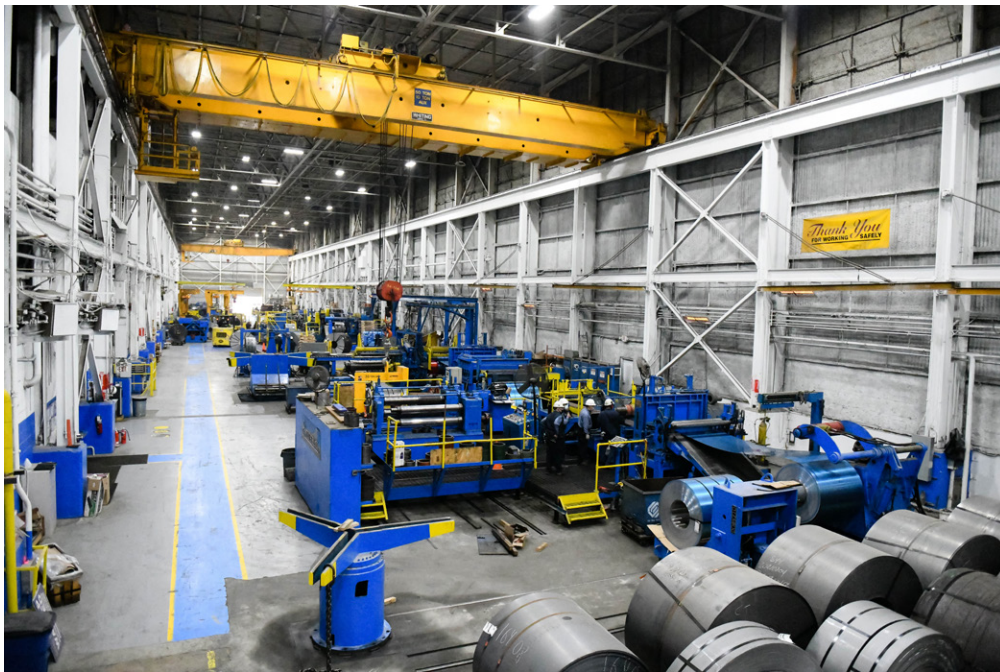


# Opportunity knocks for MD Metals

After 30 years in business, US specialist steel processor MD Metals has moved to a larger home on the outskirts of Chicago. President, founder and owner Michael Dallek and his son Aaron, CEO, explained to Richard Barrett the reasons for the move and the opportunities it offers



MD METALS

It takes courage for any family-run business to invest in a significant expansion and change premises – not least in the midst of a global pandemic – but that is exactly what the owner and founder of MD Metals, Michael Dallek, and his son, CEO Aaron Dallek, have done this year. Both are convinced it was the right move to make for the company, a steel service center that specializes in narrow slitting, edge conditioning and flat bar and strip, with a particular focus on heavy gauge material.

When *Metal Market Magazine* caught up with them via video-call in

mid-October, their team were still in the process of bringing more of the equipment moved to the new company site in Bedford Park, Illinois, back online. Meanwhile, painters worked on their new home's buildings. Until early this year, the site had been occupied by flat-rolled steel supplier and coil processor Alliance Steel, which has relocated its headquarters and steel processing facility to a new home in Gary, Northwest Indiana.

Michael outlined the advantages to MD Metals of the site his business now occupies and explained the thinking behind making the move

**MD Metals' new location provides plenty of scope for growth**

now. “When opportunities knock you have to sit down and make a decision what the future is going to be,” he said. “Aaron made a commitment to MD Metals to bring it to the next generation, so with this opportunity with this five-crane and rail-spur building, it was a once-in-a-lifetime opportunity as close as it was to us.”

The site, which is in a business enterprise zone, is just one block from MD Metals' previous premises. Some parts of the move were achieved by forklift truck. “So to stay within this area and to find a building of this calibre, close to Chicago, in a safe area, and with a workforce that wouldn't be disrupted were big pieces to the puzzle,” Michael elaborated.

“The additional opportunity was that there was a high-speed 60-inch ProEco slitting line already in here that Alliance Steel had owned. Alliance Steel made the big move down to Gary, Indiana. We shared the same landlord, and so it came up that I could actually purchase that line as a running line, and that was 'huge'. To get a high-speed 1,200 foot per minute line that would go from 0.010 up to quarter-inch, with injector heads and a double recoiler, is very rare and it is much more efficient than the single-coil heavy-gauge line that we have,” he explained.

That purchase is enabling the business to expand into supplying products that it was not supplying before, while also providing

additional capacity to supply some of its existing range of products: “That was a big piece to all these opportunities,” Michael stressed.

### A year-long plan

Aaron recalled that the process of purchasing the building started almost a year before the deal was closed on February 13: “I was actually aware of Covid-19 at that time, but clearly didn’t know the global ramifications. I was aware of it and I knew it would be impactful, but I didn’t think it would be this impactful,” he added.

That was not going to stop a one-year plan: “Even with the uncertainty, I think my dad and I both agree that this is a decision we would have made even had we known that the pandemic was coming,” he elaborated. “The high-level [picture] is that we really had to make a decision as a family: Do we want to stay in this [previous] location that will ultimately be temporary... or do we want to move to somewhere that is permanent? And have a permanent home, for us to move to a building where we felt comfortable for the business to move from my dad’s generation to my generation, and then potentially to my kids’ generation.”

Michael and Aaron were also keen to retain a loyal and skilled workforce of 40 employees. “My father’s first employee now has two sons in the business working for us as well – one in the office and one in the plant – and there are other examples of family connections too. There are a lot of family ties internally and people want to feel that they have a permanent home,” said Aaron.

Michael confirmed the point: “I still have my original employee. It was just Ramon Senior and me [when the business started 30 years ago]. I have 15-22-years-of-service people who have been working with me. So having this dedicated, trained force, and now some of their kids, and other people being trained, I think is extraordinarily valuable,” Michael stressed.

Aaron bought the building and is renting it to MD Metals as an investment to support the business. It is on a 7.25 acre site and it covers 73,000 square foot. “We can expand up to about 200,000 sq. ft. on the

**‘Our niche has been heavy-gauge, narrow, whether it be coil or flat products’**



**Narrow slitting and edge-conditioning of heavy-gauge steel is a specialty of MD Metals**

property, under rail. We have, if not endless expansion possibilities, close to it from our standpoint as it is unlikely that we would want to expand beyond that,” Aaron added.

While any major decisions about how much or when MD Metals will expand further have yet to be made, Aaron is keen to stress the potential the new site offers: “We know right now, today, we could over double our square footage, which would triple, quadruple or more the capacity of the company. I think that potential makes it even more valuable on top of all the more-detailed things, like already having a slitter here, saving a million dollars on the move, or anything like that. The reasons to move forward with everything just stacked up and it just became a no brainer for the company.”

### Future vision

Aaron also has a clear vision for MD Metals’ longer-term future. He sees a key piece of the company’s future being the expansion of MD Metals’ existing niche.

“Our niche has been heavy-gauge, narrow, whether it be coil or flat products. That is what we have been doing and we do it better than anyone else,” he said. “With this heavier gauge material, people come to us because we are one of the only, if not the only, people who can do it, depending on the material. Expanding that ability to be able to do niche or hard to run jobs for our customers is where we’ll focus our

expansion,” he explained.

Expanding into processing and supplying light gauge material is another area. “But also expanding into being able to do a much higher volume of business, whether it be on a little bit heavier gauge or some of our standard quarter-inch, three-sixteenths, one-eighth material that we’ve been doing a lot of before,” said Aaron. “All of a sudden now, in this past month we’ve put through twice as much tonnage through our building, and that is with three pieces of our equipment down.”

Aaron estimated that MD Metals could have two to four times as much tonnage going through its new building of just work that the company would normally be doing. He said that in its old building MD Metals would do between 1,000 and 1,500 tonnes a month. “In this building, we’re probably doing about 2,000-2,500 tpm roughly. We could easily see ourselves at 5,000 tpm or more at full capacity,” he added. “And then you start expanding into the light gauge and doing a lot more toll processing. Beyond that, if you go a couple of years out, with the amount of space we have to be able to expand on this property, our expansion will be led by whatever opportunities make sense at the time.”

Opportunities will depend in part on future US government policy and spending. “If they put a trillion dollars into infrastructure, if there is a ‘Buy America’ campaign, or if all ▶

the reshoring that has started goes from a drip to a waterfall, all of a sudden you're filling out 200,000 sq. ft. with all kinds of equipment to support a supply chain in the US that is completely, woefully inadequate for the amount of business that could come if those things were to come to fruition," said Aaron.

"For now, we're just going to take the opportunity to see where we can get to with the current building and then beyond that we will just see how the market plays out," he added.

## Immediate outlook

Michael said that in the steel business environment prevailing in early October, pent-up demand for the steel products that MD Metals supplies was so strong that the price was almost a non-issue for customers, with some of them offering a premium payment to get their deliveries as fast as possible.

"This points to the supply chain that is still choked and until that gets eased I think we'll continue to see those requests upon us and we'll utilize our capabilities to help our end users, warehouses and distributors – all of these are our customers. But clearly this was a huge sign that industry is improving, that we're sort of coming out of it," said Michael.

He also noted that the steep rise in US steel prices in the space of two to three months has generated challenges for stampers and end users "to actually manage their supplies and to be able to quote jobs and to get jobs. This is now the big challenge in addition to just getting it done. So we're seeing enormous pressure," he said.

Michael also said that the ProEco slitter that the company purchased *in situ* opens up the cold rolled, galvanized, lighter gauge market for MD Metals to either toll process initially or to begin with the company's existing customers and ask them if they want that material too.

He said they would apply the old 80:20 rule: "You go back to your current customers, 80% of our future business, and you ask them: 'How can we fit for the future?'" He also thinks the business will be more efficient with the two bigger slitting

**'I am proud of having a job-shop mentality, meaning that we take care of customers based on their needs'**

## Recovering from Covid-19

As of now, MD Metals is very busy catching up with a backlog of work created in part by the move but also by a short temporary shutdown. "We had a Covid outbreak at MD Metals, which fortunately everyone and their families are all healthy now and got through, but I think well over 60% of our plant employees caught Covid-19," Aaron Dallek explained. "So we shut down for a week-and-a-half in May and that was the start of being delayed for our customers," he said.

"We still have three machines to get fully functional, but our major slitting line and edging lines are operational," said Michael Dallek in mid-October.

MD Metals production and office manager Cherise Jolly said

that the company's staff are now as excited about the move as its owners: "The day that we walked in here and everyone was here, everyone at the plant had bright eyes and were saying 'look at this place' and 'look what we've done and it's all coming together.' Everyone was so excited."

She said a lot of that is to do with the bigger space and the facilities and the opportunities that the staff know are coming because of that. They are asking her questions like: "What are our customers saying?" and 'Are we going to bring in new customers?' and 'We can do this now and we can do that now'... Everyone is very excited about it and so to this day," she concluded.

lines: "I think our on-time deliveries will be much better as the bottleneck in our operation dissipates in the near future."

Toll processing is an important part of the mix. "In the past it has been a small percentage, under 10%, but we clearly can see with a couple of the jobs that we got, for which there is a [non-contractual] agreement to process material for a year, that alone could be 1,500 tpm, so that is a nice job to help us settle into this building," said Michael. "I really do see us at 5,000 tpm in a short period of time. In this case, half could be us processing and the other half us selling material."

Aaron elaborated: "If the past is any indication of the future, what will happen is we'll go 50:50 when we add new capacity, but then we start selling more and more material and so our toll processing as a percentage goes down, giving us more capacity to sell as we get into these other capabilities and selling within them."

That is what has happened in the past, he added. "Our big slitter line, which we just installed that we had in the old building, initially was mostly toll processing and then we started filling it with our own work. In this case I feel like this is going to be the same path that we'll take."

He stressed that MD Metals will always do toll processing, "but I'm just saying our customers find out what we can do and as we gain more customers, we start selling them the material"

Michael added that the immediate access the new site provides to rail transportation is another advantage over the company's previous site. "Our location is not ideal, meaning not



**MD Metals president, founder and owner Michael Dallek and his son Aaron, CEO, have a clear strategy to expand their range of business**

right next door to the harbor or next to the steel producers in East Chicago and elsewhere, but by having rail cuts the cost and makes it easier for large manufacturers to still come to us,” he explained.

Aaron noted that one reason some businesses prefer a base in Indiana is to benefit from lower state taxes and workman’s compensation insurance costs, but he stressed that for MD Metals the many benefits of staying close to their previous location outweighed that consideration. “We felt it was very important to stay in Bedford Park, to stay in Illinois and to keep our workforce the family that it is, maintaining the strong bonds that hold us together.”

### Job-shop mentality

Beyond its established niche in narrow, heavy-gauge products, taking on relatively small jobs and supplying bespoke mixed loads of steel products on a single truck has been another specialty of MD Metals.

Michael and Aaron are keen to avoid losing that job-shop mentality, which they stress has been a key feature of MD Metals’ prosperity over the past 30 years. But they also acknowledged the need to adapt it to the times, including the demands that some clients make for just-in-time deliveries.

“It’s interesting that as you get to bigger customers, more people are requesting that,” Michael confirmed. “I am proud of having a job-shop mentality, meaning that we take care of customers based on their needs. We produce everything to order so we have not, in the past, been a company that had parts sitting on the ground waiting for a phone call or an e-mail. Recently that has been changing,” he observed.

But he is now starting to see similar demands from smaller players: “We are beginning to see, also because of the lack of ability to get steel, and to get steel at a certain price, because supply lines are all screwed up, they need some more reliability. So now we are starting to get those requests, not from necessarily big players, but small stampers who are trying to cover themselves.” He said that MD

## ‘Opportunities are really starting to come through for the new facilities for all the new things we can provide’

Metals’ job-shop mentality is helping many people to get their material lined up for their supply.

MD Metals production and office manager Cherise Jolly told *Metal Market Magazine* that she noted the difference of that mentality when she joined the business a year ago. She previously worked for a manufacturer that was a just-in-time supplier to big clients. “It can be difficult for some to take on job shop orders or new customers expecting quick turnarounds when you are set up for just-in-time. We are lucky to have the capacity and opportunity to be able to cover both with our variety of operations. No job is too big or too small, and we can turn around orders very quickly. We also have the same capacity for holding and releasing material for our just-in-time customers. My favorite factor is we very rarely say no, our customers hear: ‘Yes, we can do that,’” said Jolly.

“Not many people can do that, which is something that I’ve learnt coming here. There are some real strong niches here that there are only a few people in the whole country can do, and people are calling from all over the country to say: ‘We’ve found you, can you help us,’ and that part is really cool and really neat to be a part of,” she added.

Cherise Jolly also said that there are no worries about work not being there whatsoever. “Opportunities are really starting to come through for the new facilities for all the new

things we can provide, which makes it a fun challenge, not a challenging challenge,” she concluded.

### Barriers to entry

Aaron also believes that the barriers to entering the niche market that MD Metals supplies provide a cause for further optimism for his family’s existing business. “For someone to start up now, you would have to spend so much on equipment. The equipment we have that my dad was able to accumulate over time has been rebuilt and reworked to create the capacity that we have... each piece bought new could cost a million dollars or more. The capital investment is a significant barrier to entry for anyone who wanted to come in to do the same work that MD Metals does,” he observed.

He concluded that while other businesses are focusing on high-volume steel processing: “This heavy-gauge, narrow area is not something that people are striving to join. If anything, they are getting bought up and leaving a bigger piece of the pie for us.”

Michael said that it is an old story: “Do you want to do high-volume, very low margin work, or do you want to be a small business that is making good solid margins in a niche where you’re providing added value, and you are not easily replaced. I chose to do it that way and I think over time being an organic-growth company is better than a highly leveraged, low-margin business,” he concluded.

## MD Metals’ expansion by numbers

- Building area increased from 55,000 to 73,000 sq. ft. with the ability to expand to over 200,000 sq. ft. over time at the new property.
- Added one new slitter already installed in the building, bought from the previous occupant, Alliance Steel. It is a 0.009-0.250-inch thick ProEco 60-inch wide machine with three slitter heads and a turret head recoiler.
- Additional Tishken Extra Heavy edging line to expand heavy-gauge bar and edge coil capabilities. Increases ability to cold reduce material as it is edged. Also, a new Tishken edging line with oscillate winding capabilities.
- Now processing material as light as 0.009-inch thick and can go up to 0.450-inch on the heavy side. Niche capability to slit heavy-gauge material to very narrow widths: for example, 3/8-inch thick material to 3/4-inch wide with a great edge, or can edge or cut it to flat bars if required. Also, edge and cut to length down to 1/2-inch wide on material up to 3/16-inch thick.