

# STEEL MILL ROUNDTABLE

*(Steel Mill Roundtable is a new occasional feature in Modern Steel Construction. The Roundtable focuses on a single issue of importance to designers and contractors and asks the major steel suppliers in the U.S. for their opinions. If you have a question related to mill practices, please send it to Scott Melnick at MSC, One East Wacker Dr., Suite 3100, Chicago, IL 60601-2001; fax: 312/670-5403; email: melnick@aisc-mail.com)*

**Background:** Construction in the U.S. is continuing at a strong rate. At the same time, several steel mills have stopped producing structural shapes. This has raised some concerns about the possibility of longer lead times or a shortage of product—something which has not occurred. In response, however, some of the mills have increased production and in some instances have instituted “allocation” programs.

**Question:** There has been some discussion among fabricators, engineers and mill personnel about “allocations.” What are allocations and how do they work? (This question was submitted via email by Phillip K. Leffert)

**Robert W. Johns, Sales Manager, Nucor-Yamato Steel Co.:**

An allocation is simply a method to make sure all customers receive equitable treatment based on past ordering practices when mills are operating at capacity and lead times extend. A mill will generally choose a

time frame that reflects “normal” purchases and use that as a basis for the tonnage available to any individual customer. That customer is limited to a monthly tonnage. At Nucor-Yamato, we have to experience demand that exceeds capacity for an extended period prior to putting any limitation on customers. We usually reach a point at which one of two things is about to occur if we don’t institute controls. The first thing of concern is that one group of customers or one part of the industry gains an unfair advantage over customers in another part of the distribution chain. The other factor is when general lead times extend beyond the point of reason for fabricators. At Nucor-Yamato, the most recent allocation period occurred in late 1995. On our smaller section mill, controls lasted from about October 1995 to June 1996. On our larger section mill, controls lasted from October 1995 to April 1996. The large section controlled entry time frame was shorter due to our ability to add significant capacity in a very short time frame in spite of the closure of a competing mill.

**James L. Wroble, General Manager, Structural Products, Chaparral Steel Co.:**

Chaparral Steel re-instituted a “reserved tonnage” pro-

gram on June 6, 1997 to assure equitable product availability for our base of regular customers (this program is sometimes called “allocation” by the trade). Our reserved tonnage system protects the best interests of our regular customers during occasional, brief periods of changing industry supply. We are in such a period now for a limited range of structural sections due to the recent closures of two prominent domestic production facilities. This approach will continue as long as most of our customers agree that the program protects our mutual best interests. In the reserved tonnage program, customers’ reserved tons are based upon historical business with our company. For example, if a customer represented 1% of our past business, this same customer is usually given the opportunity to purchase at least 1% of our future scheduled production and/or stock availability. This, of course, is optional for our customers. Some companies make business decisions to take full advantage of the program in order to maintain, or even grow, their business with Chaparral; other companies elect to pass on the opportunity for various reasons. As of this date (Sept. 19, 1997), all Chaparral structural product customers have had the opportunity to grow their business with our company during 1997.

**Greg DePhillis, General Manager, Plate and Structures, TradeARBED, Inc.:**

Customer allocations, imposed by domestic mills from time to time, are, as we see it, an attempt to fairly distribute the sale of steel during periods of high demand or panic buying.

We do not put our customers on allocation, though we are limited in sales by a quarterly mill allocation for the U.S. market. As our mill allocation runs low, we try to warn our regular customers of the situation so they can book any requirements they have.

**Question: What effect do allocations have on the fabricated structural steel industry?**

**Johns:**

The concept of allocation conditions suggests steel shortages, extended lead times and opportunities for significant price increases. All of that tells owners and developers that they will have some kind of problem with their project. It may even make them consider other materials for the building frame. For that reason, we don't like them and, through the use of increased production, try our utmost to avoid the use of allocations. When they become inevitable, however, they are beneficial in containing lead times somewhat and insuring individual customers are treated fairly. They also insure one customer group will not end up with a significant buying advantage over another. We have seldom seen true shortages—or even real ones that last more than a few months. When the distribution chan-

nels to the project are controlled, they become predictable and that usually will lead to easing of controls in a reasonable time frame. If handled reasonably, allocations actually benefit the construction industry as a whole. They minimize speculation and behavior that would be detrimental to the use of steel in construction.

**Wroble:**

There are administrative “hassles” and extra planning for all concerned during reserved tonnage periods. We believe, however, that the extra work involved is a small price to pay for assured steel availability. After all, the alternative to reserved tonnage is “speculator buying” which only drives up the cost of the product. Steel continues to be available, however, and September was the seventh record shipment month in a row for Chaparral.

**DePhillis:**

The effect of allocations on the U.S. market is mixed, depending on the customer. Larger fabricators and service centers generally favor it in that the allocations are normally based on historical buying patterns and so they would receive a larger portion of the pie. However, smaller customers can often be shut out of rollings and the smaller fabricators are then often forced to buy via service centers at higher price levels to meet delivery schedules. We estimate that a tight market for steel will likely continue until Nucor-Yamato's new mill comes on line at the end of next year.

**Question: Has this period of tighter steel supply affected prices?**

**Johns:**

We have demonstrated that strong markets are not used by Nucor-Yamato as opportunities for excessive, unreasonable or opportunistic price increases. In our history, we have been through two very strong markets that had considerable duration attached to them. The price of wide flange sections today is roughly what it was in 1988 and, in fact, is lower on larger sections. We do not feel it serves the industry to create roller coaster pricing just because the market is good. Our job is to make sure steel is the competitive material of choice for the future and the future begins today.