

At Your Service

As steel service centers offer more production services, some steel fabricators are taking a fresh look at their material procurement procedures.

BY SCOTT MELNICK

"WE SELL SERVICE" reads an ad from Metals USA, one of the nation's largest service centers with annual sales of structural steel in the hundreds of thousands of tons from locations scattered across the country. And for the increasing number of fabricators who depend on these steel warehouses, service is one of the biggest selling points.

For those unfamiliar with the term "service center," think Home Depot for structural steel. Structural steel service centers stock thousands of tons of steel, ranging from angles to wide flange to hollow structural sections to plate. And while most sales are to fabricators or original equipment manufacturers, it's not unusual for a service center to have a drive-up bay where a small contractor might stop by and purchase a single piece of steel for a basement support in a home he's building. And service centers are practically everywhere—there are estimated to be more than a thousand locations throughout the U.S. with a total inventory of around a million tons of structural steel (for a list of AISC member service centers and their locations, please visit www.aisc.org/servicecenter).

By some accounts, more than 70% of all the structural steel used in U.S. building construction flows through service centers. Because direct sales from mills are typically predicated on reaching mill bundle quantity (which is usually based on member size and might be as many as 10 W6×15s or as few as one W30×391), service center sales are traditionally associated with smaller or mid-sized fabricators. But as service centers begin offering more services, such as cutting steel to length, cambering, and just-in-time delivery, they are capturing more of the market. "Even the largest fabricators buy a significant amount from service centers for the same reason smaller fabricators do—next day delivery, breadth and depth of inventory, value-added processing, etc.," explained Tom Regan, Birmingham District Sales Manager with O'Neal Steel. Of course, nothing in life is free, and service centers charge a premium compared with



The Virginia INFRA-Metals plant typically stocks over 20,000 tons of structural steel.

purchasing directly from steel mills.

"The role of the wide flange service center has changed over time as they offer more production services," explained Terry Zwick, general manager of Atlas Iron Works, a small fabricator based in St. Louis. "Most service centers now offer material cut-to-length and some even offer miter cutting, cambering, and tee stripping. These services had previously been offered by the integrated mills such as Bethlehem, US Steel, and Inland, but are no longer offered by today's mills."

But the services offered go far beyond the simple processing of steel.

"The service centers also offer the fabricator more flexibility," Zwick explained. "If warehouse purchasing is delayed in order to accommodate just-in-time delivery, the window for making changes increases before there is a major material penalty. The service center can also sequence material to the fabricator in the order needed, which minimizes storage space requirements and yard handling/re-handling."

The benefits are great enough that some

fabricators who previously bought steel primarily from the mills now rely completely on service centers. "Over the past two or three years, ever since INFRA-Metals built a facility in Marseilles, Ill., we've moved to nearly 100% service center purchases," stated Terry Peshia, chairman of Garbe Iron Works, a fabricator headquartered in Aurora, Ill. "We even do this when we need several truckloads of the same size and length of a shape, which traditionally would be an obvious mill buy. We minimize the drop [the waste, for example, when you only need a 32' member and have to order a 35' member] by providing the actual length required on the released-for-construction drawings, let the warehouse incorporate it into their mill reservations, and then pay them their premium for handling, just-in-time delivery, price protection, and a variety of service-related tasks they provide for us."

It may sound counterintuitive, but Peshia believes the benefits make economic sense. "We no longer have a large inventory of steel, which minimizes our carrying costs," Peshia explained. "And our



Exterior of the Triple-S Steel Supply in San Antonio, Texas.

indirect labor costs have dropped for purchasing, sorting, controlling, and digging out inventory.”

The lack of an inventory can be either a blessing or a curse. The potential negative is the lack of a hedge when costs are rising. On the other hand, because service centers typically have a three-month supply of steel in inventory, in some cases prices can be locked-in.

While some service centers carry smaller or specialized inventories, others offer a wide range of structural products or can quickly obtain a needed shape. For example, Saginaw Pipe in Birmingham, Ala., typically has an inventory of 20,000 tons of wide flange beams, 15,000 tons of HSS, 20,000 tons of steel pipe, and 5,000 tons of assorted structural shapes in its one facility. “We’re known for keeping hard-to-get items—big beams, big channels, and big squares that some service centers don’t carry,” said Howard Wise, Saginaw’s CEO. While mill purchases are the most common way for service centers to obtain material, those with multiple locations will often trade material between branches, and it’s not uncommon for service centers to buy material from other service centers in order to service their customers or even to purchase from foreign mills.

While Saginaw’s inventory is impressive, they’re not alone in stocking a substantial quantity of structural steel. For example, through its multiple facilities PDM Steel Service Centers stocks around 50,000 tons of structural steel and O’Neal Steel stocks about 30,000 tons of angle, channel, beams, etc., in its various facilities, and Lampros Steel tocks about 10,000 tons of beams. And those companies are dwarfed

by INRFA-Metals, one of the nation’s largest service centers, which stocks more than 160,000 tons of structural steel in its various facilities.

While not all fabricators utilize service centers for preprocessing of steel, it’s becoming increasingly common as shops get busier. Brad Bourne, president of Universal Steel, Inc., a fabricator in Lithonia, Ga., reports that by using service centers for preprocessing he can increase the practical capacity of his shop. “As a structural and miscellaneous fabricator, Universal Steel requires a tremendous variety of steel products to complete our projects,” he said. “The service centers allow us to purchase the exact material needed, in the exact quantities for our projects. We do not have a large area to stock a great variety of material, so we let the service centers do that for us. And when we have a large project, the service centers can help increase the piece count and tonnage fabricated by providing material cut to size and in a timely manner.”

And the concept of just-in-time delivery is becoming increasingly important as building information modeling (BIM) and the electronic exchange of drawings becomes more commonplace. “Like many fabricators, delivery to a customer is very important,” Bourne stressed. “We need to get the material in a timely manner, and the service centers can have the material in our shop within a day or two. In some cases, the material goes from the delivery truck to our fitter’s table, bypassing handling requirements for sawing. The short lead time on material helps us better serve our clients,” he said.

“We can deliver, in most cases, next day, to either the fabricators business or the job

site, depending on the customers needs,” explained Joseph Anderson, vice president for sales and marketing at PDM’s Stockton, Calif., office. “A good service center takes care of staging of material, exact material lengths, on time delivery, fast project implementation, MTR tracking, multiple job tracking, full product availability, and pre-arranged payment terms all necessary to help keep the fabricator successful.” Added John Lusdyk, president of INFRA-Metals-New England: “Our depth of inventory allows a fabricator to take fast-track jobs that cannot wait for mill rollings. Our specialized processing equipment helps fabricators streamline their operations with services that do not flow well through the shop. We deliver material into the fabricator by sequence so they can ensure smooth flow of material rather than being buried with inventory. And next day deliveries help with quick change orders and normal shop supply.” Gene Heathcock, president of FABARC Steel Supply in Oxford, Ala., agreed. “Some service centers are helping their customer’s cash flow by holding material in their yards until needed by the fabricator. It’s a great example of a team effort in industry mobilization.”

Delivering material as needed is important to many of their customers, said Marcus Lampros, president of Lampros Steel in Portland, Ore. “On big projects we will hold material for you, and if you have changes, we will restock at no extra charge,” he explained.

In the best cases, service centers and fabricators work together as a team. “On the West Coast we rely on our service centers to not only provide various materials of choice but also for the personal

The interior of the Triple-S Steel Supply facility in San Antonio, Texas.



touch we receive in having a ‘partner’ in the supply of our much needed commodity,” explained Steve Leighton, president of Precision Iron Works in Puyallup, Wash. “We count on our service centers that have multiple locations to be able to secure materials in a timely fashion so as to not impede the construction process. All projects are on a tight budget and time frame so the personal service we receive allows us to meet or beat construction schedules.” Rodney Paldi, office manager for Paldi Steel Services in North Las Vegas, Nev., agreed. “We wouldn’t be able to run our business as profitably without the cooperation of the service centers, including PDM, that we buy from,” he said. “We don’t have a lot of storage space and our service centers deliver material when we need it. They help with cash flow by billing us when they

deliver, not when we order. And they’ll usually hold prices for me. They don’t do it for everyone,” Paldi cautioned. “It depends on what type of relationship you have with your service center.”

Of course, there are some drawbacks. While service centers can expedite the delivery of steel, there is a premium for their services. “It’s generally more cost-effective to purchase steel directly from the mill because the material is sent directly from the mill via truck to the fabricator’s shop to be unloaded,” said Zwick. “A service center must first receive the material and unload it, store it, re-load it and ship to the fabricator. This can result in a premium of 10-15% over mill prices.”

In addition, mills will usually cut-to-length for a small premium with no drop charges. “For example, if the fabricator

needed and ordered a 32’-6” piece of steel cut to length from the mill, there would be minimal waste,” Zwick explained. “However, if the fabricator ordered a stock 35’ piece of steel from the service center, the fabricator would be buying and wasting an extra 7.7% of material.”

Finally, not all shapes or sizes are available from all service centers. “The only downfall of service centers is supplying large quantities of heavy shapes [those with flange thicknesses above 2” and formerly referred to as ASTM Group 4 and 5 shapes],” explained Leighton. “Many service centers are unable to floor stock these items so it is necessary to go direct to mill rollings. However, though they may not be able to floor stock all of the materials that are necessary, service centers are a valuable partner in procuring mill products.” **MSC**