Railcar COMPONENTS MAKER Rides Out Cyclical BUSINESS with STEADY COURSE

by KATHY KEENEY

Miner Enterprises, founded in 1894, has weathered many economic storms over the years—including the Great Depression. There are, no doubt, many reasons for the company's longevity, growth and success, but none more important than its sharp customer focus.

Getting close to the customer is always good business. But it's particularly vital during an economic downturn like the one that the railroad industry is experiencing along with other businesses.

That focus manifests itself in many ways: attention on the product development and R&D side on ways to reduce the overall costs of railcar ownership, quality improvements, standing behind products, and jumping on a plane if a customer needs training or other support in the field.

Kris Jurasek
President

"Today, you need to deliver more than the product that shows up at the customer's dock," said Kris Jurasek, president of Miner. "If you don't, somebody else can duplicate the processes and take the business away from you."

"We like to think that our customers are doing business with us for reasons beyond just the product," added Ric Biehl, vice president of sales.

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Vice President of Sales

Miner executives are quick to acknowledge that they have some large competitors in their operating space. "We look for ways to differentiate ourselves," Biehl said.

Today, Miner's railroad business has about 250-300 full-time employees. Railroading represents about 80 percent of Miner's sales, with the balance coming from Autoquip – a material handling business, Powerbrace – a trailer hardware business, and MEPC – an injection molding business.

Railcar builders are the largest segment of Miner's customer base, followed by the Class I railroads. "Certainly the railcar leasing companies have been very loyal customers in terms of specifying Miner products for new car construction and repair maintenance. Also contract repair shops are a substantial portion of our business," Biehl added, "as well as shops that are captivity held by leasing companies."

Both Jurasek and Biehl emphasize that the company is always exploring ways to make railroading lower cost. "Whether you are a railroad, shipper or a leasing company—we are looking at ways to reduce the cost of car ownership up front and long-term on the maintenance side. Having the resources to explore those opportunities in-house via our R&D department really speeds up the development process," Biehl said.

Miner performs car testing in-house for its major customers. "We don't sell railcar testing as a business, but we offer that service as an incremental benefit to those customers," he said.

Miner engineers and manufactures a variety of products, including draft gears, constant-contact side bearings, discharge devices, brake beams and unloading systems. Draft gears are still Miner's bread and butter, but its product mix is driven by car types being constructed. The new product closest to market right now is a hatch cover that Miner plans to introduce in the last half of 2009. Miner says it's heard positive reports about the cover from field tests on 8 or 10 carsets of covered hopper cars in service with some of the major shippers and Class I railroads that haul grain.

It's working on improving the life cycle and performance of its constant-contact side bearing product line. It's planning to put into service soon a larger discharge gate for dried distillers grains and other sticky commodities.

Miner was recently picked by Canadian National Railway Co. to provide Miner ore car mechanisms for 232 new ore cars built by National Steel Car and to upgrade the draft gears on 500 existing ore cars. Miner's customized pneumatic longitudinal door mechanism and Miner TP-17 draft gears were specified for the new cars. The new air-powered Miner ore car mechanisms will automate and enhance the car's unloading capability. The draft gears on the 500 existing cars were also upgraded to new TP-17 gears.

Those aren't the only things new at Miner headquarters in Geneva, IL—there are also a few new faces. Bob Pokorski has joined the company as director of engineering and Eric S. Graves has joined as sales engineer for the Midwest region.

Pokorksi most recently served as vice president of equipment for TTX Company, overseeing the engineering and maintenance planning departments and the entire TTX maintenance operations. "Bob brought a different perspective to the business than we've had in the past," according to Jurasek. "Bob has in-depth knowledge and it's really about having the engineering group focused on the customer and not just the products."

"Eric knows the railcar business and, combined with our depth in research and engineering, our customers in the Midwest are going to benefit from his ten-plus years of engineering and operations management experience," Biehl said.

LOOKING OVERSEAS

International sales have been an increasingly important part of Miner's business. Miner has sold its products in 56 countries and has won two awards for excellence in exporting from the Department of Commerce.

"We've been involved in international rail business, on some level, for nearly as long as we've been in business. We've had a lot of success in the last 5-10 years in developing unique draft gear and constant-contact side bearings concepts for export in use worldwide," Jurasek said.

Today, 25 percent of Miner's business is exported out of North America. The largest country it exports to is Russia. "That's followed by Europe (if you treat Europe as one country), Australia, South Africa and Brazil and finally India," Jurasek said.

Many of these products are different than what Miner sells in the U.S., even though they are sold for similar-type operations.

Miner has a full-time salesperson in Belgium to cover Europe and Africa, a representative based in Finland to cover Russia, a representative in Brazil, and the agency Bradken Rail to cover Australia.

Outside of the U.S., the big money going into rail is in Russia, India and China, and of those, Miner thinks Russia and India have the best near-term potential. "China, we think, is still a difficult market unless you are willing to put a company over there to be comfortable that any near-term efforts will still be there longer term," Jurasek said.

"With India, Russia and I suspect ultimately, China, it's more patience and persistence than anything else. It takes a long time. We were involved in Russia on some level for 10 years before we had a sale," Jurasek said.

"Unfortunately, the world is participating in this [downturn] together," Biehl said.

In response to the economic slowdown in the U.S., Miner has reduced its manufacturing operations substantially in Mexico and rationalizing labor force at other plants. For its salaried employees, it is trying to pare down through attrition. "We are not doing any pre-emptive strikes, if you will, and we don't anticipate doing that. We like the folks we have here," said Jurasek.

Like many other rail suppliers, Miner's overall employment is down substantially from 10 years ago. And part of that is due to technology improvements. "We've worked our way down in terms of support staff even when business was terrific," Jurasek said. "When someone does leave, we assess the job requirements and look at its future and it's rare that we replace someone with the exact same background and skill set as the person that left."

"Even though there's a slowdown, companies are still moving equipment with our products on it, they are still installing our products and you want to retain those service levels to support the brand that we've all worked so hard to develop," Biehl said. "That's one of the reasons that we don't do substantial staff reductions when things slow down and, fortunately in the last 25 to 35 years, the business hasn't slowed down for very long periods."

Miner first started to see tangible signs of the downturn last August, when inquiries and orders slowed, but the management team had been preparing for the possibility for several years.

"Ric and I were at our plant in Saltillo, Mexico, two years ago talking to them about the challenges of moving from a product line for gates where you had few models and high volumes to lots of models and low volumes and the problems associated with that. We had been outsourcing a lot of the low-volume production and doing the high volumes down there," Jurasek said.

MINER'S HISTORY

W.H. Miner started the company with a draft gear concept more than a century ago. The W.H. Miner spring draft gears filled a need during the railroads' transition from wooden frames and the standardization of draft gear pockets, automatic couplers and braking systems.

W.H. Miner Division has since grown to include discharge gates and mechanisms, side bearings, and brake beams. The current company is a result of the 1968 purchase of W.H. Miner Company and Enterprise Railway Equipment. In 2000, Miner expanded its product line with the purchase of Buffalo Brake Beam.

The Withall Family owns Miner Enterprises, which has its roots in the company that was founded in 1894. It's the second family to control the business. The company was owned by a foundation after the death of W.H. Miner.

Miner came under Withall ownership in 1970 following an IRS rule change that foundations could no longer own operating businesses.

At that time, "we were thinking that we'd go from about 70,000 cars to as low as 30,000 or 35,000 cars," Biehl said.

Many industry observers predict that this slowdown could last longer than others in the last few decades. "We think that railcar deliveries are going to drop in 2009 to somewhere around 20,000 cars, that's coming off of 58,000. That's pretty substantial stuff," Jurasek said.

"These dips have happened before but you didn't have credit and banking systems crashing around you. Everybody's in this wait-and-see mode and I think you see that happening everywhere," he added.

In addition, there are unprecedented levels of railcars in storage right now. Recently, the three largest U.S. railroads said that they collectively have put a total of 107,000 railcars into storage.

Jurasek said he thinks his end of the business may start to see signs of recovery by the first half of 2010, noting that regulators and legislators in Washington could have a substantial impact on the business if they inject new highway building funds and jump-start the housing market.

"You have to remember that the federal government pretty much drove all this demand for ethanol with help from oil prices," he said. "It's been very good for our business near term. So you can have things that aren't necessarily directly connected with the economy that are driven by government policy that can make a big difference, both plus and minus, in a relatively short period of time. Activity around ethanol really died a quick death."

Biehl emphasized that global recovery will be required before a full recovery in the rail transportation business will be evident. "Export coal, export grain, and iron ore are global markets that are going to have to come back to create the kinds of business dynamics that drive rail transportation and the need for railcars in a bigger way than they have in the past. Everybody's business models are more tied to export business than perhaps any other time."

In the meantime, Miner will shift its focus into some other aspects of the market that it hasn't been able to pay full attention to because of high railcar demand the industry experienced in the last four or five years.

"We'll put more energy into the maintenance side of the business—with shippers and shops," Biehl said. "Shop managers make a lot of the buying decisions so that means we need to get out and see 25 or 26 repair shops in 25 or 26 different locations. Same thing with shippers…many of them get involved in the decisions on what railcar specialties are used in the maintenance of their equipment. There are lots of them in very diverse businesses and they are spread out."

MORE MERGERS?

Jurasek thinks that railroad mergers are going to be tough to accomplish in the future. "They've been very successful over the last 5-10 years and their share prices have held up in the Wall Street collapse. But there will be a lot of resistance from government for more rail mergers."

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He's on the fence about whether there will be mergers among railroad industry trade groups. "I don't know how much consolidation there will be there. I'm glad there's some conversation about consolidating or coordinating activity so there's better cost benefit for the participants." He's referring to plans for the Railway Supply Institute, Railway Systems Suppliers Inc., Railway Engineering Maintenance Suppliers Association and American Railway Engineering and Maintenance of Way Association for a joint exhibit/conference in 2011 in Minneapolis. That event is called Railway Interchange/2011.

"We're moving to a global marketplace," Jurasek continued, citing the railcar builders' investments outside of the U.S. "You can't go to both Innotrans (an international rail show in Berlin) and the RSI show. We'll see how Minneapolis/St. Paul works out."

"I think you'll see further railcar builder consolidation and more supplier consolidations in the future," he predicted. "I think in the last 15 years the industry has averaged 55,000 cars delivered a year. In the next 15 years, if that number drops to 40,000 or 45,000, that's going to require some consolidation among the suppliers and the car builders."

Miner is evolving its core expertise to support broader customer needs, including enhanced railcar performance and reduced maintenance and operational costs.