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Makers of Construction Gear Altering Strategy to Survive

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CHICAGO—With home building and road building on the decline, there's not a great demand for bulldozers, concrete mixers, cranes and the like. After watching sales fall for three years, makers of construction equipment are taking some drastic steps in an effort to survive the slump.

Manufacturers are eliminating product lines, closing plants or even trying to flee the business entirely. To reduce production, they're laying off tens of thousands of workers. To cut inventory, they're discounting list prices more widely than they ever have before.

Since peaking in 1978, business for most construction equipment companies has gone downhill. Unit shipments of construction machinery in the U.S. dropped 10% in 1979 and about 25% in 1980. The slide in shipments is expected to continue this year, with a 15% drop foreseen by some industry estimates.

'Allergic to Talking'

"We're allergic to talking because business is so bad it will only make matters worse," says Elmer L. Hickle, a public relations man for Fiat-Allis Construction Machinery Inc. of Deerfield, Ill. The company, which is a joint venture of Fiat S.p.A. and Allis-Chalmers Corp., reported annual losses of nearly $60 million in both 1980 and 1979.

Some changes that are under way, though, may eventually benefit the industry. Analysts say consolidation of operations will help the remaining manufacturers add to their market share and presumably their profits. For many companies, cutting back marks a reversal of strategies developed 20 or 30 years ago to cash in on the construction boom.

Evidence of changing strategy is everywhere. A year ago, General Motors Corp. sold its Terex Division to IBH Holding AG, a German conglomerate. Rexnord Inc. sold a construction machinery unit in Europe and may eventually sell a domestic unit, although as a Rexnord official says, "This is a very difficult time to sell a construction machinery business."

Consolidation, Automation

Others are consolidating operations. Fiat-Allis, Clark Equipment Co., Bucyrus-Erie Co. and International Harvester Co. have cut back on product lines or closed plants. Deere & Co. has greatly automated operations, a move that senior vice president Robert J. Gerstenberger predicts will lead to greater profits than ever before when sales pick up. After reporting a $71 million profit in 1980, Deere is slipping into the red for the year ending Oct. 31.

Only the industry giant, Caterpillar Tractor Co., is likely to increase its market share this year, according to Mitchell I. Quain, an analyst for Wertheim & Co. Mr. Quain estimates that Caterpillar has 45% of the market for earth-moving equipment in the U.S. and 35% world-wide.

Although Caterpillar's unit shipments are 10% behind last year's, earnings are near 1979 and 1980 levels. Some of the reasons: cost cutting, new products, a diesel-engine business that is thriving and lower overseas manufacturing costs because of the strong dollar.

For most companies, though, near-term prospects offer little cheer. Only modest gains are expected in 1982. Larry Hollis, an analyst for Robert Baird & Co., Milwaukee, believes a rebound may come late next year—more than a year later than he once had anticipated. And even that forecast, he says, depends on a significant drop in interest rates.

High interest rates hurt this industry more than most. Home builders, the main users of machines, don't build many houses when interest rates are so high people can't afford to buy. And contractors can't afford to buy machines when financing costs are prohibitive.

"High interest rates are disaster for our industry," says John Boylan, executive vice president of J.I. Case, a Racine, Wis., unit of Tenneco Inc. "I think our industry is in as bad a shape as it's been." Case's operating earnings dropped 50% last year.

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Even the market for used machines has crumbled. In the Chicago area, the prices that are paid for used machines are down more than 30%, says Bruce Pipkin, vice president for sales of Patten Tractor & Equipment Co., a Caterpillar dealer. "I saw a used machine that would have brought $50,000 last year sell for $35,000 at auction the other day," he says.

Rental and Rebuilding Rise

Instead of buying, more and more contractors are renting machines or rebuilding the ones they have. Earlier this year, Milburn Brothers Inc., a Mount Prospect, Ill., road builder, rebuilt a motor crane for $50,000, compared with the $200,000 a new one would have cost.

Part of the squeeze on profits is due to price discounting. Mr. Gerstenberger of Deere says manufacturers are offering discounts as high as 10%. Some discounts are tied to sales incentives, such as giving Caterpillar dealers rebates or bonuses of $1,000 to $2,000 for selling the slower-selling small bulldozers. "I've been in the business a long time but haven't ever seen such discounting," says Mr. Gerstenberger.

Construction machinery varies widely in price, depending partly on the size of the equipment. Bulldozers, for instance, cost from $30,000 to $800,000. Demand also varies by region. Sales are relatively strong in the Sun Belt and in industries such as oil and gas.

But everywhere, sales of road-building equipment are down. There's about 80% less excavating and concrete paving going on now than there was 15 years ago, says Harry Lindberg, vice president of the American Road and Transportation Builders Association.