

JANUARY 2007

► **Executive Insights: Peerless Pump Company LLC**

Dean E. Douglas, President and CEO

Critical Issues

During the past year, the pump industry has faced many challenges, including one that we have not really had to manage for the past fifteen or more years: inflation.

Pump prices have, in real terms, declined over the past ten years. For this reason, recent materials price increases have refocused companies' attentions on profit margins. The substantial increase in market activity and subsequent increase in demand has also led to some capacity issues for both up and downstream suppliers.

This has forced many manufacturers to deal with the unpleasant task of passing on supply-side cost increases to their customers. While rather mundane, these twin challenges are certainly consuming the attention of management in most pump companies. They are also elements of our performance that our customers care about, because they define the price we have to charge for our products and the time in which we are able to deliver them.



Dean E. Douglas

Current Trends

We know that many of our construction industry customers face the same issues from their other suppliers. The worldwide construction boom has caused severe shortages and massive inflation in many commodities, not simply pumps.

We are, however, very optimistic for the future. Witness the announcement of the construction of many "premium" building projects. For example, Bank of America's environmentally groundbreaking world headquarters project by Durst Construction in New York City, the World Trade Center 7 project; the first tower in Lower Manhattan to be opened after the 9/11 attacks, Laffan Tower; the Museum of Islamic Art in Qatar; the Taipei 101 Financial Center in Taiwan; and the phenomenal construction activity in business centers throughout the Middle East and Asia.

The owners of these types of buildings have chosen to put lifetime cost of ownership, reliability and the use of world-leading fire protection technology ahead of initial price. We are encouraged by this trend and believe, therefore, the investment climate will remain positive for an extended period.

Were the industry to revert to a cost-based mentality, then there would seem to be a serious risk that commodity price inflation and materials availability could curtail the current boom that most capital goods suppliers are benefiting from.

Technologies Offering the Most Competitive Impact

The pump industry is one which can play a vital role in an environmentally sustainable future. The Hydraulic Institute, in combination with the U.S. Department of Energy, has created the "Pumps Systems Matter" initiative. Already, many members of this consortium, including our company, have trained hundreds of engineers to save megawatts of power in their facilities. Apart from the real and obvious cost benefits, this shows a significant impact to balancing the world's carbon dioxide deficit.

As the global economy develops and demand for power and water increase exponentially, it will be vital that the pump industry, whose products consume a large chunk of the world's energy capacity, plays our part in developing efficient and environmentally enhancing products.

More important, however, is the technology - or rather educational role - that we must play to make sure our products are selected, used and maintained in the most efficient manner. This single contribution is the most vital one we can make to enhance positively the global contribution of our industry.

Additional Insights

Jack Welch, the former CEO of GE, once described an effective corporate executive as "someone who can change the tires while the car's still rolling."

With this in mind, and as we move into the 21st century global marketplace, clearly the companies that will flourish will have three distinct similarities:

1. They will embrace Speed - in all its forms (speed to market, speed in reacting to opportunities, speed to decision). They will, in essence, inject speed into all of their business processes as a key ingredient of differentiation.
2. They will have a Value Driven Culture in the fiber of their company. They will not only be focused on enhancing their own competitiveness, but also that of their customers. They will challenge their business model to constantly ask and answer the questions: How can we make the customer more competitive? What is critical to their success?
3. They will be positioned to be competitive on a Global Basis.