Industrial Manufacturing 2013 – United States
Areas of focus, challenges, and business strategic initiatives

Areas of focus

- Geographic portfolio mix adjustment to high growth regions such as Asia, particularly China, the Middle East, Latin America, and Russia.
- Restructuring efforts: spin-offs, carve-outs, divestitures, and factory close outs in slow growth markets and cyclical segments persist.
- Utilizing cross-selling synergies and full and timely integration of acquisition targets.
- Rebranding efforts related to the restructuring/business separation.
- Business portfolio transformation with a focus on aftermarket services and highly engineered solutions in the energy, oil and gas, automotive, water, and mining end markets.
- Business structure simplification, disciplined cost controls, strategic sourcing, and strong management of indirect expenses with the goal to streamline businesses, synergize processes, and support field operations.
- Strong culture of collaboration and customer focus prevails, enabling producers to be closer to customers and better able to understand their needs and requirements.
- Focus on specific customer needs, new industry standard in fuel efficiency and emissions control by delivering fuel savings, best-in-class performance, and lower lifecycle cost.

Key challenges

- The pace of growth is unusually weak for this stage of a recovery cycle with softness in developed markets such as Europe, Canada, Australia, and Japan, resulting in a cautious business environment.
- Fiscal cliff and tax structure uncertainty are hampering supply chains and demand projections.
- Weakening demand from China and lack of clarity about what the next generation leaders are going to do relative to their global investments and also investments to stabilize the Chinese economy.
- Negative impact of foreign currency translations.
- High restructuring costs and unfavorable dis-synergies from separations.
- Deferral of large capital investments from customers and execution delays on some projects related to acquisition integration.

Strategic initiatives

Manufacturing costs and productivity initiatives

- Simplification efforts include restructuring and disposition of less profitable, slower market growth facilities.
- A move from a business unit centric to a regionally led strategy with a shift away from high price point western design products to a mid-price point product approach in an effort to better serve emerging markets.
- Disciplined cost controls, cost structure improvements through consolidation of global sourcing and procurement, and strategic cost synergies from acquisitions.
- Hedging the impact of energy, metals, and other commodity prices as a tool to help earnings.
- Factory transformation toward gas-fueled manufacturing as a result of the abundance and favorable pricing of shale gas.
- Productivity savings primarily through Lean Manufacturing and Six Sigma.
- Technology leadership and a strategy of project selectivity with the goal of margin improvement.
- Focus on end user aftermarket strategies, commitment to localization, and improvements in time delivery, supply chains, and past due backlog.
- Regimented pricing policies, project selectivity, and improvement in overall contract execution.

Financial initiatives

- Dividend pay-outs, including a special, one-time dividend, influenced by the expectations for tax schedule changes in 2013.
- Share-repurchasing programs often aimed at retiring the shares issued before the financial crisis, and returning significant levels of cash to shareholders.
- Planned debt reduction and debt refinancing to take advantage of attractive debt markets and improved investment-grade corporate status.
- Commitment to strategic, balanced, and disciplined capital deployment.

Growth opportunities, R&D, and new product development

- Productivity continues to fund innovation and technology investments, which in turn is driving volume growth and expanding operating margins.
- A disciplined acquisition strategy with a focus on strengthening of geographic footprint, as well as acceleration of innovation and technology.
- Focus on execution and successful integration of bolt-on acquisitions.
- Investments in R&D, new product introductions.
- Sales and marketing initiatives at the local level, particularly in emerging markets and where the purchasing decisions are made.
- Investment in high-value added businesses and technology, specifically in creating ecosystems containing the main product offering and security, service, and maintenance features with the objective of helping clients reduce cost and cycle time and footprint, and improve safety and security.
- Geographically, end markets with significant growth include Latin America, particularly Brazil, Middle East, China, Southeast Asia, India, and Russia. In the United States, solid demand across key end markets of auto, chemical, mining, general industry, and oil and gas.

Sources included financial reports filings, investor call transcripts, press releases, and company websites.

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