

What Your Customers Think of You

Fabricators give their service center suppliers generally high marks, but...

Fabricators have mixed emotions about their metals suppliers today. Some say their service centers supply them with a key competitive advantage, not just steel and aluminum. Others report deterioration in their supply-chain relationships due to all the economic cutbacks.

Fabricators represent the single largest customer group for North America's service centers. Three out of four service centers supply fabricators with steel, aluminum and other industrial metals, according to *MCN's* 2010 Outlook Survey. Thus, how fabricators view their metal suppliers is of high importance to most service centers.

Service centers have come a long way in terms of product quality, say fabricator executives. "Quality is rarely a problem with any of our suppliers. We are held to strict requirements by our customers for flatness and tolerance, and across the board that's where our suppliers excel," says Rob Clark, vice president of operations at Clark Metal Products, Blairsville, Pa. His company specializes in light-gauge fabrication of cold-rolled steel, aluminum and stainless for various



► Many fabricators have consolidated their vendor base. (Photo of metal bending operation courtesy DeWys Manufacturing)

Some service centers have been so focused on cost cutting that they have lost that "service mentality."

Mark Schoenborn, DeWys Manufacturing

markets in the Northeast.

"We started out in 1986 with the first Amada flexible manufacturing system for a job shop. It was very difficult to get good flat material in those days. Today, the norm is you get high-

quality metal from nine out of 10 people. If they can't give you flat metal with a good edge, they are not going to stay in business," says Jerry Ward, vice president of operations at Metcam Inc., Alpharetta, Ga. Metcam is a general line steel fabricator serving the Southeast.

Mary Isbister also gives her service center suppliers credit. Isbister is president of GenMet, a custom fabricator of carbon steel, stainless and aluminum in Mequon, Wis. "Over the years we have created partnerships with companies where their quality and on-time delivery is a given. They understand how our business works and have made whatever adjustments are needed on their end to support that business. We are obviously grateful for that and we recognize it by doing more business with them," she says.

DeWys Manufacturing, Marne, Mich., is more selective about where it sources its steel and aluminum these days, says Mark Schoenborn, materials manager for the company, which offers a range of job-shop services to customers in the Midwest. The weak economy has affected all service centers, but some have met the challenge better than others, he adds. Some have

cut their inventories back so far they don't have the necessary material, or they've cut their staffs so far they don't have the necessary manpower.

"Several things are going on with this economy. Our customers are ordering in smaller quantities and expecting products the next day. A lot of our suppliers are struggling to meet the new needs of our industry," Schoenborn says.

In the past few years, DeWys has consolidated its vendor base, building stronger relationships with the handful of service centers that have been most effective. "The volatility of pricing and supply has really dictated that," Schoenborn adds.

Individual relationships have suffered, too, he says. Fabricators sometimes find that their contact at the service center is no longer there. Some service centers have cut so many staffers that those who remain don't have the time, or the knowledge, to do a good job. "Our mission is to exceed our customers' needs, and we need suppliers committed to doing the same," Schoenborn says. "Unfortunately, with the cutbacks, it takes way too long to get a response sometimes."

Similar to DeWys, Clark Metal Products has concentrated its purchasing with just a handful of suppliers. "We have taken the philosophy that over the three commodities—cold-roll, aluminum and stainless—we have identified a single supplier that gets 80 to 85 percent of the business. We have a couple backup suppliers for each commodity, as well. That way we have the leverage to drive good service and pricing, but we always have a couple sources in our back pocket if something does go wrong," Clark says.

Likewise, GenMet uses just two suppliers for coated material, three for hot-rolled sheet and plate, two for alu-

DeWys Way to Pick Suppliers

The wise way for a fabricator to ensure success is to partner with the right suppliers. DeWys Manufacturing is systematic in its partnership process by continually monitoring supplier performance.

With the help of an intern with a degree in supply chain management, DeWys developed a rating system that allows management to track and compare service centers on a variety of variables, including on-time delivery, quality, fill rate, quick order acknowledgement, continuous improvement and financial stability, among other factors.

The data is routinely collected by the company computer system, and the top 30 suppliers receive a scorecard each month. While they cannot see the individual detail, they do see the total score earned by all the other suppliers and where they rank on the list.



▲ Good suppliers are a competitive advantage. (Welding photo courtesy DeWys Manufacturing)

"It gives them some feedback and builds some competition among suppliers, which I think is good," says Materials Manager Mark Schoenborn. "It also holds me accountable. If I have suppliers that are performing exceptionally well, then management will want to know why they aren't getting additional business. It has opened my eyes to the suppliers that need corrective action, but it has also allowed me to see the suppliers we need to partner with and reward."

Examining Dun & Bradstreet reports on service centers has been an eye-opening experience, Schoenborn adds. "We have a few suppliers that are really hurting [financially]. If you run the D&B and you see financial stress, that is a concern. We've had to develop contingency plans for a couple of suppliers."

Another performance measurement criterion is cost savings. DeWys takes advantage of service centers' expertise. "We let suppliers come in to audit our operations and make suggestions. Can we buy material in a more cost-effective way? Should we use a different alloy? We constantly re-examine our processes to see what they can offer. We've gotten some feedback and made some changes," Schoenborn says.

Most of DeWys' communication with suppliers is done by e-mail, but the company is working on a new interactive web portal that will allow it to exchange information via the Internet. A service center's technical sophistication is another important competency that DeWys seeks in a supplier.

"Some service centers are ahead of the curve and some just don't get it," Schoenborn says. "They still don't understand the needs of our customers in this economy. For them, unfortunately, we are going in different directions."

He adds: "Our supply chain needs to be a competitive advantage. In order to do that, you have to document suppliers, track them closely and reward them for good performance."

Where Can Service Centers Improve?

Following is the Fabricators' Wish List:

■ **Quality.** Most service centers do a good job of providing quality material, fabricators say, though no steel was ever too flat or dimension too precise.

■ **Keep more material in stock for a better fill rate.** Service center inventories have gotten so lean that out-of-stock items have become a more common problem.

■ **Make more frequent deliveries.** "Our steel supplier delivers two days a week," says Rob Clark at Clark Metal Products. "We would like to see them four or five days a week. They tell us we don't do enough volume with them to justify that, but we would have an opportunity to cut down on our inventory if they were in here more often."

■ **Guarantee metals prices for longer periods.** Big changes in pricing from month-to-month or quarter-to-quarter make it difficult to plan.

■ **Make quicker price quotes.** Service centers often leave fabricators—and their customers—waiting for many hours, if not days, to learn what an order will cost.

■ **Offer better payment terms.** "From some suppliers I get 2 percent 10, net 60. That 2 percent [discount for payment within 10 days] is a good tool if you are turning the cash. It's a tremendous savings," says Jerry Ward at Metcam.

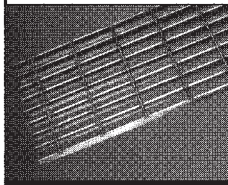
■ **Be more green.** For example, Ward says, service centers could do a better job of collecting their empty wooden skids for reuse or recycling.

■ **Be better communicators.** "Over the last few years, we have learned to be more open and communicate better with our suppliers so they have a better idea of what to expect," Clark says. In turn, service centers should be more flexible in meeting customers' changing needs.

■ **Upgrade your computer systems.** The more technically sophisticated the service center, the more opportunity to streamline transactions.

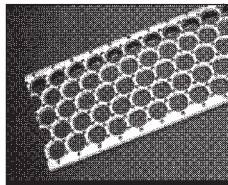
■ **Leave my customers alone!** As service centers continue to increase their processing and part-making capabilities, they should be sensitive to fabricators' concerns that they may someday compete for the same business.

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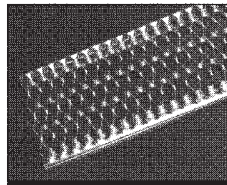
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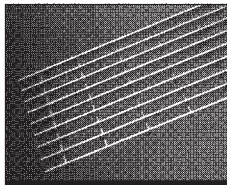
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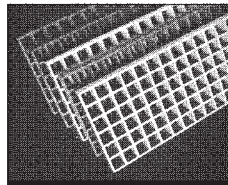
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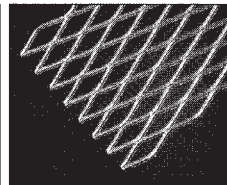
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minum, and a couple others that specialize in nonstandard cut-to-size blanks. “They are willing to make three or four deliveries each week and don’t require us to buy truckloads of material,” Isbister says. “Many times they bring the material in, bundle it for us and keep it on their floor so that when we call, it is literally a day away. In return, we give them a forecast for each quarter and commit to purchasing that material from them.”

GenMet agrees to buy the total tonnage by the end of the quarter, but forwards its needs week by week. Based on that forecast, most service centers will guarantee pricing for three months, she says. “We try to agree to pricing that will last for a quarter so I don’t have to send out an RFQ every time I purchase material. That works well for us, even if it’s a few cents above spot-buy pricing. What’s important for my business is what I put in quotes to my customers. If I know my material cost, I can use that in my price.”

Because of the speed and frequency service centers deliver material, Isbister no longer feels the need to keep much safety stock on hand. “We have almost no material on our floor, which is a dramatic shift from where we were back in 2003 or 2004,” she says. “We used to keep up to six weeks worth of sheet stock, which took up a lot of space.

Now we’ve filled that space with equipment, and we’ve tripled our revenue in the same amount of square footage.”

Having supply on hand and providing quick price quotes is what GenMet values most from its suppliers, Isbister says. Because they’ve slashed their inventories so deeply, service centers often cannot fill an entire order. That means GenMet has to seek another source or wait while the service center tries to find the out-of-stock items at another distributor, which wastes precious hours.

“We sometimes struggle with the amount of time it takes them to put together a quote,” Isbister says. “Because we are a job shop, our customer lead times have gotten shorter and shorter. Obviously our quotes start with the material price. If this is a large buy or an unusual material that is not part of our stock program, we need an answer within six hours. Sometimes it’s difficult for service centers to get back to us with pricing.”

Fabricators tap into service centers’ expertise to varying degrees. DeWys compares notes with its suppliers on ways to make its processes more efficient. For example, the fabricator has reduced the number of different blanks that it uses.

“We have standardized our blank sizes so we only carry
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a couple per gauge now. We can nest product better and produce less waste,” Schoenborn says. “We are buying fewer SKUs from our suppliers, which has helped with our turnover and decreased their inventories, as well.”

The gray area between service centers and fabricators continues to spread as metal suppliers expand their processing capabilities. Many service centers see first-operation part-making processes as a growth opportunity, at least as a service for OEM customers. Most fabricators, however, are wary.

“Service centers have been pushing the first-op stamped product, but we really have not gone down that road,” Schoenborn says. The potential for competition from service centers “is definitely a concern of mine.”



► Frequent reliable deliveries from service centers have allowed fabricators to reduce their safety stocks. (Photo courtesy GenMet)

Metcam is not looking for service centers to help process its customers’ orders. Ward draws a competitive line in the sand. “I would outsource to another fabricator before I’d outsource to a service center. Next thing I know they’d be getting my business,” he says.

GenMet relies on two of its suppliers for help in processing heavy-gauge material. “We don’t cut anything thicker than 1 inch. Anytime we have thick plate, we have them waterjet or plasma those parts. That has been extremely helpful,” Isbister says, though she’s not naive about the potential for market conflict someday. “As service centers gain more and more fabricating capability, you wonder when they will cross the line and become fabricators themselves.”

Clark is not overly concerned, at least for the present. “We add a lot more value, welding and painting, and we

have our own graphics department for screen printing. I’m not saying that this will be the case 10 years from now, but we are not seeing any [competitive pressure] now.”

In their ongoing efforts to add value (and profitability) to each order, service centers are big proponents of consultative selling. Fabricators consider that their territory, too, however.

GenMet, for one, is not looking for its service centers to function as metallurgical consultants. “Value engineering or manufacturability engineering is one of the services we provide our customers. Service centers just provide raw material. They may not even know what the end product is,” Isbister says.

Ward at Metcam welcomes technical input on a new alloy or process from his suppliers. One example was a stretcher-leveled G60 galvanized product that proved to have a better surface coating than the more expensive G90. “The stretching gives it a smooth, uniformly galvanized surface, vs. the G90, which has more coating, but highs and lows that can leave bits exposed. G60 stretcher leveled extra smooth is a better product than G90. It adds a penny to the cost, but it gives you a quality sheet you can get a quality part out of,” Ward says.

Fabricators acknowledge there is much room for improvement in communications with service centers. Most of the information exchange is fairly unsophisticated. E-mail has replaced faxes in most cases, but few of these small companies have dedicated links with suppliers via EDI or the Internet.

Two of GenMet’s service centers give the fabricator access to their inventories on-line. “That is a wonderful functionality, which is a plus for doing business with those service centers,” Isbister says. “Ideally, we want our employees who actually schedule our first operations to be the ones releasing material against our blanket orders with those suppliers, and do it electronically to save time and paperwork.”

Echoing a common sentiment, Ward says he is more interested in his relationship with suppliers than their price. “You go where the quality is and generally the price will fall in line because they have to be competitive. I build relationships and trust. That’s the way I want it to be.”

“For the most part we are pretty happy with our suppliers,” Clark adds. “They are a big part of our business. We rely on them heavily. There are not a whole lot of hiccups.”

But some service centers have been so focused on cost cutting that they have lost that “service mentality,” Schoenborn says. ■