

Seller Beware

Your Company's Scrap May Be Worth More Than What You're Getting.

Written by Mark Gilblair, President of L. Krinsky & Sons, Inc. 1-800-NEW-SCRAP

Are you getting paid for the correct weight? How does your organization audit your scrap weights? How much do you trust your scrap service provider?

These are important questions that every company should think carefully about. **Scrap is worth real money.** Real money means dollars, not cents. And, by dollars we mean potentially thousands of dollars!

Several years ago, the United States Federal Government began investigating the business practices of several scrap metal dealers. In 2004, two Cleveland area companies were accused...and indicted. The Justice Department levied fines of \$10 million for each company. Furthermore, executives from both companies were fined and given jail time. Also in 2004, a Michigan company pled guilty to defrauding suppliers. That company was ordered to pay criminal fines as well as restitution pay to its victims.

The Department of Justice has now moved the investigation into Chicago. Currently, 4 Chicago area scrap companies are under investigation. One of the main issues being investigated is the practice of *short weighing*. Short weighing occurs when misrepresented weights are used to pay the supplier/customer.

Short weighing typically happens two ways. The first method is very straightforward. The scrap dealer, for example, picks up a scrap container from a customer that does not weigh the material. It is short weighing if the actual weight is 22,000 lbs and the customer only gets paid for 18,000 lbs, that is short weighing. The second method is a little more complex, as was the case of the Michigan company: this situation involved the reprinting of weight tickets. The scrap dealer's scale weighed accurately; however, they were reprinting weight tickets with lower weights and sending those to customers. In both instances, the supplier/customer received documentation with weights; unfortunately, they were inaccurate weights.

To keep legitimate competition at bay, scrap dealers that short weigh will falsely "pay" a price back to the supplier/customer that is at or significantly above the steel mill market price. That situation should raise a red flag right away.

How could a dealer that is reselling the material to a mill pay their customer a higher price than they could sell it for? Daily publications such as "American Metal Market" and "Iron Age" help keep manufacturers informed of what their scrap is actually worth.

L. Krinsky and Sons is a scrap dealer that advocates and teaches auditing practices to its manufacturing customers. Whether it is providing a scale for customers to track their weights, or having trucks weighed in at independent truck scale facilities, L. Krinsky and Sons strives to give customers assurances that their weights are accurate. Mark Gilblair, president of Krinsky, explained in dollars the reality of how much short weighing could cost you:

SHORT WEIGHING EXAMPLE

Steel Busheling @ \$220/gross ton

25,000 lbs = \$2,455 20,000 lbs = \$1,964

The Difference is \$ 491

One Pick-up Per Week (52X)

Being Short Weighed 5,000 lbs

@ \$491 x 52 pick-ups = **\$25,532**

Two Pick-ups Per Week (104X)

Being Short Weighed 5,000 lbs

@ \$491 x 104 pick-ups = **\$51,064**

The more volume you have the greater your risk is if you do not accurately audit your scrap.

As you can see, these are **real dollars**. This kind of cash flow can help hire a new employee, shorten your payable times, or be used towards a company party. The fact is, it is your money. You paid for the material when it came in your door, and you still own it when it leaves your door as scrap. Not getting the full value is cheating yourself and your company.

Know your weights. Know your vendor.

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If you have documentation or feel you have been a victim of short weighing or other anti-trust violations related to scrap metal, they should contact the Chicago Field office at (312) 960-5633.

What is your next step? The following are some warning signs and questions to consider:

- 1.) Too much consistency on amount of scrap being paid for when several variables make consistency highly unlikely; i.e. fluctuation in volume of parts produced, different gauge material being used, wide range in percentage of scrap per part between different part numbers, etc.
- 2.) Scrap pricing remaining level while the market is continually fluctuating.
- 3.) Pricing is considerably higher than any other competitor and at times higher than what is posted in the market. Many purchasing agents and even business owners are fooled into believing they are getting the best price when in fact it could be the opposite if their scrap is not completely accounted for.
- 4.) Attempts to lure business owners and employees with offers of cash and/or favors.
- 5.) Front office not really knowing what or even how many loads of scrap are picked up. This happens often during the day and particularly at night.
- 6.) Back operations not knowing if every load and every pound of material is accounted for when/if it is paid for.

Questions...

Is there an itemized statement including date of pick up, type of material, weight of material, price per unit weight?
More importantly do you have matching documentation?

Is your company receiving fair market value and payment in full? Put another way let's say your company produced 800,000 lbs of scrap this year and your company received

fair market pricing, (based on market resources available to you), for the entire 800,000 lbs?

Does your company have it's own scrap auditing process?

Do you know if your scrap is graded correctly? It's not uncommon for some scrap companies to take advantage by downgrading material.

Does your company use scrap market publications to establish whether or not it is receiving fair market value?

If you answered YES to all of the above questions, you are in good shape. If you answered NO to one of the questions, you have a little work ahead to get to an optimal auditing level. And, if you answered NO to two or more questions, you probably should be concerned because this kind of stuff has a significant impact on your bottom line.

Some things to look out for...

It is not uncommon in the manufacturing industry to accept cash payment for scrap metal; however, it could mean big trouble for those who accept cash, do not claim it as income, and deal with one of the companies under investigation by the Federal Department of Justice.

It is recommended to test your scale if it is provided by your scrap vendor, and have it calibrated by someone of your choosing and NOT the vendor.

Look out for scale manipulation such as setting a container off center, over the edge, or not fully on the scale. On board truck scales can also be manipulated by entering an inflated tare weight.

Some scrap vendors have been caught stealing weight from companies by putting inflated tare weights on containers ranging from drums, boxes, dump hoppers, luggers, roll offs, trailers, etc. Understand that 20 loads from dump hoppers may be used when filling a lugger or roll off.

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