements

Although consensus among toll processors indicates there is an excess of steel processing capacity in the United States, several operators plan expansions.

Weddington at Worthington Industries says nothing much can be gained by the startup of greenfield processing operations, given the amount of overcapacity that exists. As the level of business stabilizes,

"Globally, there are a lot of unknowns. We don't know what's in store. We are hoping for stability, but we're looking only three months ahead."

Pete Adamski,
Taylor Coil Processing

there may be modest increases for players that are correctly positioned geographically. "Outside of that, looking at the automotive market, there is not enough increase in production for a [processor] to make a huge new investment." To grow, existing processors will have to increase their capacity incre-

mentally through continuous improvement, he says.

One such example is Olympic Steel, which will install new equipment at its plant in Winder, Ga., this year. "The Southeast is becoming a vibrant market and there's a greater need for toll processors there," explains Corson.

Specialty Metals Processing Inc., Stow, Ohio—which offers slitting, cut to length and metal finishing on ferrous and non-ferrous material—found its business growing sufficiently for an expansion. President Mike Miniea says he opened a new plant Dec. 20 in Akron to perform more plate polishing.

"We put in four wide plate polishing/grinding machines that handle material up to 6 inches thick, 60 inches wide and 30 feet long. We will put in a new coil-to-coil polishing machine for light-gauge stainless steel coils," he says.

When the company's lease expires in Stow in a couple years, Miniea plans to relocate to a rail-sided facility in Lordstown, where "we'll expand our processing capability to go into bigger, wider coils. At our facility in Stow, we have no rail and we are limited with our crane capacity."

Ferrous Metal Processing plans to open up a Class 1 exposed automotive slitting and inspection line in Macedonia, Ohio, this fall to serve automotive stampers in the region. The company's total investment will be about \$7 million. Manufactured by Herr-Voss Stamco with the capacity to handle 110,000-pound coils up to 78 inches wide, this will be "the largest such line ever built and installed in the United States," says Gonzalez, who hopes FMP can "take in jumbo coils, cut them and save a few bucks a ton."

Inspected, and even mapped, coils are very much on the minds of processors and their customers these days. Voss Industries in November installed a totally computerized inspection system to inspect the top and bottom surfaces at all three of its pickle lines. "We now guarantee 100 percent surface inspection on every coil we pickle," Detzel says.

The system takes 10 pictures a second on both sides and compares that to a history file of known steel defects, he explains. "If the system detects defects, it records them and provides a coil map to the customer, from tail to tail and top to bottom. With a map, the customer can determine whether he

has any rejectable issues. When they run it through their slitter or blanking line, this ensures they get the most yield possible from the coil with a minimum of inspection at their site.”

Flat Rock Metal Processing installed a new Stamco 80-inch-wide slitting line in Perrysburg, Ohio, last year; installed a 72-inch-wide 400-ton press blanking line for automotive steel in Flat Rock, Mich.; just completed installation of a refurbished Red Bud Industries multi-blanking line in Eldridge, Iowa; and has created an extranet site so customers can track their orders on-line.

The company's chief is looking to expand even further. “We are looking at several facilities for operations that do not have existing processing in them,” Walch says. He believes there is still room in the marketplace for expansion by the strongest participants. “Much akin to what’s happening with the major producers, I think there will be more consolidation in our part of the industry, too. That’s a natural evolution. But smaller companies with older equipment will struggle to keep pace.”

Transportation

Transportation and logistics problems, while much less severe this year, continue to frustrate toll processors.

“Freight and logistics is a big issue for our entire industry,” says Bernd at Mi-Tech Steel. “JIT customers have to be managed very closely. With the restrictions, like the hours-of-service rules on truckers, the job has become more difficult in some respects. It requires closer planning at the beginning of a program, and has to be done very effectively.”

Gonzalez at FMP believes the entire system for hauling steel is in need of a makeover. “The 80,000-pound gross on trucks was legislated during the '60s, when the highway system was new. With the new configuration of trucks and other issues, we should increase the allowable weight on a truck, in a way that’s safe and causes less wear and tear. Ultimately, that will translate into lower costs,” he says.

Gonzalez has gone so far as to lobby Ohio state legislators about raising the allowable truck weight.

He has few kind words for the railroads, either, which he claims have become near monopolies and continue to resist change. The railroads decide their rates based on overland truck rates, he says, “and because the gross weight on

trucks hasn’t changed in 40 years, the railroads aren’t inclined to do anything to lower their costs. That’s why it is more expensive to ship steel from Cleveland to Nashville than from Shanghai to Long Beach.”

Voss Industries is working with its carriers to squeeze as much efficiency as possible out of freight operations, Detzel says. “We manage the dwell time—the time that trucks are present at our facility from the moment they check in to the moment they check out. Our goal is to get all trucks in and out within 45 minutes. We are just about right there.”

The hours-of-service rules implemented at the beginning of 2004 affected the number of carriers that are available on loads over 200 miles with four to five hours of transit time. “They don’t want to take the load unless they have a back haul guarantee,” says Detzel. “We work with our mill customers, who ask us to call their carriers, and we try to add to those routes to get as many customers served on each as possible.”

Logistics is an ongoing issue at Taylor Coil Processing, too. Adamski says, “It’s not only availability of transport modes, but also increased costs due to fuel surcharges. It adds to the overall cost of delivering material.”

Processors see the market and their industry in flux, which makes uncertainty an uncomfortable fact of life. “Globally, there are a lot of unknowns. We don’t know what’s in store. We are hoping for stability,” Adamski says, “but we’re looking only three months ahead.” ■

➤ Many processors plan capital improvements this year, and inspection tools seem to be a priority. Shown: Ferrous Metal Processing's surface inspection station.

