Makers of Construction Gear Altering Strategy to Survive

By Harlan S. Byrnes

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 sell the business entirely. To reduce production, they're laying off tens of thousands of workers. To cut inventory, they're discounting last prices widely more than they ever have before.

Since peaking in 1974, business for most construction equipment companies has gone downhill. Unit shipments of construction machinery in the U.S. dropped 16% 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 Rimer H. Ricklefs, 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 1978 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 Hill Holding AG, a German conglomerate. Rexnord Inc. sold its construction machinery unit in Europe and 20-year-old Dale, now CEO Bruce Parkin, vice president for sales of Palfen Tractor & Equipment Co., a Caterpillar dealer. "I saw a used machine that would have brought $150,000 last year sell for $50,000 at auction the other day," he says.

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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.

Even the market for used machines has crumbled. In the Chicago area, prices that are paid for used machines are down more than 30%, says Bruce Parkin, vice president for sales of Palfen Tractor & Equipment Co., a Caterpillar dealer. "I saw a used machine that would have brought $150,000 last year sell for $50,000 at auction the other day," he says.

Rental and Rebuilding Rise

Instead of buying, more and more contractors are renting equipment. "We've been in business a long time but haven't ever had such a downturn," says Mr. Gersteinberger.

Construction machinery varies widely in price, depending partly on the size of the equipment. Bulldozers, for instance, cost from $8,000 to $30,000. Demolition 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 a 30% decrease in the number of new excavating and concrete-paving jobs going on now than there was five years ago, says Harry Landberg, vice president of the American Road and Transportation Builders Association.