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THIS WEEK'S ISSUE

Machines on the move

Manufacturers seeing shift in production capacity as some companies able to profit from increased work seize opportunities

By **DAN SHINGLER**

4:30 am, July 13, 2009



Manufacturing is on the move. Or at least its production capacity is.

The economic slump that has hammered auto suppliers and other manufacturers has meant that some shops have shut their doors, others have reduced their capacity, and still others have had equipment pulled from their floors by customers who own the gear used to make parts for them. It all adds up to an exodus of good equipment and machinery from companies that can't put it to profitable use, to those that can.

"There are going to be half as many of us, but we'll each be twice as big when it's all done," said Steve Peplin, owner of Talan Products, a small metal stamping company in Cleveland, as he talks about the potential impact on manufacturers of the current weak economy.

Mr. Peplin is not smug about the matter; he knows the pain some of his competitors are feeling, and he has had to lay off a few employees himself this year. But he plans to be one of the twice-as-big survivors when the dust and metal shavings settle and the economy picks up.

Mr. Peplin said he's turning competitors into customers by helping other companies "decapitalize." He buys their equipment with the stipulation that he'll use it to produce and sell to them the same parts they formerly made for themselves.

If that sounds counterproductive, consider some of the arguments Mr. Peplin uses. The selling company no longer must keep its assets tied up in the equipment, it doesn't need to do maintenance on the machines, and Talan might be able to take a machine that only is used 20 hours a week and put it to work for 40 hours and more.

And he pays more than the equipment is worth on the used market.

"We pay a lot more, because it's part of the incentive for them to come work with us," Mr. Peplin said. "We're buying the work and getting a multiyear contract."



Steve Peplin, the owner of Cleveland metal stamper Talan Products, says his company will grow stronger by putting to use machinery from other companies.

Photo credit: FILE PHOTO/JANINE BENTIVEGNA

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These deals are steals

In other cases, manufacturers have little to no say about whether their production capacity goes. They — or sometimes their bankers — are shutting plants and auctioning off equipment to buyers such as Tina Haddad, who think they can put the equipment to profitable use.

"It's like my dad used to tell me: "Why buy a new car when you can buy a used one?" said Ms. Haddad, owner of R-H Industries, a small metal fabricator on Cleveland's West Side.

"Buy it in good shape, do your homework — and let someone else take the \$10,000 in depreciation," Ms. Haddad said.

In the last two years, Ms. Haddad has bought a laser cutting machine at an auction for \$40,000, even though it sells for \$500,000 or more new. She also bought two pieces of wire-bending equipment for \$7,000, complete with the tooling she needed to operate them. Those machines retail for \$40,000 to \$50,000 each, she said.

Ms. Haddad said she even bought a minivan-size, metal-spinning lathe this year for \$2,900 — less than it likely would have fetched at a scrap yard just a year ago, when various grades of steel and iron were bought by smelters for \$500 to \$700 a ton.

Others have had great deals thrust upon them.

In Avon Lake, Thogus Products CEO Matt Hlavin said his company has picked up more than 120 new molds since last November from owners who wanted to move their production to a stable company they were confident could continue to produce high-quality parts.

In the injection molding business, Mr. Hlavin said, customers often own their own molds and pay molders to use them to make parts. These days, he says, customers are looking at weak suppliers and are deciding they can't risk seeing the ship go down with their valuable cargo on board.

"We're expecting to see 200 more tools come in here by the end of the year," said Mr. Hlavin, who added that he's been aggressively courting such opportunities with existing and potential customers for about two years.

Because of the added work, Thogus has hired three new engineers since the end of April and plans to hire more production staff later this year.

"I'm feeling it'

In Euclid, HGR Inc. — known in its advertising as HGR Industrial Surplus — also is trying to cash in on the movement of equipment. The seller of all things industrial — from small tools to entire computer-controlled machines — has 12 acres of used equipment under roof and also sells smaller items on eBay, said HGR co-owner Ron Tiedman.

"Now I'm hearing people say, "I'll buy from you, because my company won't allow me to buy anything new," Mr. Tiedman said.

But it's not been the bonanza at HGR that some might expect.

That's because Mr. Tiedman generally buys his equipment from *Fortune* 500 companies and sells it to smaller companies. In good times, he said, sellers are eager to unload their equipment because they want to free up space quickly for another use, while buyers want to expand because they think sales will increase and credit is available.

The downturn has decreased the urgency sellers have to clear space and has taken many potential buyers out of the market even for used equipment.

"This automotive slowdown, the people it's really affecting are the smaller suppliers," Mr. Tiedman said. "Those are the same people who come here to buy. That's why I'm feeling it."

For those that still are in the market for used machinery, there already are signs that the best bargains soon might be tougher to find.

Ms. Haddad said she's receiving fewer notices of live equipment auctions in Ohio and the Midwest.

"At one point, I was seeing between five and 10 auction notices daily," she said. "Now I see about one a day, but I'm not sure if that's not just because it's summer."



Matt Hlavin, CEO of injection molding company Thogus Products, said the company has added 120 new molds from weaker companies.
Photo credit: FILE PHOTO/MARC GOLUB

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