

## Consolidation is Coming – Very Soon – in the Materials Handling Supplier Market

### Amid Inevitable Trend Towards Consolidation in a Down Market, One Major Merger is Imminent; Too Many Conveyor Manufacturers for Even a Healthy Market?

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The trend in industries from grocery store chains to supply chain software has been for consolidation among players in each sector, and as usual the current economic slowdown will likely accelerate the pace of mergers and acquisitions across the economy.

SCDigest predicts the automated materials handling industry will soon see rapid consolidation –and can report that one mega-deal in the industry will likely be announced very soon.

SCDigest and Distribution Digest first heard rumors of this potential combination between two of the most well-known suppliers in the conveyor systems industry at the ProMat show in Chicago in mid-January. Since then, we have spoken with several industry insiders, including current and recently departed employees of both the companies involved, and can confirm that a major merger is likely to be announced within weeks or even days. These conversations were conducted with the promise that the specifics would not yet be detailed, and we are of course respecting those agreements.

Nevertheless, the combination makes sense for a number of reasons, and we are told the financing is in place to support the merger (which is a bit complex), though in this environment something could still happen at the last minute to scuttle the deal. We believe, based on our conversations, that the merger will be announced very soon.

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many domestic and international providers versus the available market for most if any of them to be consistently profitable. This over-supply condition is often exacerbated given the notoriously cyclical nature of the materials handling equipment market, which the Materials Handling Institute of America (MHIA) has documented many times.

With the current economy presenting a trough at the bottom of the cycle as low as most of these companies have experienced in decades, it is logical that mergers and acquisition activity would accelerate. The primary driver will be to find cost “synergies” that can goose profits of the combined companies – generally meaning layoffs across virtually every functional area of the new merged entity.

Mergers may also be triggered by the fact that some vendors simply lack the capital to survive a prolonged dip in sales, and are eventually acquired on the cheap by better financed rivals.

## **Consolidation is Coming – Very Soon – in the Materials Handling Supplier Market (Con't)**

The good news is that the impact of these mergers on the existing customers of the material handling vendors involved is usually modest at best, versus say the software industry, where an application such as a WMS may suddenly become a "dead product" following a merger. This can happen, for example, when the combined company decides it is not going to invest in one product when another WMS exists in the combined company.

However, most existing customers of either company in a materials handling industry merger can expect their current hardware to be supported indefinitely.

Warehouse/Conveyor Control Systems are another matter, however; it is likely that one control system in merged providers will be chosen as the "winner," and the other system will receive fewer development resources over time.

There can also be differences in "culture" and approach to customer service between two

merged companies – issues which can be exacerbated for months after a merger as employees on both sides try to understand what the impact will mean on them, how they will be affected by realization of the cost "synergies," work assignments are changed, etc.

The bigger impact will likely be in reducing the number of total material handling system providers and slightly improving the supply-demand balance in the vendors' favor. However, for quite awhile there still should be plenty of options even if several major mergers do occur, especially since the US market has seen many European and Asian competitors enter the market in the last decade.

