Century old company a big fish in small pond

Knowing where to cut costs vital to global growth

ROBERT E. JOYCE has been president/CEO of the Wheelabrator Group since 2003. Prior to that he was executive vice president of operations for United States Filter Corp. Joyce’s career includes positions at Black & Decker Corp., Deloitte & Touche, Merck & Co. and the US Marine Corps. He currently serves on the advisory boards of CIBER and The Business School at the University of Colorado Denver. Previously he served on the boards of Axiom Manufacturing and Ultrex, Inc. He holds an MBA from The Wharton School and a BS in Aerospace Engineering from the University of Michigan.

Despite being 100 years old, Wheelabrator is not a household name, nor does it make the products that most households buy. But the company plays an important role in the manufacture of products that directly or indirectly benefit households worldwide. Wheelabrator is “the world's largest provider of metallic surface preparation equipment,” said Robert E. Joyce, Jr., speaking at the KPMG-University of Colorado Denver Global Enterprise Institute.

What does surface preparation mean? “We clean, strengthen or polish metallic surfaces,” said Joyce. Customers come from a wide range of industries: aerospace, automotive, construction, electronics, foundry, medical, power, railroad, recreation. “Think landing gear on aircraft, jet engines, engine blocks on autos, carburetor springs, and springs that go into shock absorbers. Anything that’s metal we touch.”

That sounds like a gigantic market but Joyce said the surface preparation industry is actually very small, about $1.5 billion globally. Wheelabrator’s share of this market is 22 percent, which translates to 50,000 customers – predominantly Fortune 1000 companies spread out over 101 countries.

Established in Pittsburgh in 1908 to serve the local foundry industry, the company today has 1300 employees working in 19 countries. Capital structure and market forces drive expansion strategy.

Capital structure. The company has had various corporate owners in its 100-year history but since 2003 has been privately funded. “Private equity investors have very specific time frames for a return on investment: five-seven years and they’re gone. Our strategy has to accommodate investor needs in the short term. Yet, as the CEO I need to have an infinite horizon in terms of setting strategy.

Market forces. “We split our thinking down the middle between mature markets and developing markets. We do not believe that one strategy works the same for everybody. We do not believe that equipment strategy is the same in the United States as it is in China,” said Joyce.

“The United States, Canada, Japan and countries in South America, are mature markets. No one is investing in these regions of the world in our industry or in our customers’ industries.” Nevertheless, these regions are important because of the cash they generate from aftermarket sales and service on the installed equipment base. The strategy, therefore, is to “keep those customers happy because if we lose that cash in the mature regions, there’s no hope of investing in emerging regions.” Company sales and service people help maintain customer relationships.

In the developing markets, an opposite strategy is employed. “We don’t have an installed base so we’re investing in equipment-sales people to generate revenue and satiate the primary demand,” said Joyce. The BRIC regions (Brazil, Russia, India, China) are where primary demand is growing and where many of Wheelabrator’s customers have set up operations. In order to be close to durable goods shipments and local industrial production, “we follow our customers into those markets where they are investing their dollars,” said Joyce.

For better or worse, Wheelabrator’s fortunes are closely tied to its customers. “In the 1996 time frame, there was a slowdown in the auto industry and the heavy industries that we serve cut costs in all the growth regions.” Wheelabrator’s then-management also made cuts and shut down the office in Mexico. They did not foresee that NAFTA was about to be signed and new opportunities would open. “The timing was terrible. We missed the boat,” said Joyce.

Key lesson: “You have to invest in down times. If you’re going to cut costs, don’t cut costs where the growth is; cut costs where the mature market is.”

Joint ventures risky

Global expansion strategies may look good on paper but turn out differently on the ground. Challenges can arise in developing nations where the rule of law is weak or the Western legal framework non-existent. “We can’t expose the entire enterprise to one bad transaction in a rogue nation, so we spend a lot of time educating our salespeople and our sales channels about what they can and cannot do.”

Frustrations are often built into the learning curve when operating in different countries, different cultures. “We tried in China to do joint ventures and were not successful. We got out of them primarily because of fraud and concerns about the possibility of government privatization,” said Joyce, adding, “We’ve learned that you cannot assume everyone is trustworthy.”

Show me the money

When Wheelabrator’s shareholders were unwilling to make investments in Poland and China, Joyce asked the board’s permission to find an investor who would support the company’s strategy.

“Our private equity investor now is an Eastern European fund based in Warsaw (also Budapest and London). Why? Poland is where I needed to make an investment in a manufacturing plant,” said Joyce. Wheelabrator is building a plant in Poland to be more competitive in the global market.

“Five years from now I’ll probably try to find an Indian private equity fund or go public in Bombay to raise money to invest in that region of the world. It’s important to understand where your equipment is being exported to and where your customers are going if you really want to be a global company and finance the enterprise.”

This is especially so in the world of private equity, where “you have to match the capital structure to your growth and vision.” Toward that end, Joyce advises shareholders, “Support my strategy for the duration of your involvement and give me permission to go find the next investor who’s going to help us grow into the BRIC regions.”

“That’s our approach to global expansion going forward,” said Joyce.