Wheelabrator: Global company in niche industry

Shift in regional manufacturing creates challenges

ROBERT E. JOYCE JR.

Wheelabrator is both an old company - dating back to 1908 when it was established as American Foundry Equipment - and a new company that has had to contend with challenges brought about by changes in the marketplace, ownership and funding mechanism.

The name “Wheelabrator” reflects the company’s signature product: a patented wheel-based design for centrifugal cleaning and finishing of industrial products, said Robert Joyce in his presentation to the Faculty Development in International Entrepreneurship program (FDIE).

Wheelabrator is the world’s largest provider of surface preparation technology and services with annual revenues of $310 million, 1250 employees and numerous agents in 17 countries. It is the twelfth largest private company based in Colorado, according to Joyce.

“Even though we look like a traditional multinational, we’re a relatively small company. We operate in a very narrow market segment that is global by nature.”

Unprecedented shift

North America, which for 50 years was fertile ground for the surface preparation industry, is now a
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“mature region,” said Joyce, attributing the decline to “an unprecedented shift in regional manufacturing.” Western Europe and Japan also fall into the “mature” column, he added.

“In the history of the world there’s never been a shift like this short of a major war, where capacity has shifted literally over night. And this is being driven by the low-cost labor rates.”

To serve its customers, Wheelabrator “must go to where demand is, not was.” That demand is in China/Asia, Russia, India and Eastern Europe, “where everyone is moving their production,” said Joyce. “These are separate regions and one business model doesn’t fit all.”

In Russia, for example, the company deals with pervasive corruption by doing most of its business through third parties. “We tell our agents what they’re allowed and not allowed to do.”

Long-term growth or short-term profits?

Throughout most of its history Wheelabrator has been a subsidiary of a string of larger publicly traded companies. In 2006, through a management buy out and private equity funding, Wheelabrator became an independent company in charge of its own destiny. More or less. Private equity investors are about returns in the short term not growth in the long term. The short term is five-seven years. So if a company has a 10-year vision and needs additional funding to get there, chances are investors will keep their checkbooks closed.

“No private equity investor in the world is going to make an investment that takes more than five years to pan out.” So along with the challenges of expanding into foreign markets, “the issue then becomes whether the CEO should lead to achieve long-term growth for the business or create short-term profits for investors.” Joyce’s outlook is positive. “My approach is that we’re going to match investors to our strategy with the view that we’re not going to get fired in five years.

“My next buyer will probably be focused on Asia-Pacific or India because that’s where I have to make my next investment.” Joyce points out the pitfalls of private equity financing: “If GE were owned by private equity in the 1930s we wouldn’t have a GE today; it would have been broken up into pieces and sold off.” On the other hand “private equity forces management to be accountable and to be cash efficient.”

In addition to juggling expansion and investor needs, Joyce and his management team must raise the company’s sensitivity quotient as it pertains to cultures in a multiethnic, multi-theistic global environment. Wheelabrator’s employees represent every ethnic background, every religion in the world.

Also, because Wheelabrator has had so many parents in growing up, “integration never occurred and there’s no common culture within the company.” Joyce aims to correct this and instill in employees “a continuous improvement mentality.”