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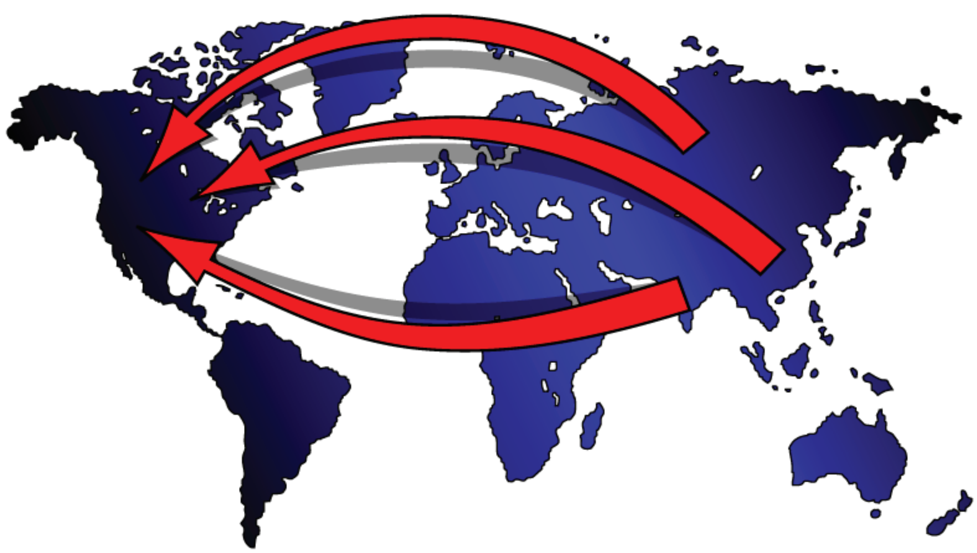
EXPECT CHANGE IN THE FUTURE U.S. EQUIPMENT LANDSCAPE

Brian Barlow, President/CEO
bbarlow@growwithbmg.com

The days of the white elephant hunts are gone and so is the volume of contractors and material producers standing in line to buy new equipment.

There remain a handful of healthy niche markets, product lines and geographic regions, but the traditional "bread and butter" high-volume markets across the U.S., such as residential and commercial construction, concrete, excavation/earthmoving, asphalt, rental and forestry, have for the most part suffered serious declines. Offsetting these markets are those tied to energy, assisted living, public works, mining, medical, utility, underground construction and green-driven opportunities.



North American and European manufacturers selling into the U.S. must now contend with an even stronger challenge from the new wave of low-price OEM manufacturers from China, India, Russia, Brazil and Eastern Europe as they begin to take hold around the world and especially in North America.

Price Opens Door To New Equipment Wave

With construction and fuel costs rapidly rising and the market continuing to soften, price becomes even more attractive. As a result, companies such as China's two largest heavy equipment manufacturers are aggressively pursuing the North American market as we speak. These are Zoomlion and XCMG. Others are quickly following, or as in SANY's case, have taken major local commitment steps in a relatively short period of time.

Price is their yellow brick road into the U.S. market as it has been for them in Latin America over the past five years or so. And it has been proven, as with the Japanese and Korean manufacturers in the late 1980s, that extremely favorable pricing can help contractors re-prioritize their traditional purchasing criteria and/or discount the value of many important "must-have" performance features and benefits.

Price Buyer Numbers Climb

In fact, traditionally within the U.S. market BMG estimates that approximately 30% of the contractors—large and small—have always based their buying decisions primarily on price. These contractors typically view their equipment asset management program in the shortest view possible. Can they expense new equipment over one job, two jobs, one year or two years? Can they rent or lease their light and heavy equipment? These contractors typically under value advanced technology and minimize the importance of long-term performance, ergonomics, advanced safety features, and timely service and parts support since they expect to turn that equipment over as quickly as possible.

Given the condition of the U.S. construction market today, BMG believes that 30% is rapidly climbing and could reach as high as 50% or more as contractors struggle to balance rising costs in either a very competitive bidding environment or living within the contracts they were awarded before fuel, steel, tires and raw material prices began skyrocketing. Supporting this fact is the level of discounting employed today by U.S. manufacturers.

Two Critical Landscape Changes

Now let's bring this home. There is probably no better time in recent history for the Chinese, Indian, Asian, Russian, Brazilian and Eastern European manufacturers to make their move into North America. And, without a doubt the traditional independent sales channels know this and are beginning to capitalize on this as quickly as possible.

Case in point. Zoomlion, the second largest heavy equipment manufacturer with a long list of very diverse equipment, inked a deal in January with U.S. crane dealer Lewis Equipment Company to represent them throughout North and South America in wheeled, mobile and crawler cranes. As a master distributor, Lewis Equipment is setting up eight to 10 dealers in their territory to supply local markets. The company also represents China's Yongmao tower cranes and Hercules construction hoists manufactured by China's GJJ.

Lewis Equipment is not alone. Independent equipment dealers are certainly gravitating to representing these low-price manufacturers while simultaneously selling major brands. These brands typically sell to the top half of the contractor base—those who value technology, performance and support. Given the shrinkage in the size of this group and its reduced appetite for new equipment, success and quite possibly survival requires serving both levels of contractors. This dual-brand, high-low price dealer strategy is occurring at a faster pace than many people may realize. And, it is occurring throughout all types of equipment—large, small and light and even includes heavy processing equipment with major wear issues that are used in road building, aggregate production and mining.

In addition to this major sales channel shift, many U.S.-based manufacturers that sell primarily on a price advantage are either now or will soon be caught in the middle. Can they survive long-term by providing enough value added to carve out a customer base among those contractors that will be drawn to the new wave of lower priced competition? We all probably agree that even with 100% outsourcing it would still be swimming upstream. That could easily explain why some major conglomerates that spent years acquiring troubled companies and competing on price are now selling off those companies and focusing on their premium brand product lines.

The market may eventually be divided between premium manufacturers and low-price suppliers from countries with distinct labor advantages and government export incentives. It is looking more likely as well that we will see master distributors and dealers offering both premium and discount brands simultaneously much like what we see today with the automotive dealership model.

The U.S. construction industry downturn may very well produce a completely different equipment landscape by the time it rebounds to its full glory again. The major question is how will the premium brand manufacturers react? Will they establish Lexus-type distribution, sell and service direct or accept the changes occurring in the independent equipment dealer system today?

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127 West Berry St., Suite 900
Fort Wayne, IN 46802
Phone: 260.422.7100
Fax: 260.422.7112
E-mail: bbarlow@growwithbmg.com
www.growwithbmg.com