

Boom or Bust— Are You in the Right Markets?

Over the past few months we've talked with a lot of gear manufacturers. Many of them tell us business is strong, while others are struggling with reduced demand. The difference between them isn't so much in the quality of their manufacturing operations, but rather trends in the end markets they serve.

For example, those serving the aerospace and automotive industries seem to be doing quite well. With the major auto-makers feeling the pressures of government-mandated higher fuel efficiency standards, work continues on building transmissions with more and more speeds. Land Rover introduced the first 9-speed transmission in a passenger car at the Geneva Motor Show in March. GM and Ford recently announced a joint venture to develop both 9- and 10-speed transmissions for cars and light trucks. So there appears to be plenty of gear-related work ahead in the automotive industry.

Despite decreased military spending in both the United States and Europe, the aerospace industry also seems like a bright spot, particularly with regard to commercial aircraft, which saw record levels of production in 2012. With order books full at both Boeing and Airbus, gear manufacturers serving this industry can expect continued business in 2013 and 2014.

But not all industries are such success stories. The diverse but related companies that comprise the energy industry represent more of a mixed bag to gear manufacturers. Because demand for different types of energy changes on an almost monthly basis, serving those industries as a gear manufacturer can be extremely challenging.

For example, in the March/April editorial, I mentioned that the natural gas industry seemed to be in a holding pattern, due to a lack of infrastructure—namely, pipelines—that needed to be built in order to take advantage of the huge energy reserves captured through fracking and other methods. At the time, this was causing a delay in orders for gears used in the heavy-duty compressors used by this industry. Lately, however, I've been reading that the industry has begun relying heavily on rail transport to deliver at least some of the product, and that fracking production is picking up again. Hopefully this will translate into greater demand for geared compressors as well.

Unfortunately, the energy markets don't represent a long-term win-win situation for all manufacturers. Increases in one resource (e.g. natural gas) may reduce dependence on another



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er resource, such as coal. This will have a decidedly negative impact on the gear manufacturers whose parts go into coal pulverizing gearboxes and mining equipment.

And then there's wind energy, which is an almost entirely now-you-see-it, now-you-don't business, dependent on extremely long development cycles and huge investments, coupled with the uncertainty of fickle government policy. Although 2012 was a record year for wind energy installations in the U.S., 2013 so far has not kept pace with those levels. At the recent American Wind Energy Conference & Exhibition in Chicago, major gear industry were focused more on service and rebuild than on building new gearboxes.

What all of this means to me is that it pays for gear manufacturers to be diverse in their capabilities and nimble in their operations. Serving more than one market offsets the risk of a downturn or stagnation in just one. You probably learned from your mother not to put all your eggs in one basket, but the old adage holds true. Building your shop's capabilities is a lot like building an investment portfolio. Diversifying minimizes risk. On the other hand, building the capabilities that allow you to compete in multiple industries takes more than just deciding to do so. It may require additional capital equipment, training, sales effort and industry networking.

Speaking of which, I feel compelled to remind you that Gear Expo is coming up (Sept. 17-19), and if you're inclined to look for ways to diversify your gear manufacturing portfolio, there may be no better time or place. In addition to the tremendous networking and educational opportunities available, Gear Expo offers you the chance to see the latest gear manufacturing technology all in one place.

We'll be there (booth 1123), and we hope to see you, too.