Grit, grace, and game for change

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Pick virtually any weekend in the summer and there's more than a remote chance—depending on their individual travel schedules and the weather around Fenway Park in Boston—you'll find the top executive of one of North America's leading metals recyclers soaking up the sunshine and sharing a hot dog with the other half of what Fortune Magazine described in a recent profile as a "merger of equals."

These days with the storied Boston Red Sox batting well below .500 in the win/loss column, Tamara L. and husband John F. Lundgren, who is chairman and chief executive officer of Stanley Black & Decker Inc., don't have a lot to cheer about at the ballpark. The same might be said about Tamara's day job.

"Right now, the Red Sox are treating me like the metals market," Lundgren, president, chief executive officer and member of the board of directors of Schnitzer Steel Industries Inc., joked recently. "I'm already looking to the next season as it relates to the Red Sox."

Lundgren, 57, has spent 10 full seasons at Schnitzer, joining the 109-year-old Portland, Ore.-based metals recycler in 2005 as chief strategy officer and named president and chief executive officer a short three years later. A graduate of Wellesley College and Northwestern University School of Law, she had built a successful career as an investment banker serving a variety of Blue Chip clients prior to packing her bags for Portland.

One of those clients was the Bechtel Group and John Carter, an executive with the big global engineering, construction, project management company, who happened to have taken the reins as president of Schnitzer in May 2005.

"I had worked with John when he was an executive officer at Bechtel and I was a banker," Lundgren recalls. "He reached out to me."

At the time, Lundgren was in the process of moving from London, where she had worked for almost 10 years, back to the United States. "My plan, before John reached out to me, was to go into investment banking in New York," Lundgren says. "My husband and I were moving back to the States. The plan was for us to move back to the East Coast, to Connecticut."

Carter's invitation interrupted that. They ultimately aborted that plan once Lundgren got an inside look at Schnitzer and a feel for the pulse and potential of the organization. "What I found was a great company, one with an extraordinary legacy and a really talented, deep-bench operational team," she says.

"But it was a company that I would say was in an underappreciated and basically not well-understood sector," she reflects. "It had a very strong runway for growth, for both organic and inorganic growth."

The foundation underpinning that runway was what Lundgren describes as ”a coalescence” of various techno-, geo- and macroeconomic factors, one of which was the high growth rate of electric-arc-furnace (EF) steelmaking, not just in the United States but abroad. “People had been speaking for years about new steelmaking capacity coming on line,” Lundgren says. “And that was really driven very much in alignment with strong GDP growth in the BRICs (Brazil, Russia, India and China) and in other emerging economies.”

Lundgren found the potential inherent in that convergence of factors—as well as the signal telegraphed by the fact that Carter was the first non-family member to head Schnitzer—irresistible. “It was a company at the precipice of change and I have always enjoyed that,” she says, noting that the sectors she had worked with in her career as an investment banker “were always at the precipice of change for new growth. So, that’s an environment that always attracted me.”

Although the position of chief strategy officer was new to Schnitzer at the time Lundgren joined the organization, the mission was crystal clear. “I came to work with the CEO, the board and the management to define the vision for the next step for the company,” she says. “When I came in in 2005, the trend of rising demand for scrap had already begun. No action had been taken. But the data was there.

“I think that was the exciting part for me and probably part of the value-added, if you will,” Lundgren says. “I came in with a fresh set of eyes. My job was to investigate, find, lead the development of and execute. That was my job, but you can’t do anything like this on your own.”

In pursuit of that mission, the former investment banker looked hard at the data, studied global GDP rates and “interestingly and importantly,” she says, kept an eye on the rising focus on sustainability and environmentally sound practices.

Lundgren also trained that fresh set of eyes on Schnitzer per se. What she found in analyzing the MRB, or Schnitzer’s metals recycling business, was a northwest regional player serving a spot market on both the buy and sell side. At the time, the recycler had three scrap export facilities, one in Oakland, Calif., one in Portland and one in Tacoma, Wash. And it was exporting mostly ferrous scrap to three countries: China, South Korea and Thailand. “Three countries and three export facilities, that was the focus,” she says.

Over the course of her decade-long tenure at the metals recycler, Lundgren has—and continues to—fine tune Schnitzer’s focus in pursuit of profitable growth. With that has come a steady, carefully calculated expansion of its platform, particularly across the auto parts and metals recycling businesses.

“I had a lot of trading background in my prior career,” she says. “And if you are in a spot business, you have got to have the ability to access demand wherever it is greatest at any point in time.

“And if you look at the people who are navigating the shoals of this marketplace right now—and we are one of them—it is because we have diversity in our platform,” Lundgren says. “We have geographic diversity, we have product diversity and we have vertical integration. That’s what enables you to navigate because there are markets that are going to be up and down at different times.”

At last look, the APB operating segment, auto parts business, of Schnitzer’s diverse platform counted 55 used auto parts stores pumping some 380,000 end-of-life vehicles annually into the MRB’s 52-metals-recycling-facilites-strong, scrap-processing segment. Schnitzer processes about 4 million tons of ferrous scrap and approximately 550 million pounds of nonferrous scrap annually.

The MRB sources all the scrap feeding the EF outfitting the steel manufacturing business' (SMB's) McMinnville, Ore.-based Cascade Steel Rolling Mills Inc., an 800,000-ton-per-year mini-mill, which produces long products for the construction markets throughout the West Coast and Western Canada.

Equally important, the MRB operating segment is a major player in the scrap export arena. Latest available statistics show the MRB's ferrous scrap sales volumes, on a percentage basis, are fairly evenly split between the Americas (35 percent); Europe, Africa and the Middle East (35 percent); and Asia (30 percent).

Over the span of her career at Schnitzer, Lundgren, who Fortune Magazine described as "an elegant, auburn-haired woman with a quiet demeanor," has exhibited grit, grace and more than a little genius in the line of fire. And given the volcanic ups and downs punctuating the past decade, she's had to reach down and tap every ounce of those assets.

When asked the three major challenges she's faced as Schnitzer's top executive, Lundgren is quick to answer. "The global financial crisis of 2008," she says. "The European financial crisis of 2011. And I don't know if anybody has named what we are experiencing in 2015, but perhaps we can call it the Global Commodity Imbalance. The major challenges have been macroeconomic."

To address the current imbalance and the challenge it poses, Lundgren and her management team have undertaken a number of strategic actions—MRB equipment idlings, APB store closings and productivity initiatives, and selling, general and administrative savings—keyed to deliver $60 million in cumulative benefits to the company's operating income by the end of fiscal year 2016.

And in one of the boldest moves executed yet under Lundgren's leadership, Schnitzer will complete the integration of two of its traditional operating segments—the auto parts and metals recycling business into one. To be known as auto and metals recycling (AMR), the segment is scheduled to be fully integrated by the fourth quarter of Schnitzer's 2015 fiscal year, which ends in August.

"When we report our October results, we will report as an integrated unit," Lundgren says. "The teams have been working as an integrated unit and have achieved benefits in doing so, for example during the big market disruptions like the ones we saw earlier this year."

Why integrate? And why now? "Because auto parts are part of the same supply chain," Lundgren says, sharing the rationale behind the move. "And they create a differentiated buying platform for us in the same way Cascade, our steel division, creates a differentiated platform for us."

Under her tenure, Schnitzer's auto parts segment has grown exponentially. Although the metals recycler had purchased Pick-N-Pull well before her arrival, its auto parts business had been pretty much confined to California up until that point. Today, the company counts 55 used auto parts stores nationwide.

"I think that again, what a fresh pair of eyes saw was the power of the synergies between the two businesses," Lundgren says. "That's really what I got behind: growing the auto parts business and further developing the vertical integration with the metals recycling business."

Besides providing Schnitzer a "differentiated" platform for securing scrap, the auto parts business offers a unique window into the dynamics of the recycling marketplace at any given time.

"A significant portion of the value of end-of-life vehicles is in the value of the ferrous and nonferrous scrap," Lundgren says. "But the scrap market, as you know, is very dynamic. So, having timeliness of information regarding prices, their projected movement, the level of demand for actual volumes of material as well as understanding the level of supply in the chain is very important," she explains. "And working together, our team becomes much more effective as purchasers of cars and sellers of scrap.

"In effect, we are really turbo-charging our supply chain," Lundgren says. "And in certain regions, for example, where our steel mill is in the Northwest where we have auto parts metals recycling and steel manufacturing, you can see that work. It is an unclogged artery and it is a beautiful thing to see."

Asked about the impact of plunging scrap prices and the challenge they present to Schnitzer, Lundgren is quick to set the record straight. "The unique aspect of the scrap market is that it is a spread business. And we adjust to align with the market and to maintain strong, positive cash metal spreads. Absolute prices are not the driver.

"Would I prefer a market where there is stronger demand as well as stronger prices? Sure," she says. "But, at the end of the day, we've always said we see value where other people see waste. And we price accordingly. And that enables us, in strong markets, to generate earnings and, in weak markets, to generate cash."

If Lundgren is any worse for the wear of navigating through two macroeconomic storms and swimming upstream in the midst of a third, she doesn't show it. The course is set, her compass true and the track record hard to argue against. She knows where she's going and how to get there.

"From our perspective, the important thing is not the historic highs or the lows," she says when asked about margins. "I think what is most important is being able to compete in a spot market, to have the bandwidth, the reach to be able to sell your product wherever there is demand.

"And we have put ourselves in that positon, where we can sell into a variety of markets and sustain our platform," Lundgren says. "Even in these weak markets, when we look at our margins against our recycling peers, we believe we've got the best-in-class margins."