

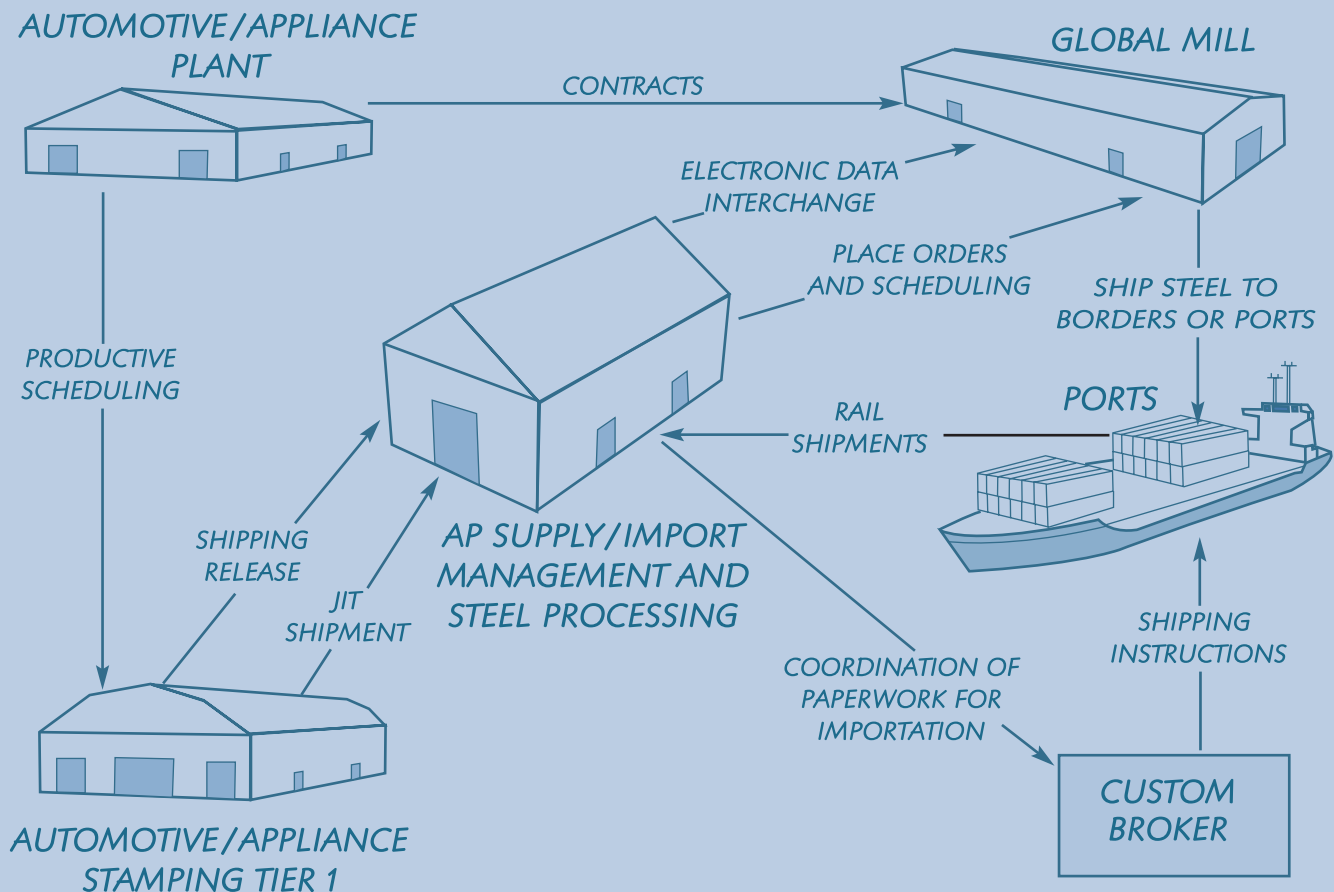
# Modern Metals

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## Making it in Mexico: Acero Prime's blueprint for success



# Bigger is better

**Acero Prime's**  
business model focuses  
on large volumes,  
allowing it to capitalize  
on growth in **Mexico**

**BY JOHANNA KNAPSCHAEFER**

**A**cero Prime understands the reality of the global steel market, and it has developed a high-volume business model to fit its Mexico-based operation.

Unlike typical service centers that own and sell small volumes of steel, Acero Prime services large volumes from international steel powerhouses, including Mittal, Arcelor, U.S. Steel, Usiminas of Brazil, and Mexican producers Hylsa and Imsa Acero, that sell steel for parts in GM, Volkswagen, Daimler Chrysler and Toyota automobiles, says Carlos Rodriguez-Borjas, general director of Acero Prime, a steel processing and logistics firm

headquartered in San Luis Potosi.

The 110-employee service center is a joint venture of Feralloy of Mexico and U.S. Steel Export Co. of Mexico, both holding 40 percent equity, and Mitsui Steel Holdings, with 20 percent equity. Currently, the center handles 500,000 metric tons of steel annually and projects that figure will rise 10 percent next year.

Acero Prime has situated its facilities strategically in northern, central and southern Mexico, enabling it to serve the

entire country. At its largest 130,000-square-foot processing center in the railway center of San Luis Potosi, the company has two coil slitting lines with a net capacity of 20,000 metric tons per month for processing high-grade steel for automobiles, appliances, pipes and small electric motors.

In Ramos Arizpe, an automotive hub in northern Mexico, it added a slitting line with a net capacity of 12,000 metric tons per month to its plant in October 2004 and began building a 60,000-square-foot extension slated for completion in November of this year. It also operates a storage facility in Toluca



to the south, adjacent to a Chrysler plant, where it may eventually add a coil slitting line. Currently, the firm is outsourcing its blanking to other Mexican processors, but Rodriguez-Borjas says it is continually evaluating its needs for slitting and blanking.

**Manufacturing continues to grow**

Manufacturing has grown dramatically in the past 10 years with the transfer of automotive stamping operations and appliance facilities from the United States to Mexico, Rodriguez-Borjas says. Along with that movement, international steel mills



began supplying steel in Mexico instead of to the United States.

“Foreign mills are more interested in having a direct relationship with customers, even the smaller ones, making it harder for traditional service centers to achieve growth in Mexico,” he says. Unlike the United States where nearly 30 percent of steel produced by

mills is shipped to service centers, the percentage is only about 25 percent in Mexico, according to the American Iron and Steel Institute.

“Mills now want a relationship with even the small customers that consume only 200 [metric] tons a month,” Rodriguez-Borjas says. Market growth since the days of oversupply in the 1990s has helped, but he claims pressure from the mills persists.

**Just-in-time delivery**

For Acero Prime, understanding how to service a global mill is critical. “We have to know how to supply in a just-in-time basis in Mexico and keep the title of a foreign-owned mill’s steel without that mill necessarily establishing a company in Mexico,” Rodriguez-Borjas says. That involves a lot of complexity since, for instance, tax laws are complicated and change annually in Mexico. And despite the streamlining of importation laws through NAFTA, Rodriguez-Borjas says Acero Prime, as importer of record, must comply with

requirements for regional content.

“The challenge is to handle steel importation while maintaining ownership at the global mill,” he says. “We maintain the mill’s materials in Mexico supplying just-in-time to all automotive centers and then electronically inform the global mill so it can invoice the automotive company,” he says.

## international report: mexico



Slitting facilities at Acero Prime

Acero Prime has invested roughly \$1.4 million in software developments and continually invests in new technology to monitor inventory down to the minute. "This helps us keep track of the many parts required per model," Rodriguez-Borjas says.

"These systems communicate with the global mills in a way that enables inventory updating in near real time in our customer's own systems," he says. "If any of the parts for vehicle assembly are not fabricated on time, production at the auto company cannot continue." Since lead times for steel production are between two and four months, it is critical that the service center has full control of information throughout the supply chain.

### Booming demand for cars

Eighty percent of Acero Prime's business is dedicated to the booming automotive sector, and the firm has captured an estimated 28 percent market share of automotive steel demand in Mexico, Rodriguez-Borjas says. Total Mexico vehicle production for the first quarter of 2005 rose a whopping 49.3 percent in the first quarter of 2006, compared to the first quarter of 2005, according to Automotive News Data Center and the Mexican Automotive Industry Association. In Mexico's small economy, data is not available to indicate steel tonnage concentration and scrap price indexing in the automotive sector. But he says new investments in Mexico by global automakers such as GM, Toyota and Hyundai have caused a dramatic increase in production.

Santiago Clariond, general director of Imsa Acero, one of Mexico's largest steel processing and galvanizing companies, is forecasting that consumption of flat-rolled steel by Mexico's automotive industry will grow to 2.78 million tons by 2010, at an average annual growth rate of 8.1 percent.

One hurdle for the industry is market saturation, which creates a more competitive environment. "We're coming to a point where everyone has a presence in Mexico, including major Japanese traders such as Metal One and Marubeni," Rodriguez-Borjas says.

Another is the high cost of energy. In the past four years,

natural gas has risen 217 percent while electricity costs rose 70 percent in Mexico, he notes. "The rising cost of oil makes proximity to the end user important," he says. At its three facilities, Acero Prime moves 95 percent of its steel by rail from three Mexican ports on the Gulf of Mexico, Pacific Ocean and the coastal Port of Brownsville, located on the southernmost tip of Texas. This achieves cost savings through energy efficiency, despite the longer lead time, Rodriguez-Borjas explains. Final just-in-time shipments are handled by truck from the center's plants located shorter distances from its customers.

As for Arcelor's proposed merger with Severstal, a move to fend off Mittal's hostile bid, Rodriguez-Borjas says: "We have to wait to see which option brings more shareholder value to Arcelor."

Whichever partnership shareholders approve, Acero Prime is well-positioned to reap the benefits of greater demand for its strategic services. ■

## Labor & Immigration

**Carlos Rodriguez-Borjas, founding member and general director of Acero Prime, spoke with MM about illegal immigration across the U.S.-Mexican border.**

**MM: What do you think about President Bush's plans to place National Guard troops on the U.S.-Mexican border?**

**Rodriguez-Borjas:** We don't live in a perfect world. If you combine closing the borders for illegal immigrants with a solution for providing U.S. industry and economic sectors with a way to provide visas for legal immigration of workers, then I think the plan will work. We need a way to protect our border from undesirable immigrants—a way to keep criminal types out but still give industries access because there is legitimate demand for immigrant labor in the United States. We have people in our plant who have left for better opportunities in the United States. Fortunately, we are increasing labor expenditures in Mexico, and as a result we are retaining more workers with less turnover than 10 years ago.

**MM: How much do Mexican union workers earn?**

**Rodriguez-Borjas:** They earn only \$8 for every \$100 earned by a worker in the United States, so the United States is still a big draw. I think the plan is legitimate because as long as it provides a coordinated process for managing legal immigration with a registry for legal immigrants, it will be good for both countries.

**MM: Could the plan impact your business?**

**Rodriguez-Borjas:** There are no major concerns in the steel industry. Whether the plan goes through or not, it will not affect us since we have enough labor here. But it is important that we have stable conditions in the NAFTA region. If the border were to be opened, we could suffer a bit because labor costs would increase here in Mexico. But I don't anticipate that happening.

**MM: Are union wages rising annually?**

**Rodriguez-Borjas:** Yes, wages have been rising six percent annually for the past five years.

*Carlos Rodriguez-Borjas earned a bachelor's degree in industrial and systems engineering at the Monterrey Institute of Technology and a master's degree in business administration from the University of Texas. Since 1999, under Rodriguez-Borjas's direction, Acero Prime has expanded its processing and logistics volume from 40,000 metric tons to its current level of 500,000 metric tons. The company employs 110 people of which 70 percent are union members.*