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Service Centers

A closer look at a critical link.

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Private, profitable and addicted to innovation

How does Heidtman do it? Start with a hearty appetite for risk

By Myra Pinkham

Innovation is a major component of success for service centers, and Heidtman Steel Products Inc., Toledo, Ohio, has made a home for itself on the cutting edge of steel processing technology.

As the first steel service center to carry high-strength steel and have hot-dipped galvanizing capability, it continues the tradition today with its recent investment in a new dry descaling technology known as stretched cold-rolled surface (SCS)—which is capable of producing sheet with one unit of flatness, meaning that it is absolutely "dead flat"—not to mention an ownership stake in a metallurgical coal mine in the southern United States.

SCS is basically a mechanical process of brushing hot-rolled steel, which results in a smooth, clean, dry surface that resembles a cold-rolled product. Unlike pickling and oiling, it leaves a thin layer of oxide bonded to the steel called wustite, which creates a smooth, rust-inhibitive surface that's ready to weld, laser cut, fabricate, galvanize or paint, said Tim Berra, the company's president.

Heidtman's executives credit the company's more than 50 years of success in the intensely competitive steel service center industry to this kind of "thinking outside of the box."

But it wasn't always smooth sailing for Heidtman Steel, which was started in 1954 by Fred Heidtman. The company encountered some hard times early on, including a tornado that leveled its facility in 1965.

Fred Heidtman, previously a purchasing agent for a company involved in leveling and shearing services, handed the company's reins to his son, Bill, about 10 years after startup. Bill later operated the company as a partnership with John Bates, the son of one of Heidtman's original metal suppliers. Bates joined the company in 1963 and remains as owner of the private company.

The company purchased a new facility in 1968, but it wasn't until 1983, when Bill Heidtman retired and Bates became the majority owner, that the lion's share of its other facilities came into play.

Most of those facilities are located adjacent to or within the fence of its steel suppliers. "That is primarily due to the freight advantage," Berra said. "It makes more sense than our suppliers having to ship gross weight steel to us a long distance. This way, there is virtually no cost to get the steel into our plant. It goes by a rail spur into our location and then we can process it and ship the net weight to our customers."

Another benefit, he pointed out, is the tendency to develop a much stronger relationship with mill suppliers when they are neighbors. "We can both mesh our business plans to ensure that we are approaching the marketplace in a unified fashion. Our customers also like to see a strong relationship between service center and the producing mill."

With the notable exception of Steel Dynamics Inc. (SDI), Fort Wayne, Ind., Heidtman doesn't have any financial interest in any of the mills adjacent to its processing centers. Heidtman is one of the five initial investors in SDI and Bates still holds shares in the company.

"We want to be customer focused but operationally efficient," Berra said, describing Heidtman's basic business philosophy. "No matter how well we run our company, if we are not fulfilling our customers' needs we are not going to be successful. Our planning decisions must revolve around the needs of the marketplace," he said. "We are fortunate that we have a very strong balance sheet, so although we are not a public company we have the funds to be able to react when the marketplace tells us there is a need to do so. Whether it is new equipment or new technologies, we're in a position to be able to respond to whatever is needed."

And Heidtman has responded even when some in the industry questioned whether it should have. "We have the reputation of being a company that is willing to take risks, to be willing to try different things," said Mike Kruse, vice president of marketing, noting advantages in being privately held. "We aren't a slave to Wall Street. We are not living quarter to quarter."

That's evidenced in the company's annual sales volumes. It currently sells about 1 million tons and processes about 5 million tons of steel annually—including hot rolled, cold rolled, SCS and coated products—via its eight fully Heidtman-owned facilities and eight joint-venture operations. Kruse said that Heidtman's annual sales of about $265,000 when Bates joined the company have grown to about $700 million today, including both pure Heidtman and some joint-venture sales.

Berra agreed with Kruse's assessment. "We're in a position to be able to respond and we are fortunate to have an owner who is willing to do that. (Bates) continually reinvests in our company and in this industry," including in certain innovative, cutting-edge technologies. One recent example, he said, is the SCS process for removing iron oxide scale from hot-rolled steel. In addition to installing SCS lines at two of its facilities, Heidtman is an investor in the technology and is actively seeking to expand

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ON A ROLL: Heidtman's latest foray into cutting-edge technology is centered on a new dry scaling system known as stretched cold-rolled surface or SCS.

its use in the industry.

"Some people thought we were crazy to invest in this technology and to help support it because we have seven pickling lines of our own," Berra said. "But we took the viewpoint that we could treat this much like the integrated steelmakers treated the mini-mills when they first came online and ignore the new technology and sit on the sidelines as it develops. Or we could, in the early stages, become part of the evolution in scale removal and be able to offer our customers a best-cost option when it does apply."

Apparently, the approach works for Heidtman. "What we are finding is that a lot of people who use black steel today would prefer to use the SCS product because it is a dry product (without the oil from pickled and oiled steel), but that does not have the dirt or heavy scale that has always caused issues in downstream processing," Berra said.

Two years after getting involved in the development of SCS with Material Works (a sister company of equipment maker Red Bud Industries Inc.), which patented the process, Heidtman is now offering SCS steel to customers. The service center, in a joint venture with Material Works, in September commissioned a 20,000-ton-a-month-capacity coil-to-coil line in Red Bud, Ill., that is able to process steel up to 0.25 inch thick and 72 inches wide from coils weighing up to 30 tons.

Heidtman also plans to install another coil-to-coil SCS line at its Delta, Ohio, facility (a joint venture with Fulton County Processing, located next to North Star Bluescope Steel LLC) in January 2007 and install an SCS sheet line in May in Butler, Ind., adjacent to SDI. That line will run in conjunction with a Red Bud stretcher-leveling line that was commissioned in December.

GOOD NEIGHBORS: Most of Heidtman's facilities are located in close proximity to mill suppliers. The company sells about 1 million tons and processes about 5 million tons of steel annually across its fully-owned and joint-venture properties.

The stretcher-leveler—capable of producing about 18,000 tons a month of extremely flat sheet, trademarked The Flat One, and up to 30-ton coils up to 0.375 inch thick and 72 inches wide—represents another innovation for the service center. While the stretcher-leveler is about half the price of a temper mill, Berra said it produces a better product—panel flat sheet that is actually one unit of flatness.

"What temper pass lines do," Kruse said, "is work the top and the bottom of the sheet, which just moves the stresses elsewhere and in some cases creates more stresses in the sheet. Meanwhile, the stretcher-leveler actually disseminates that stress in different directions and, as a result, when it goes through a turret press or a laser machine you are not going to have that memory come back and buckle or offset."

Through the addition of the two lines and the commissioning of a greenfield facility next to Mittal Steel USA Inc.'s Cleveland Works, which includes two slitting lines and a pickling line, Heidtman has added about 1.5 million tons of processing capacity during the past 18 months. As a result, revenue is expected to increase about 20 percent.

The new SCS capability likely will allow Heidtman to expand its customer base. One example, Berra said, is the tubing market. "Tubers historically buy steel directly from the mill and do a lot of their own in-house processing, but several tubers have expressed interest in having their steel come through our SCS before it is sent to them." Another potential new customer group, he said, are those who laser cut their steel.

Heidtman also is working with Nucor Corp., Charlotte, N.C., to see if SCS could be beneficial for the mini-mill's new Castrip product, Berra said. "The two issues with Castrip have been the shape and the cleanliness. We think that it would benefit from running through our coil-to-coil line, which in addition to the SCS unit has a very powerful leveler in front. We think that flattening and cleaning Castrip on this line would result in a more sellable product."

Kruse noted that since Heidtman has been using the SCS process for only six months, it's hard to say how much it will help buoy sales. "A lot of people are curious and several are sending material for trials. Right now, we are concentrating on educating the marketplace about the technology."

Looking ahead, Heidtman, whose largest end-use customer base is the automotive market, is exploring certain opportunities in the southern United States, given the movement of automotive manufacturing, especially by transplant automakers, there. The company expects to announce an investment in the South in the next year or so.

Also, in a move that is very unusual for a service center, Heidtman is investing in a metallurgical coal mine in the South. The move is aimed at securing raw materials supply for its integrated steel mill suppliers, not unlike buying back scrap from its customers to sell to its mini-mill steel suppliers. The mine is expected to be operational some time next year.