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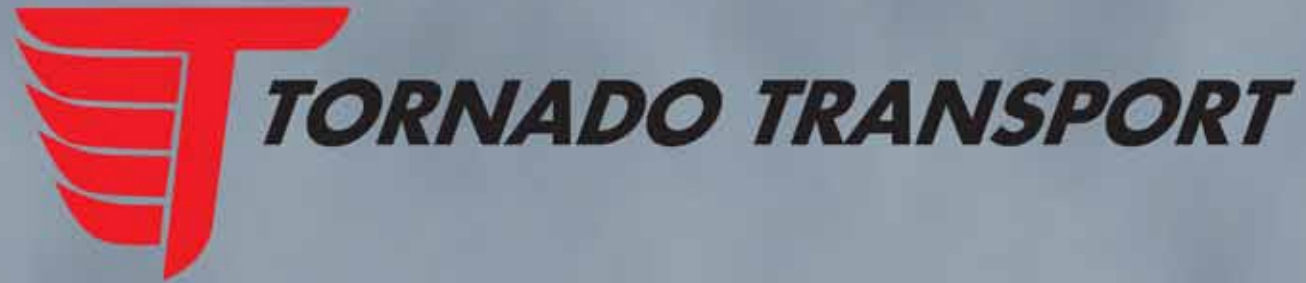


Changing times

Moving to a new country and taking over the running of a new company can throw up challenges for even the most experienced of managers, as Alan Swaby learns

The new CEO of Highveld Steel and Vanadium Corporation Limited in South Africa has been in the industry long enough to remember when vertical integration among steel makers was the norm. “Then businesses went through a phase of focusing on core activities,” says Scott MacDonald, “and steel producers divested their iron ore mining interests. Once again, the wheel is turning full circle but Highveld is already there. We never went down that route; we have always processed the ore we mined ourselves and benefited considerably in the process.”





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“Highveld has considerable respect among end users and we have to take full advantage of that”

One of the benefits is that in its 50 year history, Highveld has been profitable every single year and in fact only ever lost money in the first quarter of this year. “Our oxygen supplier had a problem,” explains MacDonald, “and failed to deliver for three weeks. Production was hit badly, not only because of the lack of oxygen but also the need for a gradual thermal build-up once the situation stabilised.”

In 2006, this long-standing record attracted the

attention of Evraz, a Russian steel producer every bit as vertically integrated as Highveld but much more global in outlook. In 2008, the sale of Highveld from Anglo American to Evraz was completed to go with its other world interests in the UK, the Czech Republic, Italy, Canada, the US and Russia.

MacDonald’s recent appointment has coincided with one of the most volatile periods in the company’s history. “Like all steel producers,” he



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says, "sales have been hit badly and last year they fell by almost half back down to R4.25 billion. When demand improves they'll bounce back but it's my job to see that we have the structure and the strategies to capitalise on market improvements."


No doubt the world perspective he gained from senior roles at Corus and Klöckner & Co will help considerably in structuring management, broadening the customer base and overseeing plant upgrades. "For a business the size of ours," he says, "we don't have as much direct contact with customers as would normally be the case in any other industry. Highveld has considerable respect among end users and we have to take full advantage of that."

At the back of his mind will be the fundamental difference between South Africa and Europe in the relative relationship between steel and concrete. In the UK, for example, 25 years ago concrete accounted for 65 per cent of the raw material used in construction



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projects, compared with 35 per cent for steel. Today, thanks to effective marketing by steel producers, that ratio has reversed completely. But in South Africa, concrete remains dominant. "It's a long term goal," says MacDonald, "but if we can convince architects and developers with the same sort of arguments used in Britain, that will have a considerable impact on sales."

That's something of an understatement because Highveld is currently the only South African producer of heavy steel sections. The financial barriers for other suppliers to get into the market are high and not justified by the relatively small local market. So small, in fact, that the home market cannot take all that Highveld produces. But if demand picks up,





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Highveld might find it has competition in this sector.

Which turns the focus on the second part of MacDonald's role. It's 50 years this year since magnetite iron ore was discovered at the company's Mapochs mine, 140 kilometres north-east of eMalahleni (previously known as Witbank) where Highveld's steel plant is located. The high titanium content of the magnetite ore has necessitated Highveld developing unique processes for smelting and refining the iron ore but parts of the plant are now long in the tooth. Along with his COO and deputy COO, MacDonald has been charged with developing a three year investment plan which will have the greatest impact on productivity with the shortest payback period. "Part of this might involve adding new capacity or new products," he says, "but most likely it will be a case of updating the plant. And here, we have to assess whether to upgrade what already exists or whether to take a different approach."

As well as changing the hardware, MacDonald also



Mukundi Mining Resources is a South African based, black controlled mining group with its headquarters situated in Pretoria. The company aptly chose it's name "Mukundi" from a tribal Venda word which directly translated equates to "victorious or those who overcome". Having successfully managed all of its projects to date, it is now well positioned to grow and build a diverse, world-class commodity portfolio. Currently Mukundi is proud to have partnered Highveld Steel as one of its clients at the Mapochs Mine, its wholly owned subsidiary.

The company is led by Ms Octavia Matshidiso Matloa a dynamic, experienced Chief Executive Officer and a true entrepreneur. She is a qualified Chartered Accountant CA (SA) and Registered Auditor by profession.

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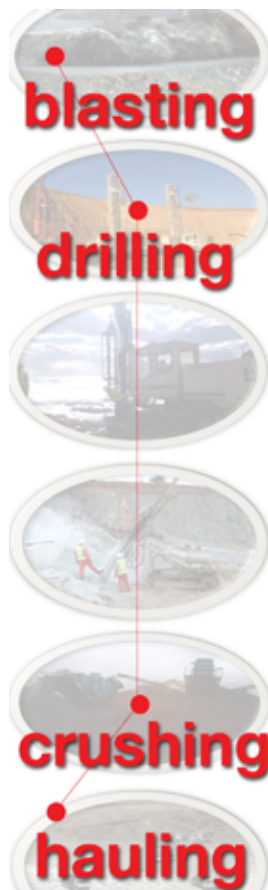
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wants to change the mindset of the business. Dealing through steel service centres—steel merchants—the way it does, Highveld has little understanding of how end users work and think. For that matter, MacDonald is not convinced his company fully understands steel merchants either. "We need to get closer at every level," he says. "It's the only way we can understand and influence matters."

MacDonald is on a mission to take cost out of the supply chain. He's aware that the construction industry is very traditional and works today much the way it has for decades but the objective is to inject some philosophies from the automotive world. "Everyone involved with the supply and consumption of steel needs to modernise," he says. "We'll never really match the automotive way



of working but our aim has to be to satisfy customers' needs within days, not weeks or months."

With steel having a well earned reputation as one of the more polluting of industrial processes, MacDonald is torn between the desire to clean up the business he is in and the commercial dangers of doing so unilaterally. "The governments of fully developed European countries are keen to meet their targets of reducing carbon emissions," he says, "but is the price acceptable? At Corus, we spent a lot of effort trying to explain that clean Western steel can never compete economically with Far East steel."

On a personal note, as a newcomer to the country, MacDonald is impressed by the atmosphere in South Africa. No doubt the World Cup has been a wonderful catalyst for cohesion and certainly moved on the infrastructure much faster than would otherwise have been the case. "Despite the obvious problems, there seems to be a vast reservoir of goodwill," he says, "that surmounts even the most potentially damaging events that occur. Long may it last." www.highveldsteel.co.za



Established in 1965

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