

# 2012 Industry Outlook Momentum stalled

**Modern's 2012 outlook finds that overall market uncertainty has slowed materials handling spending and has increased facility consolidation and engineered process improvements. Cost containment has returned as the most important issue of the day.**

By Lorie King Rogers, Associate Editor

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What a difference a year makes. Our 2011 industry outlook results showed that the materials handling industry was finally turning the corner, with budgets for equipment spending increasing from an average of \$395,000 in 2010 to \$451,000 in 2011. However, our 2012 *State of Warehouse/DC Equipment and Technology Survey* conducted for *Modern Materials Handling* by Peerless Research Group (PRG) shows forward momentum has stalled a bit.

To get a complete outlook of the

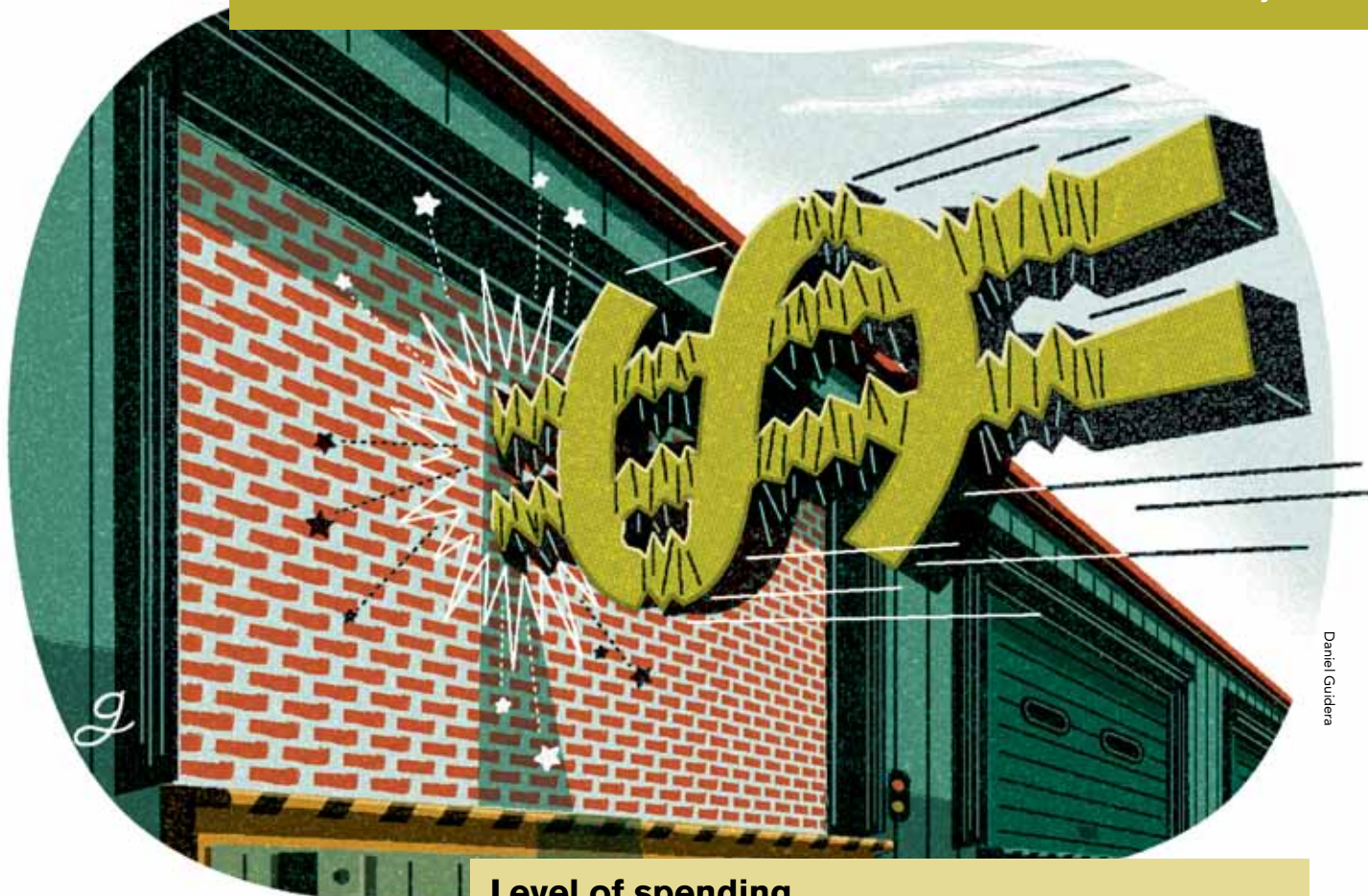
materials handling market, in addition to gathering feedback from readers, *Modern* reached out to industry experts for automatic identification and data collection, lift trucks, software and conveyor equipment. And, they're seeing much of what our readers are reporting.

For example, our survey results tell us that companies are proceeding very cautiously and deliberately with their decisions to invest in materials handling solutions. In fact, 46% say they are taking a "wait and see" approach and making only mission-critical purchases. And, 40% of respondents say the economy has had little or no impact on materials handling spending and they are proceeding with investments. Average anticipated spending over the next 18 months has barely budged at \$451,700. And, 92% of the respondents have rated cost containment as their No. 1 most important issue.

"What I hear from our members is that there is money out there, and there's a lot of quote activity, however, people are

## Respondent demographics

Questionnaires were e-mailed in January to *Modern Materials Handling* and *Logistics Management* readers by Peerless Research Group (PRG) yielding 314 total respondents from manufacturing (30%), warehousing (30%), corporate (29%) and other aligned professionals (11%). Revenues of responding companies range from large—24% have sales of \$500 million or more—to small—45% are under \$50 million. Only those responses from management and personnel involved in the purchase decision process of material handling solutions were considered.



Daniel Gutera

being cautious with regard to when they are releasing orders,” says George Prest, CEO of the Material Handling Industry of America (MHIA). When they do release orders, Prest says, they are looking for increased productivity and throughput in various products and processes, especially in the warehousing and distribution segment.

With the economy in flux, the materials handling equipment industry’s short-term future is simply not as rosy as hoped. In the next two to three years, fewer respondents (55%, down from 62%) are planning to increase their spending.

Over the next few pages we’ll dig deeper into the data gleaned from the survey while tracking changes in the materials handling market over the past year.

### Modern’s survey results

According to the respondents who say they are proceeding with investments,

### Level of spending

In total, over the next 18 months, approximately how much do you expect to spend on materials handling equipment and information systems solutions?

\$395,000

2010

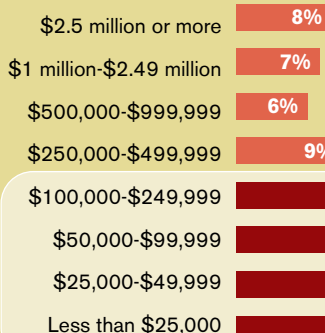
\$451,000

2011

\$451,700

2012

Spending level is **statistically unchanged** from last year.



For 2012, **70%** plan to spend **less than \$250K** on materials handling equipment and information systems.

Source: Peerless Research Group (PRG)

their dollars are going to such things as information systems, RF devices, picking and inventory systems, automation, storage and racking, and conveyors and lifts.

This year, 47% report spending the same amount on materials handling solutions as they did last year, while 35% report an increase. In 2011, the average spending increase was 25% and the median increase was 19%, compared to 17% and 12% in 2010, respectively.

Moving forward into 2012, 45% expect their company's spending on materials handling solutions to stay the same, while 45% expect an increase and 15% anticipate a decrease.

"One of the reasons our industry has seen growth is that there is money out there," Prest adds. "However, companies are cautious about hiring people so they are investing in existing facilities and making their people more productive. That's the sweet spot of our industry; that's what we do."

What do these numbers mean in

terms of dollars? Over the next 18 months, 15% of respondents say they expect to spend more than \$1 million, with 8% of those expecting to spend more than \$2.5 million. In the meantime, 23% expect to spend less than \$25,000, with the remaining 62% ranging in between. While the average, \$450,000, was flat between 2011 and 2012, the median anticipated spend is up slightly from \$77,000 to \$85,000.

### AIDC technology

Investing in automatic identification and data capture technology is one way for operations to make people more productive. And, according to our survey results, 51% plan to do just that: invest in information technology hardware and software solutions, or automatic identification and data capture (AIDC) technology.

"What I saw in the survey results lines up perfectly with what I see in the small-to-medium business (SMB) market,"

says Drew Nathanson, vice president of AutoID for the VDC Research Group. "The bigger guys have more money and are willing to be first and take more risk with their investments. The SMB market follows their lead and invests in well-established solutions. They don't have the resources to risk," explains Nathanson. So, whatever the solution, it has to be proven before they can adopt it. Nathanson adds that he sees that scenario as an underlying theme in this year's survey results.

"Within the warehouse, distribution center and yard, we're seeing growth overall in the AIDC market, about 5% to 6% in bar code, RTLS, RFID, as well as other AIDC solutions," Nathanson says, adding that this growth supports the continuing trend of end users using multi-modal data capture in their operations.

### Lift trucks reaching up

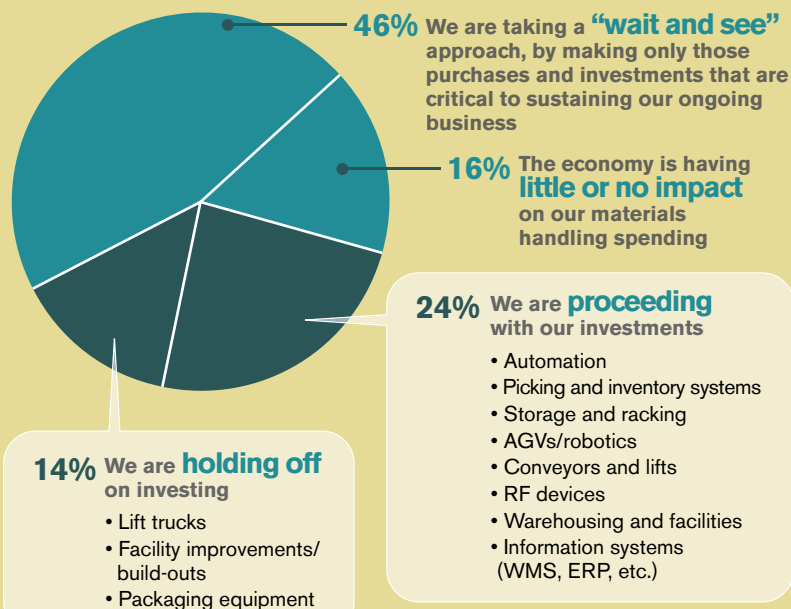
Lift trucks and accessories top the list for specific equipment that companies plan to evaluate or consider in the next 12 months. And, the North American lift truck market, which was up about 20% over 2010, is expecting another good year in 2012, says Jim Moran, chair of the Industrial Truck Association (ITA) and senior vice president at Crown.

Whether a company is growing or maintaining its fleet, Moran says the focus is on maximizing productivity within their businesses. "The market is seeing tremendous growth in products that involve fleet management," says Moran. Customers are interested in products outside of the lift truck itself—anything that manages the fleet and reduces costs, like data collection devices that gather information about the truck and the operator so they can turn that data into useful information that drives improvements."

In regard to the trucks themselves, customers are investing in electric trucks, particularly narrow aisle, turret and high-level stock pickers that can lift higher than before. That said, there's no doubt that people are being very cautious when it

## The economy's impact on spending on materials handling equipment and technologies

How is the present state of the economy impacting your spending on materials handling equipment technologies, services and solutions?



Source: Peerless Research Group (PRG)

comes to spending. According to Moran, most end users are still making their purchases on an ad hoc basis, which has been the norm for the last couple of years.

This tracks with survey results that indicated that 43% of respondents are currently concerned about the availability of labor, and 49% express concern over this issue in the coming years. In the warehousing and distribution sector, 52% of respondents rate labor productivity and management among the most important best practices, and that number spikes to 70% two years from now.

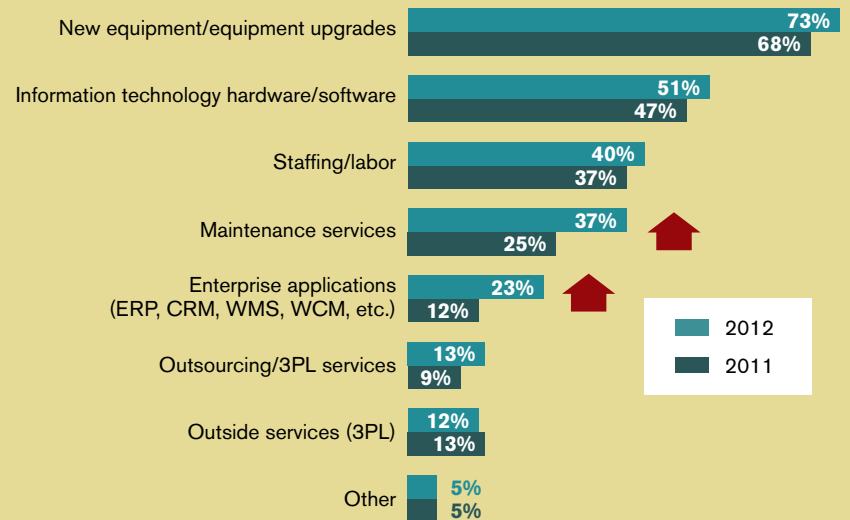
"It's always been a challenge to keep up with training and manpower," says Moran. Today's lift truck products are more sophisticated, but suppliers are making them easier to service because of shortage of people to service them. Lift trucks can perform more complex tasks, but at the same time, it's easier to diagnose and service problems."

#### A solid software market

Warehouse management systems (WMS) and enterprise resource planning systems (ERP) top the list for information management systems for specific materials

## Areas of investment

In which areas will you be investing over the next 18 months?



Source: Peerless Research Group (PRG)

handling equipment that companies plan to evaluate or consider in the next 12 months.

In the supply chain management software market, spending is on the rise and likely the result of pent up demand after the economic downturn, says Clint Reiser, enterprise software ana-

lyst at ARC Advisory Group.

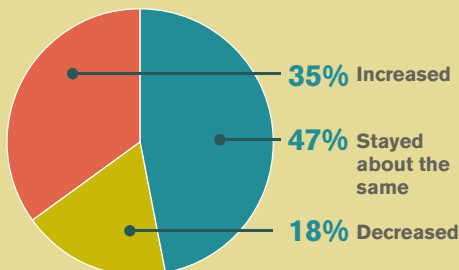
"Capital spending tends to be more volatile than the economy in general, but it's rebounding and we have taken part in the rebound," says Reiser. "The rate for supply chain planning applications is above trend."

Other factors keeping the market going well, he says, are the rise of sales and operations planning solutions, tools that analyze supply in conjunction with demand, and tools that enable scenario planning on the fly. According to Reiser, companies have other IT systems in place, but they are using these planning tools to gather data from disparate systems and bring it together for better overall planning.

Steve Banker, service director of supply chain management at ARC agrees. The recession interrupted a positive trend, but, he says, "I think we're back on an historical trend line of growth that is forecasted to be slightly

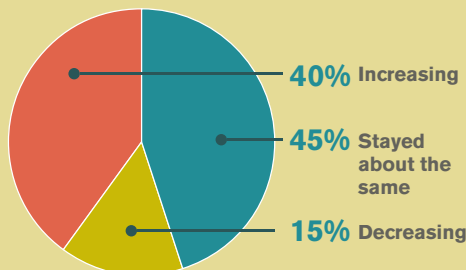
## The economy and materials handling operations trends

How does your company's spending on materials handling solutions this year compare with last year? And by what percentage?



Average %	2010-2011 increase	+25%
	2010-2011 decrease	-38%
Median	2010-2011 increase	+19%
	2010-2011 decrease	-29%

How do you expect your company's spending on materials handling solutions in 2012 to compare with 2011? And by what percentage?



Average %	2011-2012 increase	+25%
	2011-2012 decrease	-33%
Median	2011-2012 increase	+19%
	2011-2012 decrease	-25%

Source: Peerless Research Group (PRG)



## Future evaluation

Which systems and equipment are you likely to evaluate or consider during the next 12 months?

### Materials handling equipment for 2012

Lift trucks and accessories	56%
Racks and shelving	47%
Packaging, including palletizers, pallets and dunnage	34%
Dock equipment	34%
Totes, bins and containers	33%
Bar coding	29%
Systems solutions	25%
Mobile and wireless	25%
Order picking and fulfillment	26%
Conveyors, including sortation equipment	24%
RFID solutions/products	23%
Hoists, cranes and monorails	19%
Controls	14%
3PL services	14%
Automated storage	11%
Mezzanines	11%
Power transmission, including motors and belts	9%
AGVs	5%

### Information management systems for 2012

WMS (warehouse management systems)	32%
ERP (enterprise resource planning)	29%
WCS (warehouse control systems)	26%
Voice recognition	22%
TMS (transportation management systems)	15%
Other supply chain-related software	11%

Source: Peerless Research Group (PRG)

higher than rate of inflation.”

According to the survey results, 23% say they will be investing in enterprise applications over next 18 months. But Banker says end users tend to be overly optimistic and he doesn't expect that number to be quite that high. “Our experience is that these numbers are higher than when we get the real data from suppliers.”

## Conveyor on the rise

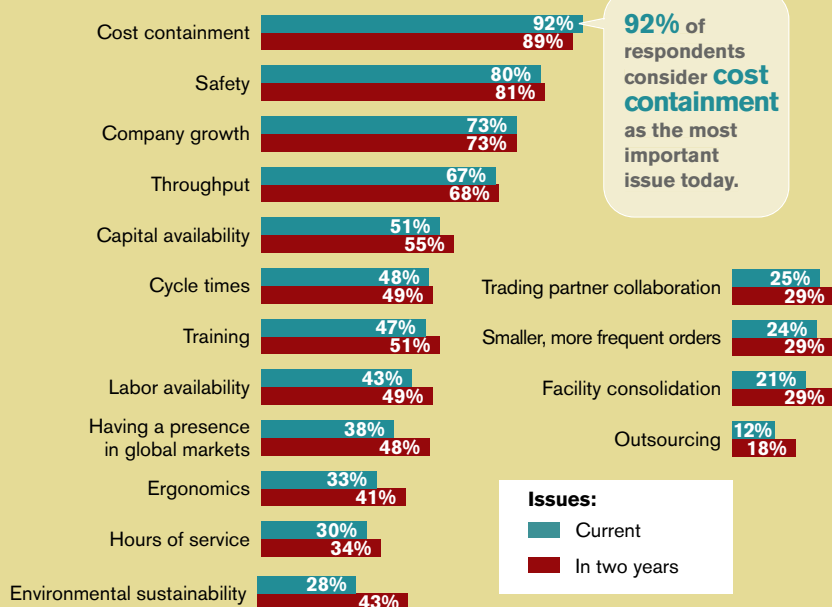
Once again, caution seems to be the watchword when it comes to future investments in conveyor and sortation systems. Survey results indicated that 24% of respondents are proceeding with investments in equipment that includes conveyor, but CEMA reports an anticipated growth of 10% in the industry for 2012.

According to Bob Reinfried, executive vice president of the Conveyor Equipment Manufacturers Association (CEMA), it's safe to say that every single category that CEMA tracks all had double digit increases over 2010, which he also attributes to pent up demand.

According to Reinfried, unit-handling equipment was the driving force. In unit handling, meaning equipment that handles light-to-medium loads of 500 pounds or less, 2011 was a record year for conveyor shipments, with about 30% growth that translated into about \$8.5 billion. With orders taking about six to nine months to result in a shipment, that means there's more money in the pipeline for suppliers. □

## Important issues today and in two years

How important are each of these issues today? Two years from now, how important do you expect these issues to be?



Source: Peerless Research Group (PRG)