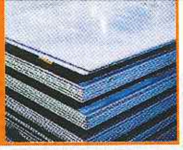


Aversion to volatility

Lower steel prices makes holding on to inventory expensive

BY GRETCHEN SALOIS

Given the demand-supply cycles they face, many metal centers may find themselves in a tough spot trying to find the correct balance between steel purchasing and inventory management.

Keeping the right amount of inventory is a well-researched endeavor for Kennesaw, Georgia-based steel distributor Pacesetter Steel Service Inc. "It's not a one-size-fits-all inventory approach. We tailor to each customer," says Vice President of Procurement Gary Roberts.

Wearing two hats, Roberts is enjoying current low prices and flexibility on the buying side. But the inventory management side is watching inventory value depreciate. Based on projections of where the market will go, Pacesetter serves as an inventory buffer between metal producers and customers. "Regardless of which view I'm taking, I'd appreciate more stable market pricing, which is always easier on us and more importantly, on our customers."

HOW DOES YOUR INVENTORY COMPARE WITH DEMAND?

	Too high	Right	Too low
FEB—2015	33.3	66.7	0
JAN—2015	7.1	85.7	7.1

DEPENDENCE ON OFFSHORE SOURCES OVER THE NEXT SIX MONTHS?

	Greater	Same	Less
FEB—2015	22.2	77.8	0
JAN—2015	33.3	66.7	0

Source: ISM Steel Buyers Forum

With steel pricing in flux, other sectors, including energy, make it costly for companies like Triple-S Steel Holdings Inc. and Intsel Steel—Houston-based distributors serving Texas, the West and South—to keep inventory in the racks while spot tags spiral downward. "The price volatility in the steel market can be pretty painful sometimes but it's who we are as a service center," says CEO Gary Stein. "Right now we wish we had a little less inventory.

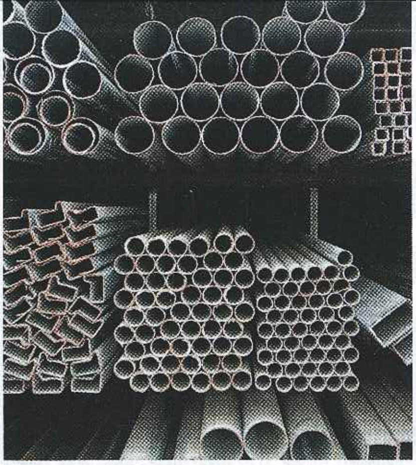
"It's a great time to buy steel but we've got to burn some inventory before we start to buy aggressively," Stein continues, noting that despite the need to sell off existing supply, Triple-S Steel is buying every day.

Other companies, like a U.S.-based truck components builder, rely on service center partners to plan and order from producers based primarily on a 12-month rolling forecast, which is updated daily. This OEM's material costs are not impacted by inventory because it takes deliveries under a pre-negotiated pricing formula. As a general rule, the company—based in the upper Great Lakes region—holds one to two weeks of inventory in house and relies on its service center to fill orders within a five- to seven-day lead time.

While rare, inventory disruptions sometimes occur. "Because we build strictly to customer orders, our forecast can be off—sometimes *way* off—necessitating our service center and mill partner to both jump through some hoops to expedite product to meet demand," the OEM's purchasing manager says.

Contributing factors

The price gap between foreign and domestic steel continues to shrink. "Hopefully this will allow the market to stabilize, and with indications that steel consumers will continue to have healthy demand through spring, we may see some pricing strength slowly return to the mills," Pacesetter's



Roberts says.

As spring continues, certain sectors suggest demand won't fade. The truck components manufacturer expects a modest year-on-year increase in activity. "We are looking for 2015 to be a strong year in Class 8 Trucks and heavy-duty trailers," says the purchasing manager, who worries there may be a "pricing sling-shot from super-low to inordinately high if the majority of buyers hold off and then suddenly re-enter the market and cause a spike in short-term demand."

Because Triple-S Steel provides a lot of materials used in new oil rigs, the decline in the energy sector is affecting business. "We've seen some energy companies go bankrupt [but] prior to that, there was a lot of new rig building happening," Stein says. "Now about 700 to 800 rigs have come out of service—and those have to go back into service before you build others."

Providing a wider view, Stein says U.S. steel pricing is detrimentally affected by foreign steel supply. "There is far too much steel capacity in the world," he says. "Chinese steel exports are at record levels and with a very strong U.S. dollar relative to other currencies, it makes us a very attractive export destination."

According to the Institute for Supply Management/Steel Buyers Forum's February 2015 survey, 16.7 percent of respondents believe foreign mills are "very aggressively" seeking U.S. business compared to zero a year before while 58 percent believe the level is "normal," compared to 81 percent of respondents who said that in 2014.

"We don't love this type of volatility, but we've gotten used to it," Stein says. ■