

As seen in the April 2019 issue of

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# HIGH-WIRE ACT



Service centers balance distribution and fabrication to provide a bevy of processes so manufacturers can focus on turning parts and assemblies into finished products.



# SERVICE CENTERS BALANCE DISTRIBUTION WITH FABRICATION TO AID MANUFACTURERS LOOKING TO ELIMINATE PROCESSING STEPS

It takes passion, practice and a defiance of gravity to walk a wire cable hundreds of feet in the air without a safety net. Funambulism—Latin for tightrope walking—describes an aerialist’s ability to maintain his or her balance while traversing a tensioned high wire stretched between two points.

Wire walkers preserve their equilibrium by using a long pole to lower their center of gravity and keep their center of mass over their feet. Metals processors find sure footing by keeping their “center of mass” grounded to a strong customer base.

At the S&P Global Platts Steel Markets North America Conference in 2017, industry leaders raised the inevitable question, “If service centers are making parts, aren’t they competing against their largest customer segment?”

We asked Mike Wagner, president of the North American Steel Alliance, and Bob Weidner, president of the Metals Service Center Institute, to weigh in. We also talked with O’Neal Industries, O’Neal Manufacturing Services, both based in Birmingham, Alabama, and Metals & Services Co., Addison, Illinois.

In the metals industry, these service centers, among others, gracefully walk their own high wires by balancing distribution with multiple-step processing activities. We wanted to know how they do it and what advantages OEMs and manufacturers gain from such an arrangement.



**Metals & Services’ pattern polish machine provides various patterns in stainless steel, including this wave finish (bottom).**

The answers were somewhat surprising.

The service center companies each cited the desire to build closer relationships with customers as the driving force behind their move into “unconventional territory.”

Weidner, while noting that “fabricators are still the largest customer base for service centers,” provides a 10,000-foot view of the latter industry’s evolution. “Over the last century, you’ll see a group of entrepreneurs with innovation in their DNA. At the beginning of the 20th century, service centers bought large quantities of material from mills and began breaking

bulk down. In the early 1950s, they began to add value to their products with activities like slitting and cutting coil to length and polishing bars.

Today, Weidner identifies three distinct buckets of activity. “Distribution and traditional value-added processing comprise the first two buckets. I believe there is a third bucket emerging, and that is multi-processing. We define it as three or more transformations of the product that may include kit assembly.”

Wagner also recognizes the trend to add processing capabilities at the service center level. “We’ve seen it among our member companies. But I don’t think service centers are competing with their customers for jobs. I think it is beneficial for the end-use customer that wants to take parts and assemblies and turn them into finished products.”

Deloitte’s 2019 Engineering and Construction Industry Outlook, while optimistic, touches on such hurdles as a lack of skilled labor and material price volatility. Digital transformation is another factor that pushes organizations to seek efficiencies that reduce costs and improve margins. These objectives open the door of opportunity wider for service centers that are able to cut and shape metal.

“End users’ needs have evolved,” acknowledges Wagner. “They would rather outsource certain tasks and use their expertise to bring products to market quicker. These service centers have answered the call of OEMs to be more connected to the supply chain. It’s also a tremendous statement about the service center industry that they have invested in equipment and skilled labor to support their customers’ requirements.”

Weidner and Wagner agree that customer demand will likely dictate whether a service center remains a traditional distributor or strikes out into new territory.

## **Rigging the high wire**

President and COO Holman Head lays out the route that led O’Neal Industries to

# Value-Added Services

form a separate fabrication arm—O’Neal Manufacturing Services. O’Neal Industries is the nation’s largest family owned full-line metals service center. (O’Neal Industries—parent of Leeco Steel, O’Neal Manufacturing Services, O’Neal Steel, TW Metals and United Performance Metals—was formed to better support overall growth.)

Kirkman O’Neal borrowed \$2,000 and founded his company in 1921 as a small steel fabrication shop. O’Neal Industries now employs more than 3,000 people in 70 locations in North America, Europe and Asia. It supplies everything from carbon steel to titanium in every shape and size along with specialized grades and hard-to-find specifications.

Of the evolution of O’Neal Manufacturing Services, Head says, “It’s been a long journey.”

In the mid-1980s, O’Neal Steel bought a Midwest service center. That facility performed a wider range of value-added services. “We offered simple one-step processing like sawing beams or burning plate, [while] they were burning, forming, bending and machining parts,” Head says.

“They were putting kits together that customers could weld or put hydraulics on. We observed and learned from their operations and, over time, in addition to selling raw material, opportunities came along to offer more processes. But we were concerned about competing against our customers in this area. So we sought out customers that were trying to eliminate steps in their manufacturing process.”

The Great Recession prompted O’Neal Industries to re-examine its business model. Managing the sales cycle for value adds was quite a bit different from that of metal distribution.

“We felt it was time to figure out how to split up tasks, equipment and personnel,” Head says. The “division of property” created a shopping list for O’Neal Industries. The company needed to beef up the skill sets of its people. “We needed equipment like plasma and laser cutting, machining centers and robotic welding. We also examined throughput and identified a fundamental difference between distribution and fabrication.

**O’Neal Steel is a one-stop shop supplier for a vast inventory of carbon and alloy steel, aluminum and stainless steel products.**



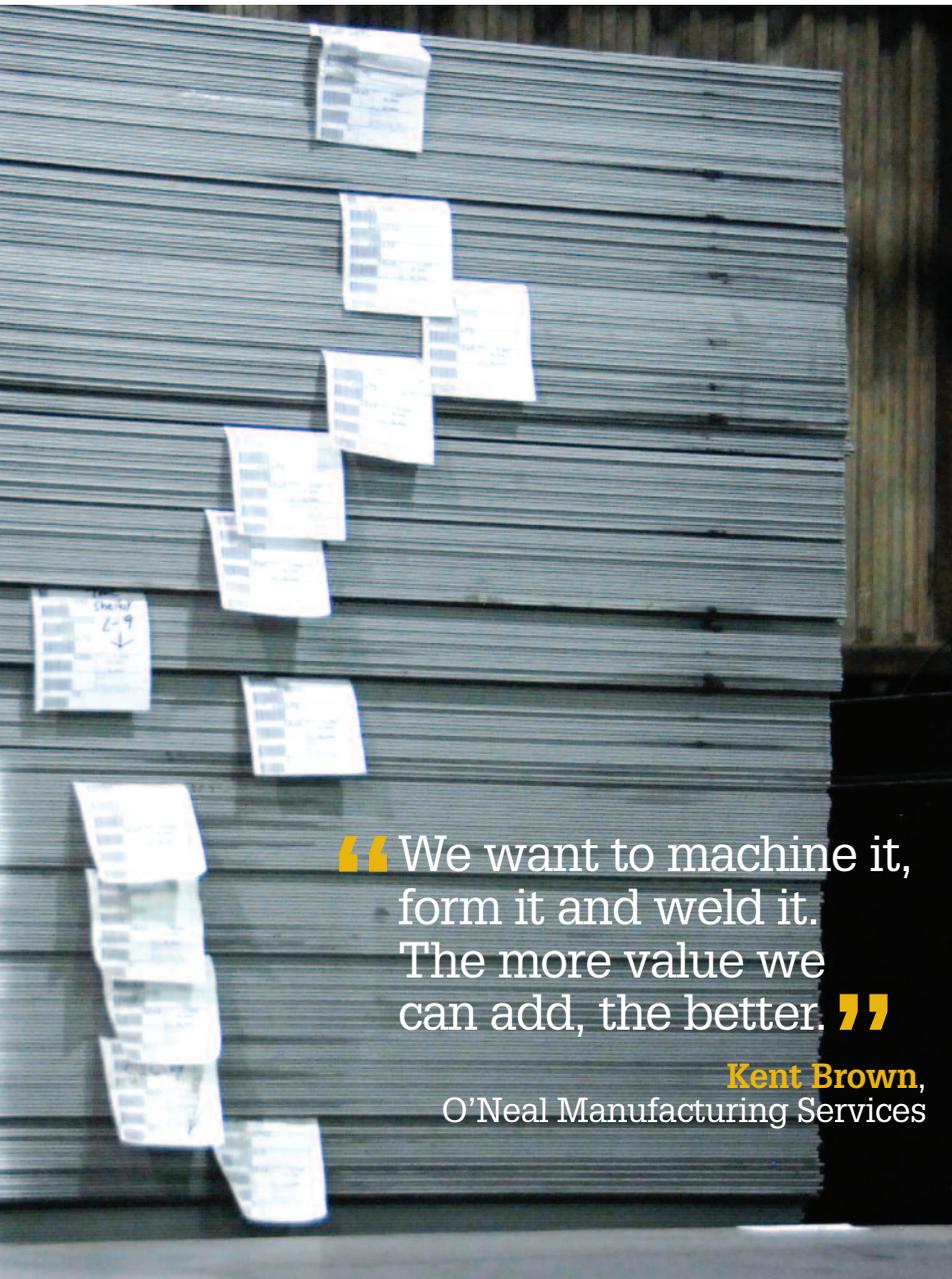
O’Neal Manufacturing Services, for example, is more capital-intensive in terms of equipment and labor, versus O’Neal Steel, which is capital-intensive in terms of inventory.

“In the distribution business, if demand drops you reduce inventory. But in manufacturing, if demand drops you still have the equipment and you can’t turn that into cash very easily.”

In 2011, O’Neal Industries created O’Neal Manufacturing Services as a freestanding business unit. It supplies fabricated metal components and

welded assemblies to equipment manufacturers around the world. It punches, forms, machines and welds components. The company also provides plasma, laser and oxyfuel cutting as well as precision leveling, kitting and assembly. It serves as an extension of each customer’s business by “providing a complete supply chain solution.”

O’Neal Manufacturing Services’ niche is high-volume, large orders for heavy plate up to 6-in.-thick, primarily for the heavy manufacturing, material handling and construction equipment markets. El-



“We want to machine it, form it and weld it. The more value we can add, the better.”

**Kent Brown,**  
O’Neal Manufacturing Services

evators, barges, rail cars, locomotives and large forklifts comprise some of the finished products it helps to make.

When it comes to burning, forming and sawing, there is some overlap between O’Neal Steel and O’Neal Manufacturing Services. “It’s a friendly competition amongst ourselves,” says OMS President and CEO Kent Brown. “We focus on multiple-step processes. We want to machine it, form it and weld it. The more value we can add, the better.

“O’Neal Steel or Leeco will sell you a truckload of steel,” he continues. “We don’t do that. We provide a finished assembly or parts for an end product. The ability to perform up to four-step processing frees up floor space for the manufacturer and allows them to focus on the final product.”

Since its inception, O’Neal Manufacturing Services has grown by leaps and bounds. It has facilities in seven locations, including Mexico. “We identified anchor customers in these areas,” says Brown. But the foundational reason for opening the fabrication arm is tied to O’Neal Industries’ long-standing culture of family values.

“The key driver was to strengthen relationships with our customers and not just be seen as a steel distribution company,” Brown says. “Adding fabrication steps [and] meeting tighter tolerances moves you into a closer partnership with your customer. We have developed a symbiotic relationship with OEMs. We’re making parts so they can get finished assemblies out the door.”

### Skywalking

Like O’Neal Manufacturing Services and O’Neal Industries, Metals & Services Co. has been built on family, a culture the service center extends to its employees and its customers.

Harvey Baessler founded the company in a Chicago suburb in 1977. He and his wife, Ann, operated the business out of their garage with the help of their six children. The family made customer calls, sold carbon steel and delivered orders in the household’s station wagon. Four of the six children still work at Metals & Services as does granddaughter Jayne Baessler.



O’Neal Manufacturing Services laser cuts and forms parts for military equipment.

# Value-Added Services

The full-line stainless steel center is now housed in a 120,000-sq.-ft. facility with a workforce of 80-plus personnel. The company stocks carbon steel, aluminum and nickel alloys, but stainless steel became its niche once it found “this is where our customer base was growing the fastest,” says Baessler.

“Over time, we began to sell sheet and plate off the shelf. We became so experienced at cutting that we invested in plasma, waterjet and fiber laser equipment and mastered the processes.” She emphasizes that nurturing and training young operators became necessary to achieve these goals.

Metals & Services can cut small, intricate patterns as easily as 6-in.-thick plate with tight tolerances. The facility also provides shearing, sawing, machining, gauer bar processing, roller leveling, welding, polishing and fabrication.

“It was a tremendous learning experience for us,” says Baessler. “As we brought more processing in-house, our customers trusted us to make their products from start to finish.”

Initially the service center performed value-add processing for fabricators and job shops. Today, it buys mill direct and produces components for the wastewater treatment, food service and pharmaceutical industries. It also supports infrastructure and nuclear energy applications. This versatility has led to a unique mix of projects from stainless steel grating used in the ocean for a nuclear energy application to a bridge installed over Chicago’s Lake Shore Drive.

## Perfect balance

“The metals industry is volatile right now because of tariffs and fluctuating prices,” says Baessler. “I feel like service centers have had to adapt somewhat to stay on course. We went against the grain by investing in fabrication equipment. We can help our customers deal with these pain points by eliminating extra work on their end, along with the risk of outsourcing. Our goal is to make our customer’s job as easy as possible.”

Metals & Services possesses another skill that sets it apart. The company creates polish patterns from flowering, marbling

and wave finishes to a stripe finish; a new circular polish reduces the appearance of scratches or dings while offering an attractive cosmetic finish. Metals & Services can polish all sheet gauges ranging from 7 to 22 gauge and widths up to 72 in.

“My grandfather attended Fabtech in the 1990s and was really attracted to the pattern polish machine,” Baessler recalls. “He bought the floor model because it was the only one available in the U.S. at that time. My grandfather was an opportunist. He had an intuition that the machine would become successful.”

A few years ago, orders for the pattern polisher began to take off. “We recently shipped 135 sheets of circular pattern polish for an application in a Las Vegas hotel. The architectural industry is starting to get involved with the use of patterns in metal.”

As the company grows, Baessler says it has become more challenging to maintain a personal connection with customers. In the age of digitization and social media, the company still relies on good, old-fashioned conversation to develop and maintain relationships.

“Our customers want to talk to us, see us and be involved with their orders. We encourage our salespeople to pick up the phone, go out to lunch with their customers and find out what they like to do. As competition increases in this industry, relationship goes a long way.”

If a customer has an urgent requirement, the staff will come in on the weekend to take care of it. “When the owner shows up with a delivery, it tends to shock our customers, but we want them to know we’ll do what it takes,” Baessler says.

Metals & Services and the O’Neal companies continue to successfully walk the high wire between distribution and fabrication. But none of them has ever lost sight of what’s important.

Bobby Hedglin Taylor, director of Flying Trapeze for the Espana Streb Trapeze Academy in Brooklyn, New York, coaches his students on how to maintain balance. It’s sage advice that can also apply to service centers. “Keep your eyes on the prize: That means, look at the end point of where you are going, not the wire underneath your feet.”

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**Metals & Services supplied the stainless plate, waterjet cut the parts, and polished and assembled components for this University of Nebraska monument.**



**O’Neal Manufacturing Services fabricates shipping racks for the energy industry.**