Gary Bell   Masaaki Hirose   Al Quinn

INSIGHTS FROM THE HITACHI LOADERS AMERICA EXECUTIVE TEAM

In our last issue we introduced our three-member executive team: Masaaki Hirose, president; Al Quinn, vice president of operations; and Gary Bell, adviser to the president. In this issue they expand on the knowledge they shared with additional insights into the industry and HCMA's place in it. With each having more than 20 years' experience in the industry, our executive team members provide not only experience, but wisdom.

What is a trading company structure?

GARY BELL

In Japanese business, there's what are called trading companies, which are like brokers. They take manufacturing companies like Hitachi or Kawasaki and say, "We will put you in business in this or that country because we have all the political and business connections and we know how to do export and import, paper work and all the stuff that needs to be done for a company to do business offshore." Manufacturing companies many times don't have that expertise, but these trading companies specialize in knowing how to do business in many different countries. And the Japanese are experts at operating the trading companies and they can operate them at minimal margins. Despite the small margins they are immensely profitable because they handle such huge volumes.

When American companies have tried to mimic Japanese trading companies, they haven't been able to compete because they can't operate at a thin enough margin as to make it competitive, and they can't get the volume to make the margins come out. So the Japanese are probably the best in the world at that kind of business. Mitsubishi is a trading company. Sumitomo is a trading company. There are many big trading companies.

Sumitomo is the trading company that we started with here. They owned 65 percent of this company originally. Their downtown New York office handled east of the Mississippi and their downtown Houston offices handled west of the Mississippi. And we had six dealers in each region.

Of the original 12 of us who started the company, there are only two of us left: Ray Guerra in our parts department, and me. Ray started a week before me, so he has seniority.

What is the challenge of bringing a Japanese wheel loader manufacturer to the U.S. market?

MASAAKI HIROSE

Hitachi Construction Machinery includes compact wheel loaders while KCM offers large wheel loaders, so with this merger we cover both ends of the market. In Japan, most of the demand for the wheel loaders is for compact machines and Hitachi has almost 40 percent of that market. In the U.S., nearly 80 percent of unit sales are large size and compact loaders are only 20 percent of units sold. Therefore, when Hitachi got into this market, we needed KCM technology for the larger size wheel loader. That's when Hitachi sought to acquire KCM.

AL QUINN

More than anything the merger puts another top tier supplier into the product mix for the customers. Kawasaki was a great product, but very much a niche player. Now that we are part of Hitachi, we're a clear market leader in the construction industry. It's clear that loaders are going to continue to be a big part of that business, and it gives a top brand option to the customers that are looking for an alternative to Caterpillar and John Deere, for example.

To me the biggest thing is stability. Suddenly, you're a market leader with a strong commitment to being in the wheel loader industry. So, there is really no doubt about the long term future of Hitachi wheel loaders. And that's a big improvement over what we had as Kawasaki.

GARY BELL

When Kawasaki had an opportunity to sell their loader business, they sold it. Transitions can be challenging, and from 2008 this transition was tough. Kawasaki had control, but they didn't have any real interest in the business. Hitachi had interest in the business, but they did not have any control. We were kind of in this kind of limbo where we couldn't do much because the guy that was in control didn't want to spend the money or take the risk because he wanted to get out. And the guy that was in it for the long pull couldn't make any demands because he didn't own enough of the company to make demands. In October 2015, Hitachi bought out 100 percent of the company and it's been much smoother since.

What important developments are affecting the industry and how can we benefit from them?

MASAAKI HIROSE

Employee motivation is very important for any company. As management we need to think about and pay attention to each employee's motivation. Motivation is one by one, done on an individual basis.

AL QUINN

I think the biggest challenge is to recognize that we need to change and then to have the willingness to do so. I think the environment in the construction industry has been very stable and the situation at Kawasaki was very stable; we are entering a new phase where a lot of change will be required. The expectations are much higher and that also drives change.

So the critical steps are to get everybody to buy into the need to change and then make sure we understand the need for what must be done. Putting those two together is a real challenge.

GARY BELL

Years ago, someone predicted that the Internet would put dealers out of business, that people would just go online and order like they do on Amazon.com. That's never even come close to happening. I don't see any movement in that area any time soon. With a capital good like ours you're not just buying the product; you're buying a 10-year relationship with a supply chain that's going to keep you running efficiently and treat you fairly. It's not something you want to buy off the Internet and hope you can get service later. It may evolve that way. It's been predicted almost since I started in the business that it would happen, but it hasn't happened yet.

With the introduction of Hitachi brand wheel loaders, how will you support Kawasaki wheel loaders?

AL QUINN

There will be no change. The population is big…we have a lot of machines out there. The fundamental structure of the machine is not changing radically so we expect to continue to support [Kawasaki and KCM loaders] for as long as customers want to own them.

GARY BELL

We will support the Kawasaki loaders that are out there that we've sold over the last 35 or 36 years as well as or better than we ever have. The introduction of the Hitachi brand loader doesn't affect how we would support the old loaders.

How will the KCM/HCM merger affect the construction loader industry?

MASAAKI HIROSE

HCM has distributors all over the world, but most of them are our subsidiaries. We own up to 100 percent of the distributorship. The U.S. market is unique for Hitachi because the dealers are not our subsidiaries. Sometimes we need to compromise and it's very important to have win-win situations. If they are not interested, they can walk away which would not be an option for a subsidiary.

AL QUINN

For too long there have been the same players, not a lot of innovation, so I think the biggest opportunities are that it's an industry that's crying out for a little bit of innovation either from a product perspective or from a business process perspective. We have been doing business with the same kind of products, with the same kind of business structure for a long time, so I believe there is going to be an opportunity to shake things up. A good example could be Tesla in the automotive [industry?], where they are going to market a different way. We see a lot of different kind of breakthroughs in industries and we haven't seen that yet in the construction equipment, so I think something will come.

GARY BELL

Because Hitachi is 100 percent construction equipment, we've gone from this kind of conglomerate heavy industry company of Kawasaki to this very focused Hitachi Construction Machinery. They are both about the same size, but we're a substantial part of a substantial construction equipment company instead of being a small construction equipment division in a conglomerate. Hitachi understands exactly what we are up against, what the market requires. We don't have to explain to them who our competitors are, what the market is like. They have worked their whole life in this business too, so we don't have to convince anybody what's needed and that's a big strength in this situation. They know what's needed, they just need to get it done.

Kawasaki 95 Series wins Lowest Cost of Ownership Award

Compared to other large wheel loaders, the Kawasaki 95 Series offers the lowest five-year total cost of ownership at $140,933, according to EquipmentWatch, a provider of heavy-equipment data and intelligence.

EquipmentWatch presented 2017-18 Lowest Cost of Ownership Awards to machine models in 15 categories.

"We're excited to launch the Lowest Cost of Ownership Award, with the goal of helping equipment buyers objectively understand the best-performing machines," says Garrett Schemmel, vice president of EquipmentWatch. "The LCO Award provides clarity to a critical question that owners of equipment have long wanted answered."

EquipmentWatch calculated ownership costs using established Rental Rate Blue Book numbers and methodologies, along with its own residual-value and utilization data. In addition to average annual use hours and residual values, analysts used original price and other standard cost factors for each model. They ran this calculation for each model within a series, once for each of the first five years of the machine's economic life.

The Kawasaki 95 Series includes: the 95Z7, with a bucket capacity of 7.3-8.1 cubic yards, operating weight of 75,570 pounds, 388 horsepower engine and breakout force of 53,730 pounds; and the 95Z7 XT, with a bucket capacity of 9.0-9.8 cubic yards, operating weight of 79,080 pounds, 388 horsepower engine and breakout force of 68,120 pounds.

New tax law lowers rates for construction firms, protects project financing and credits

In addition to lowering the corporate tax rate from 35 percent to 21 percent, the new tax law offers a plethora of benefits for construction firms – but it didn't start out that way.

"Initially, the tax reform bill provided little relief for many construction firms organized as pass-throughs, such as S-corps, limited liability corporations and partnerships," says Stephen E. Sandherr, chief executive officer of the Associated General Contractors of America.

Under the final version of the bill, pass-through entities will be able to deduct up to 20 percent of their net business income, with some restrictions.

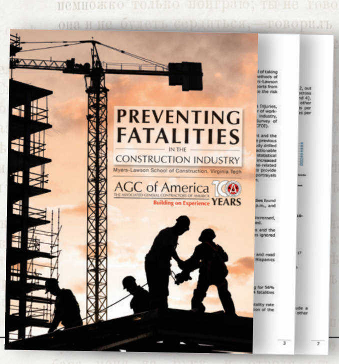
Early versions of the bill eliminated private activity bonds, which are important to the financing of transportation infrastructure, low-income housing and other public construction and public-private partnership projects, and repealed the Historic Tax Credit, a 20-percent tax credit that applies to historic-building rehabilitation and renovation projects. The final bill protects both private activity bonds and the Historic Tax Credit.

The new law, which takes effect with the 2018 tax year, also doubles the estate and gift tax exclusion to $11 million. Heavy equipment manufacturers and dealers will see advantages under the new tax system as well, which industry experts say should spur growth across the construction sector.

Construction safety report: Age, region, trade and time of day are major accident factors

A study of construction-industry accidents can help company owners, supervisors and safety officers better target training and other safety-related activities.

The Myers-Lawson School of Construction at Virginia Tech conducted the research and created the 30-page report, titled "Preventing Fatalities in the Construction Industry." With a goal of helping the industry develop strategies to reduce workers' injury risks, researchers analyzed detailed fatality reports from three recent years.



To view the report for free, search "Preventing Fatalities in the Construction Industry" at agc.org.

AEM's 'Behind Every Product' campaign spotlights economic impact of heavy equipment industry

The off-highway equipment manufacturing industry contributes $159 billion to the United States' gross domestic product and supports approximately 1.3 million jobs, according to a 2017 report by IHS Markit.

To watch the video, search "Behind Every Product" at YouTube.com.