

ERA Convention 2011

“Growth Again”

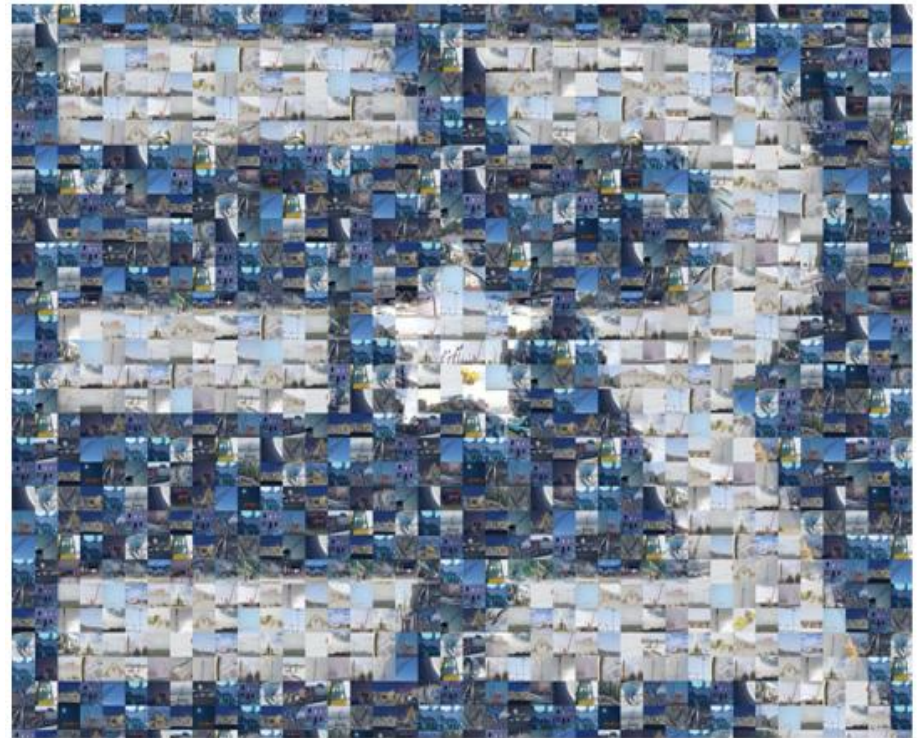


The Source for Critical Information and Insight™

ERA Round Table Manufacturers Facing Recovery

Lorenz Kleist, IHS

Amsterdam, 7 June 2011



WWW.ERARENTAL.ORG

What did the Crisis mean to Manufacturers?

Contraction of Business

Sales volumes hit the wall - markets froze in ES, IE, CEEC

Rental demand dropped to zero

Price drops to clear inventory

Production stopped for most of 2009

Production Capacities

Shift of production focus from Europe to BRICS

Strong reduction of temporary employment

Strong usage of short-time work

Costly excess capacity

Distribution Channels

Dealer network suffered

Fixed costs & head count too high

Rental investments were hard to predict

Reduction of stock was key

What does the Recovery mean to Manufacturers?

Opportunities

Huge infrastructure investment needs in China/India/South Africa

Replacement demand in Europe (Scandinavia, Germany, France)

Verticals: Mining industry & environmental

Russia – High potential vs. Risk of doing business

Risks

Local crises affect international production chain (Japan)

Return of crisis (Euro Crisis & PIIGS, Bubble in China?)

Bad credit rating of customers

Stability of Arab Countries

Lessons learned

Solid financials - tight hand at break-even point

Better logistics & lower stock levels

More accurate market monitoring

Closer collaboration with prime dealers

Today's Key Challenges for Manufacturers

Supply Chain

Low capacity - bad credit
& no investment capital

Japan - shortage of
hydraulics & electronics
parts

Increasing commodity
prices

Integration of production

Regulation

Stage 4 emission
regulation increases
production complexity

Product mix - low-tech for
Asia & hi-tech for Europe

Complex redesign of
machines

Higher product prices
affect customer's ability to
pay

Global Market Share

Manage demand shift
from Europe to BRICS &
Co

Local production
presence in BRICS
required

Need for comprehensive
product mix

Trade-off - strategic
growth & profitability

Operative and Strategic Realignment Key Topics of Manufacturers

Investments & Regional Focus

Local Production sites

Flexibility - „Breathing production plant“

Keep Low debt/equity ratios

Global optimisation of integrated production

Products & Product Mix

Platform strategy & Simplification

Re-focus on product design - separate models for China & India

Market portfolio strategy

2-speed organisation - core vs. customised models

Distribution Channels incl. Rental

Centralisation of distributor network

Cross-selling agreements

Better market monitoring & internal/external communication

Increasing rental penetration

4 Discussion Points arising

1

- Has delivery to BRICS & Co. taken **Priority over European Equipment Supply**?

2

- Will the **Product Mix** in BRICS & Co. continue to differ from Europe?

3

- Do Manufacturers & Rental Firms need a **New Culture** of doing business together?

4

- The Crisis could not be predicted – and we will be surprised by the next one ...?

Point 1 - Has delivery to BRICS taken **Priority** over **European Equipment Supply**?

YES,

- Recovery is fast and production capacity is limited.
- Regulation in BRICS is less rigid.
- Europe is losing its worldwide importance.

NO,

- Europe remains important – and capacities will increase.
- European success is still the benchmark for high-performance equipment.
- Local demand will be served by local production.

Point 2 – Will the **Product Mix** in BRICS & Co. continue to differ from Europe?

YES,

- Technical Regulation in BRICS will remain less rigid.
- Europe is a mature market with a focus on renovation – the focus in BRICS & Co. is on new construction.
- And local markets will increasingly be served by local production.

NO,

- BRICS will have to impose higher emission & safety standards because of the environment.
- Platform Strategies will lead to product alignment.
- Economies of scope will foster worldwide products.

Point 3 – Do Manufacturers & Rental Firms need a **New Culture** of doing business together?

YES,

- Better Communication allows to realise optimisation potentials & to reduce risks.
- Both parties depend on each other.
- Overall demand volatility can be reduced by better co-ordination.

NO,

- Manufacturers' revived confidence does not encourage this.
- Communication is already very intense.
- Optimisation potentials are already exhausted.

Point 4 – The Crisis could not be predicted – and we will be surprised by the next one?

YES,

- The crisis is always the unexpected occurrence of a „Black Swan“
- Construction is cyclical business... there is nothing we can do about it.
- Competition will eliminate risk-avoiding companies in the boom period.

NO,

- We now can detect bubbles that originate in the financial sphere.
- Construction is a cyclical business ... we will be prepared.
- Demand cycles can be mitigated, if large actors communicate better.



EUROPEAN
RENTAL
ASSOCIATION



**THANK YOU VERY MUCH
FOR YOUR ATTENTION!**