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State of the INDUSTRY 2009

Executives Discuss the Economy, Global Trends
and Strategies for the Upcoming Year

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**Letter from the Editor**

Our annual "State of the Industry" issue publishes during an important time in history. With financial uncertainty in a turbulent global market, and in light of a new U.S. presidential administration, experts in the pump industry still find reason for optimism and approach current economic challenges as business opportunities.

Even though the optimism is a bit gentle, our expert "Executive Insights" panel of top industry leaders is particularly candid this year and provides a detailed analysis of trends, issues and strategies for 2009. Read the entire report beginning on page 24 and let us know your thoughts.

Meanwhile, an issue that will certainly be discussed during 2009 is the stimulus package proposals in response to President-elect Obama's goal of creating 2.5 million jobs by 2011.

The U.S. Conference of Mayors released a report on December 8 (the same week we went to press with this issue of *P&S*) listing 11,391 "ready-to-go" infrastructure projects in 427 cities in search of economic stimulus funding. "Ready-to-go" in this report means implementing the projects quickly in 2009 with a goal of completing them in 2010.

This 803-page report documents 2,536 water and wastewater projects valued at \$15.4 billion for a total of 133,193 jobs. A link to the full report can be found on my blog at www.pump-zone.com.

In the coming months, there will be much water-cooler conversation within our industry about this topic, and *Pumps & Systems* will be covering it in print and online. We would like to hear from you about this as we anticipate much debate. There are many ways for your opinions to be heard. Contact me directly or visit our online forum—PumpChat. In addition, we now have an online social networking community, PumpConnect, which has a Facebook-type format and is the perfect place to express your views on this and other topics.

Happy New Year!

Best Regards,

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Executive Insights

Andy Gravitt, Vice President, Automation & Control
Schneider Electric North America



Business in 2008 and 2009

Overall, the Pump Segment business experienced significant growth in 2008, but not without its own special brand of market dynamics. For example, the well-publicized residential downturn significantly impacted a portion of our business; however, it was more than offset by significant growth in other sectors of pumping—driven by a combination of environmental legislation, increasing fuel and crop prices and the water crisis experienced in many parts of the United States. In addition, the weak U.S. dollar and the growth of emerging markets, especially in the Middle East and Asia, produced a healthy export business.

For 2009, we are approaching the market with guarded optimism. With recession declared and recovery forecast for 3Q09 as the best case scenario, the overall market will grant us no favors in the coming year. However, several bright spots on the horizon should result in continued growth, which will more than offset the economic downturn. This includes the continued impact of environmental initiatives and the water crisis. Probably the single strongest driver will be the ever-growing importance of energy savings potential in this market, at a time when investments that reduce costs will be top priority. Schneider Electric/Square D is well positioned to provide its customers with proven, energy savings solutions such as soft starters and variable frequency drives.

Critical Issues

The most critical issues are in three major areas.

1) Environmental concerns combined with diesel fuel costs. This two-pronged issue will continue to drive the conversion of diesel driven pumps to electrically driven pumps. A combination of local legislation and financial incentives from states and power companies will continue to provide incentives for users to transition.

2) Demand for energy reduction. It is a well-known fact that a tremendous potential for energy savings exists in most pumping applications. Because of oversizing and variable flow rate requirements, pumps frequently perform in the 50 to 74 percent efficiency range. The capability of variable frequency drives to reduce pump speed, which produces significant energy

"Probably the single strongest driver will be the ever-growing importance of energy savings potential in this market..."

savings, will continue to drive investment in this technology for both new and existing installations.

3) The water crisis, most recently experienced in California. Dramatic changes, including the reduction of ground water for irrigation, will result in increased well drilling.

Trends

There are several trends that complement the energy savings initiatives noted above. First, there will be an increased use of constant pressure systems to maintain flow. There will also be an increased use of soft starting technology to reduce water hammer and wear on the overall water system.

Pump OEMs will also take a much broader view of the pump system, working to supply total solutions to complement their traditional pump offerings. Smart drives will provide simplified solutions for pump load-sharing and increase pump life and reliability.

The development of Pump OEM-specific solutions will greatly simplify start-up and commissioning.

Additional Thoughts

In a market where core design competencies often reside in the mechanical space, electrical suppliers like Schneider Electric/Square D look to provide solutions and design support to help customers optimize their pump installations. Solutions built around co-design projects and pre-tested control architectures can optimize pump system design cost, and reduce time-to-market for new designs and installations. Customers who recognize the increased value provided by these offerings will be able to differentiate themselves in a competitive marketplace. They will grow long-term, despite short-term economic challenges.

Carl Christenson, Chief Executive Officer

Altra Industrial Motion

Business in 2008 and 2009

In 2008, business was very good for Altra Industrial Motion. Sales for the first nine months were up more than 15 percent from 2007. Adjusted for acquisitions, our organic sales growth rate was up just over 6 percent. We recently reconfirmed to our investors an earlier projection to finish the year at about \$640 million in sales.

More specifically, the energy and mining markets have been strong. We also experienced significant activity in the agricultural industry. Our business was strong in the water/wastewater sector, but even more broadly, in the pump and fluid systems end-user market.

Looking ahead to 2009, economic indicators that we track—including industrial production, the PMI and capacity utilization—indicate that 2009 will be a challenging year for industrial companies; however, we are prepared to deal with these challenges and intend continued innovation.

Our products are used to transmit power on all types of industrial machinery, and they do eventually wear out. Since most of our businesses have been around for a long time, there is a large installed base, so approximately 45 percent of our revenues come from aftermarket replacement parts. We expect revenue from this part of our business to continue in an environment of softer demand.

Critical Issues

Undoubtedly the financial crisis and the impact it is having on the global economy is the most critical issue facing nearly every market sector. The critical question is how quickly the global financial situation turns around and companies return to normal investment strategies. Even in this difficult environment, opportunities are available to improve performance and ensure that we are a stronger company in the future.

I believe that three priorities exist that will contribute to our company's success in this challenging environment. First, we are most successful when we can help our customers or end-users solve problems. Many companies will be looking to improve productivity and reliability, and they can focus on these factors when their factories or processes are not running at 100 percent of capacity.

Second, we have been working for several years on improving our response time. Quickly providing accurate information, short production lead-times and on-time deliveries give us a competitive advantage in our industry, and we are going to continue to improve in these areas.

Finally, we will continue to improve our cost position. Improving manufacturing methods to increase productivity, modifying product designs and utilizing advanced materials will enable us to achieve our cost improvement objectives.



There are some long-term global trends that are encouraging. We believe that energy, mining, agriculture, food processing and fluid systems are some of the markets that will grow significantly in the long-term. Global demand for drinking water, wastewater treatment, irrigation, improved nutrition, expanding transportation, better housing and energy efficiency will be some of the key drivers. Growth in these markets will not only occur in developed countries, but significant growth will also come in currently underdeveloped countries. Many growing markets use pumps and fluid systems extensively, so we will dedicate a significant portion of our resources to this industry.

Trends

In every market sector, companies are trying to improve the performance of their current equipment. It is important for us today to provide customers engineering and technical support to maximize their existing operations. With creative engineering, we are offering power transmission solutions that help increase uptime or improve efficiency—ultimately to lower overall processing costs.

Materials are also improving. We are able to use more sophisticated materials to make our power transmission products better and last longer. In the wastewater industry, we designed a specially-formulated elastomeric material into our Dura-Flex couplings to help them withstand UV radiation. We have also designed some drive shafts with composite materials, which provide corrosion resistance and a high torque to weight ratio that is critical in some pumping applications. We also recently introduced new stainless steel speed reducers that can withstand caustic washdowns used in clean environments.

Energy efficiency is also an important initiative in nearly every market sector. By engineering products and power transmission processes focused on energy savings, we and others are helping customers run production lines and operations with less energy, at lower cost per output and often at faster speeds.

Additional Thoughts

The famous quote, "These are the times that try men's souls," reminds me that our present global financial difficulties are not new to the world, nor will they last, nor should we leaders in the power transmission industry lose perspective. By continuing to execute our strategy, we will be a stronger company.

Solutions are the foundation of every engineering, manufacturing and industrial operation. As we seek and find *solutions*, they will serve us well going forward as they always have in the past.

Chris Wilder, Chief Executive Officer

Sealing Equipment Products Co., Inc. (SEPCO)



Business in 2008 and 2009

Much of our country is currently embroiled in an economic crisis, but for the most part the pumping industry has yet to experience the downturn as much as some other industries. In our industry, 2008 continued at the same economic pace as several previous years, but this does not mean the current economic situation should be taken lightly. Companies need to take appropriate action to ensure they remain viable.

Fiscal viability is only one part of the overall picture. One takes a step back and looks at 2008, monumental shifts began to take place that will impact the industry long after we have endured the current situation. Organizations began to analyze their total cost of operations in a broader sense of the definition instead of the traditional bottom line. Progressive groups began to realize that other factors affected an organization's "total cost of operating," or TCO. Companies began to view TCO in relation to how their footprints impact their surroundings, in addition to fiscal cost. Those surroundings are both environmental and human in nature; more specifically, they are how a company impacts the local community and its shared resources.

Proper stewardship of how operations relate to dollars will always remain the prime determining factor of an organization's success. In 2009, even more organizations will see increased value in the relationship between a company and its environment and realize this relationship will play an increasingly important role in sustainability.

It has always been in a company's best fiscal interest to use water as efficiently as possible. Companies now realize there are additional benefits, such as publicly being a thrifty consumer of the local community's shared water resources. Practicality and public perception will both be valued in the future, as this resource will become more limited and its consumption heavily scrutinized. The same will hold true for energy consumption. While it will remain economically prudent to use energy wisely, there is the additional benefit of being considered a good steward.

Critical Issues

In 2009, one critical issue will be the daunting task of mastering these larger objectives while maneuvering in increasingly difficult times. Organizations must maintain focus on the core principles of improving their process reliability, conserving water usage and efficiently using energy. These principles will matter in the next five to 10 years, and companies that make progress now will be far ahead of those that let an economic

downturn disrupt their focus. We believe there will be a trend toward forming partnerships with companies that provide customized solutions for an organization's unique individual footprints—solutions that will help them mitigate their impact on resources and energy and help them improve process equipment reliability.

SEPCO endeavors to provide these customized solutions by combining high performance fluid sealing solutions with our sustainability team. Our sustainability solutions focus on helping process system owners improve process and equipment reliability by making them the best possible stewards of capital equipment assets. It helps the facility reduce water consumption as it relates to fluid sealing initiatives. Finally, it helps the organization maximize the usage of energy.

The sustainability team surveys the sealing product utilization at the field level, helps identify areas that can benefit from higher performing products and consolidates solutions to maximize inventory performance. Water consumption is analyzed as it relates to fluid sealing processes, and a utilization study at the field level identifies the most inefficient areas of water consumption. Energy consumption as it relates to equipment using fluid sealing solutions is also studied to identify assets in which electrical operation costs are impacted by underperforming sealing products.

Once the survey, evaluation and detailed solution set generation steps are completed, thorough training is conducted on site. When moving to a higher performance set of fluid sealing solutions, training operation and maintenance personnel is critical. The solution set must be implemented and installed correctly, and those performing the tasks must get it right from the start or maximum performance cannot be achieved.

The environment for the sealing solution must be set up properly to take advantage of water consumption efficiencies. Only plant personnel with a thorough understanding of the principles involved can achieve this, so training remains vital to the project's success. Lastly, plant personnel can be trained to operate and maintain the system going forward with minimal effort but maximum results.

2009 will provide an opportunity for progressive organizations to distance themselves from the norm, and there are partners out there to help them achieve success.

Dean Douglas, President and CEO

Peerless Pump



Business in 2008 and 2009

2008 was another year of growth for our company; international and domestic business has exceeded our expectations. It was necessary to approach business in a more sophisticated manner as 2008 progressed and the financial markets became so capricious. With a new U.S. President, the financial market turmoil and continued, wild fluctuations in commodity costs, 2009 will be another interesting year. For some, it will be a year of pragmatic decision-making, acquisitions or disposals to advance capacity or retrench. CapEx and fixed costs are all areas where tough decisions will certainly need to be made. The companies whose growth only followed the growth of their sector, or those with a limited global footprint may struggle. Those who expanded their share and enjoy a substantial part of their sales from emerging global markets may find 2009 to be a decent year, regardless of potential negative outside forces.

Indeed, for many, 2009 may be the opportunity to test the old adage of fortune rewarding the bold. In many sectors, business may revert to a zero-sum-game where the only growth will come from earning it from the competition.

Critical Issues

The volatility in the financial markets and access to credit has our attention. We focus on non-residential construction and infrastructure projects around the world; the underlying demand for improvement projects remains high globally. The critical issue could prove to be the level of priority given these projects since the unavailability of capital dictates that only the most attractive projects will receive or retain funding. The solution may be far more complex than anticipated, or it may be as simple as following the plans that are in place and "staying the course" with the strategies that brought the growth of the last few years. It is not always easy to create sustainable growth while riding an economic boom, but those who were able may find themselves somewhat insulated.

Our focus will remain as it has been: 1) achieving financial results, 2) broadening our platform for growth, 3) improving working capital turns, 4) continually optimizing our product portfolio and, most importantly, 5) the deepening of our team's "Bench strength". As the "boomer" generation moves into retirement, the potential loss of skills and knowledge is serious and requires immediate action.

"...2009 may be the opportunity to test the old adage of fortune rewarding the bold."

Trends

I expect to see companies focus on the efficiency of their overall operation. We may see a greater emphasis on the value of sales as opposed to simply the volume. "Skilling up" the sales team to demonstrate value to our customers and improving our procurement strategy to roll back the huge cost increases our industry has seen in the past three years. Attention will likely be given to the return on capital expenditures, and we may see stakeholders take a long look at the economic value-added approach to their holdings. A focus on energy efficiency and "green" initiatives will continue, and now, perhaps even expand as a feature of President-elect Obama's manifesto. Though it is possible that some companies' green ambitions may become secondary in a difficult economy, the goal of operating and manufacturing products that are energy efficient should, and I believe will, remain a key strategy for most.

Additional Thoughts

Though it may seem difficult to possess a positive outlook for the coming 18 to 24 months, a solid vision and strategy supported with well planned, but flexible tactics, may prove to be the strength needed to approach an economy that most of our generation have never faced. A dedicated team of talented people, with an entrepreneurial spirit and intuitive thinking, could very well be the difference between growth and stagnation (or worse) in the coming year.

Dennis Wierzbicki, President
Grundfos USA



Business in 2008 and 2009

2008 will go down as an extremely interesting year in the mechanical equipment market, maybe not for the reasons most people think. History will highlight 2008 by a national election, economic fluctuations and credit market collapses, but the mechanical equipment market will generally view 2008 as a positive year.

The value of the U.S. dollar allowed for good growth in export markets, helping most in the industry to grow in 2008. The domestic market provided opportunities as well, but it occurred in specific targeted markets. Grundfos in the United States and globally will see another double digit growth year (organic). Even in a tough U.S. domestic market, we continue to grow. 2008 was a positive year overall for most in the mechanical equipment market in the United States and a positive year for us.

Our expectations for 2009 are not optimistic, especially for domestic markets. We believe we will continue to see a flat residential market and are not projecting any improvements in new home construction until 2010. The residential well pump market will continue to see increased legislation as the new government takes control and looks to focus on controlling residential water use. On the commercial front, slowing in capital projects is already occurring, and there is indication that we will see a continued reduction in capital projects for 2009 in this sector. Industrial markets, following the forecast of most industrial analysts, are moving into another industrial slow down in the United States. Overall, not a great forecast for U.S. domestic mechanical equipment markets.

On a more positive note, we believe there will be continued growth in some targeted markets and sectors. It will be important for mechanical equipment providers to focus on specific markets that will continue to expand. Remember, there are still a lot of running pumps in residential homes, commercial buildings, industrial plants and municipalities. Service and repair will continue to be an area of opportunity.

Critical Issues

Clearly one of the driving factors in the mechanical equipment market is the need for sustainable, energy efficient, green solutions. We believe these factors will continue to dominate conversations in the coming years. LEED certification, energy certifications and expected government credits for energy reduction will drive the mechanical landscape in the future. You cannot talk to an engineer, consultant or contractor in any

"Clearly one of the driving factors in the mechanical equipment market is the need for sustainable, energy efficient, green solutions. We believe these factors will continue to dominate conversations in the coming years."

sector working on a project today where energy efficiency, sustainability or green is not an essential part of these projects. Accordingly, government legislation will continue to increase in this area.

In the next 18 to 24 months, our industry will go through another cycle, where inventories will need to be managed closely, cash flow will become a dominant conversation on the financial strength of companies and pricing will be a challenge in day-to-day markets. Commodity prices continue to fluctuate and most recently have come down. How these will fluctuate in the coming 18 to 24 months will drive raw material purchases, inventory management and general pricing in our markets. All of this comes at a time when growth in industrial capacity is not expected, and capital projects for expansions and new developments will be closely managed.

Additional Thoughts

We will continue to focus on targeted markets. We will also continue to make investments in new technologies and continue to support the advancement of energy efficient and sustainable solutions for the mechanical equipment market. The United States is a place where innovation thrives, and new technologies drive the world thinking. As tough as the next 18 to 24 months may be on the economic front, the United States is still a great place in which to compete.

Ed Harvie, President

KSB, Inc.



Business in 2008 and 2009

The pump industry has had continuous strong order growth across most market segments throughout the first three quarters of the year, but FGD and conventional power plants have declined domestically due to changes in atmospheric emissions legislation. Demand internationally has been driven by continued demand for raw materials and equipment, especially from India and China as they continue to build their infrastructure and manufacturing base to export goods globally.

Most pump companies today boast substantial backlogs of work and improved profitability, so the financial turbulence would seemingly have no impact in the operations of this manufacturing segment. The pump industry, however, generally lags behind recessions and their subsequent recoveries by 12 to 18 months, so the full impact of the current economic crisis will not be felt until the first half of 2009. The uncertainty of the leading economies of the world in managing the complex problem of credit and market valuations of companies will make customers and suppliers more cautious in their pursuit of business.

2009 will be challenging for several reasons. The major economies of Asia, which have been driving the demand for commodities such as coal, oil, steel and natural gas, will reduce their projected consumption as their export markets reduce the amount of goods purchased.

Due to the reduction of available credit from banks and other lending institutions, large capital intensive projects for infrastructure will be postponed or cancelled. The subprime mortgage issue has fueled a drop in real estate values nationwide, which will lead to a subsequent drop in tax revenues for many municipalities. This in turn will mean fewer new treatment plants will be built, and the money available will be spent on maintenance and upgrades of existing facilities. The reduction in new residential and commercial construction will also negatively impact pump suppliers for building services.

Customers will examine their suppliers for financial strength. As credit becomes difficult to obtain, companies will have to depend on their own liquidity for cash flow. Those companies that cannot demonstrate their financial strength will be considered at greater risk of not completing orders for goods they have been contracted to produce. As the overall business level declines in 2009, customers will benefit from improved deliveries and better pricing as the pump suppliers vie for the business that is available.

Unfortunately, the downturn in the market is part of a

normal business cycle, and this particular downturn is the worst since World War II. Companies that have pursued growth at all costs will be particularly vulnerable over the next two to three years if their business models were based on continuous growth in the market. Since the pump industry lags behind the general economy by up to 18 months, real growth is not expected until at least 2010. KSB has always taken a fiscally conservative approach to expansion and has focused its resources on product development in established markets, continuous improvement in customer support and employee development. The current business climate does not alter that strategy.

Trends

Much has been written in recent years regarding the continuous improvement in pump technology and the associated applications. While most of the articles center around improved efficiencies, better materials and automation, there are whole new areas of development that were considered impossible only ten years ago.

One area of development is Microprocess technology, in which entire chemical plants for commercial use can be scaled down to fit within a single room. The associated equipment (reactor vessels, pumps, heat exchangers, piping) is measured in micrometers and milliliters. The advantages of this developing technology are apparent when considering the space required, first cost, time to design and build a plant, initial investment, and reduced waste. Certain industries have already started to incorporate this technology into the products they produce and the use of this technology is expected to grow exponentially during the next decade.

Additional Thoughts

The current downward trend in the economy will challenge manufacturers and users alike, but those companies that have focused on building relations with their customers and suppliers will become more prominent as the number of projects decrease. Investing in their representatives and employees will ensure they have the human capital necessary to continue to grow and prosper in the challenging times ahead.

George Harris, President

Hydro, Inc.



Business in 2008 and 2009

2008 was a good year for Hydro. We experienced growth in both sales and profitability. Overall, it was probably one of our best years.

To own and operate a business, one basically has to be an optimist, but I must admit that is a challenge in today's environment. Tight credit, lower stock market values and lack of confidence in the economy are sure to affect the industrial sector in the coming year. When companies look for areas in which to reduce expenditures, maintenance and repair can be one of the first areas affected. While I do feel that fundamentally the markets we emphasize—power generation, oil and gas and steel—have a positive longer term outlook, 2009 is uncertain at this time. Like other companies, we will adapt our strategies for the year ahead as market conditions become clearer.

Critical Issues

These comments apply across the board in terms of the markets we service.

The economy is certainly a critical issue as well as the new administration's plans and ability to work in a positive way with the business community. Policies and programs that encourage business investment and job creation are the foundation of economic growth.

The availability of skilled craftsmen and engineers continues to be a critical issue. For many years, our educational system has ignored the importance of training young people for these important "blue collar" jobs in the manufacturing sector. I think that by now everyone is aware of the crisis, but even effective recruiting and training programs introduced now will not solve the current shortage of skilled workers.

The nature of work in the manufacturing sector has changed dramatically and in a positive way in the last 20 years. We need to get this message to our young people and introduce them to the opportunities for personal growth and economic reward that the manufacturing sector has to offer.

Trends

The perception of customers throughout the markets that we serve is that the consolidation of the pump industry throughout the last 15 years has resulted in a decline in customer service. This has created an opportunity for us and has been in part responsible for our growth. We continue to focus on and invest in people and systems that enable us to deliver customer service that will exceed market expectations. Those companies

"Tight credit, lower stock market values and lack of confidence in the economy are sure to affect the industrial sector in the coming year. When companies look for areas in which to reduce expenditures, maintenance and repair can be one of the first areas affected."

that focus on delivering superior customer service can expect to increase market share and achieve above average returns on their investment.

Additional Thoughts

We are experiencing a "greening" of the industry which is both necessary and long overdue. Considering the massive amounts of energy that pumps consume worldwide (estimated by the Hydraulic Institute to be from 20 to 25 percent of total energy), it is absolutely imperative that the industry be proactive. Even a 2 to 3 percent improvement in pump and motor efficiency worldwide would have a positive impact on reducing emissions. In our own small way, we have focused for many years on efficiency improvements when evaluating pump rebuilding projects. It is part of our corporate strategy to extend our current product and service portfolio to include programs that support this important objective.

We also wish to take this opportunity to applaud the Hydraulic Institute for its leadership and for its important initiative with the Department of Energy, Pump Systems Matter.

Gretchen McClain, President ITT Fluid Technology



Business in 2008 and 2009

Years from now when I think back on 2008, I will remember a year of extremes. This has been an exceptional year for ITT's Fluid Technology business with strong growth across our global business, even a new sales record during the second quarter. Now, we are challenged by one of the most significant business downturns in 80 years. I have spoken with many of our key customers in recent weeks, and have found that conditions vary widely by market and geography. Whether business is up or down, I believe it is more important than ever for us to stay close to our customers, anticipate their needs in this uncertain environment and stay ahead of market trends.

The year included significant global expansion for ITT. We grew our footprint in China, winning our largest single order to date there, and opened a production facility in India. We added resources in our Industrial Process business in the mining and oil & gas markets, and are seeing great results there. In Latin America, our team won the largest order ever booked in the region for high pressure multistage pumps that will move large volumes of filtered seawater up more than a mile above sea level to a copper mine. Our Water and Wastewater business is making inroads in the Middle East, winning a key contract for pumps and systems for Oman's largest wastewater treatment plant.

Positioning ourselves in these global markets will ensure we maintain our growth trajectory in 2009. Contact with our customers in our established markets is going to be the key to emerging even stronger when the economy improves. That means more frequent calls, demonstrating our global strength and reliability in ways that matter to the customer.

Critical Issues

With economic uncertainty, staying up to the minute on changing market conditions becomes critical. The credit crunch is an equal opportunity challenge, impacting our municipal and industrial customers looking to finance both small and large projects. That does not change the underlying needs for these projects. For that reason, we are working with various industry alliances to convince state and federal lawmakers that water and wastewater infrastructure investment is just as important as the more visible roads and bridges. In many cases, more customers will be forced to look at maintaining and upgrading existing systems rather than building new ones. This translates into new opportunities for us with our widespread local presence.

The solution to these challenges, again, is to stay close to

"Contact with our customers in our established markets is going to be the key to emerging even stronger when the economy improves."

our customers, monitor changing conditions and maintain the flexibility to propose solutions that meet their needs.

Trends

The efficient use of resources—whether they are energy resources or manpower—is a market trend that I believe will be with us from now on, regardless of the economy or the price of oil. This is something we have been watching for some time. Our newest generation of vertical turbine pumps for residential and commercial water markets offers a boost in base energy efficiency, which translates into a significant 10 percent reduction in life cycle costs for the customer. Our N-pump for wastewater applications reflects similar synergies, using 20 to 30 percent less energy and lowering life-long maintenance costs. The comprehensive life cycle assessment associated with the project minimizes every aspect of a system's environmental impact.

Another trend that is here to stay is water conservation, driven by water shortages in many regions and the need to preserve this precious resource. This trend will drive the demand for more efficient desalination and systems that allow us to clean and re-use wastewater more effectively than we have up to this point.

Additional Thoughts

I am very mindful of the fact that with challenges come opportunities. Assuming that is true, we have a lot of opportunity to cement our position as a global leader in 2009 and beyond. ITT is a strong company. We have a broad product offering with strong brands and a global footprint to meet local market needs. With a laser focus on the customer and an eye on the opportunities that present themselves, we will emerge stronger than ever.

John Michael Paz, President Godwin Pumps®



Business in 2008 and 2009

Business was great for us in 2008. We exceeded our previous one month record this past September by 10 percent, distribution revenues grew 20 percent and our rentals were up 10 percent. We were strong across the board because we are a strategically geographically-oriented, niche business with widely diversified end markets. For example, in 2008, our strengths in mining and oil and gas exploration in the western and southwestern United States compensated for our downturns in the small bits of business we do in the general construction and development sectors, particularly in the Southeast. I expect to see the same balance internationally, as we push into different markets in Latin America and the Middle East and emphasize Asia and Europe in particular.

There will obviously be economic slowdown in the big picture in 2009. We have continued our momentum through three recessions in my tenure as Chief Executive, and I am confident that we will continue that growth pattern through this one. We have no plans to slow down in 2009. We are inventorying the same. We are opening a new U.S. distribution facility and are expanding our U.S. fabrication facility.

In addition, we plan to open two to four more branches in the continental United States. It has always been our philosophy to work through economic adversity by staying the course and taking advantage of any extra time and resources to improve processes and revamp inventories. In addition, there are contracts to be won that involve bond issues designated for critical infrastructure work. It will be a tough year, but we consider ourselves a high quality, top notch company, and we will continue to win work because we are the best at what we do. Our strong capital position will enable us to invest past the credit crunch. Privately-owned companies will have some advantage here if well-managed.

Critical Issues

Obviously, there are parts of our business (less than 9 percent) that will be affected by the housing market. Another critical issue will be the ongoing developments in international oil prices, because of the resurgence in domestic oil exploration. Any changes in the price of oil and/or developments in alternatives to oil dependence (and how quickly those developments unfold) could affect the business we have garnered from oil exploration, which was favorable for us in 2008. Mining will continue to be strong throughout the next 18 to 24 months or longer, regardless of the state of the economy and particularly in China, India, Eastern Europe, Russia, Australia and Latin America, which are all emerging growth markets for mineral resources.

Trends

Now, more so than ever, we are experiencing a global market. I believe that trend will continue, which undoubtedly has both positive and negative effects.

The rise in technology and the Silicon Valley boom brought us through the last slow down, and then experienced a subsequent collapse. I would anticipate a technology resurgence. We are seeing many different computer-aided or computer-driven components for the pumping solutions we offer. We have discussed GPS technology in this light before. Our machines in the field use GPS technology to communicate with satellites that communicate with computers that relay performance and location information to the end users. What remains to be seen is how entrepreneurial companies like ours take this capability and turn it into a new, profitable way of doing business.

We now offer GlobalTRACS® boxes on our equipment sales so that our customers have the option of having a secured geo-fence around their machines, while also getting important information about machine hours, oil temperature, water pressure, etc. This is critical for some of our mining and oil and gas customers who have remotely-located pumps that cannot be easily accessed. In the rare cases where those machines can be accessed regularly for re-fueling (at a minimum), this type of technology will allow a more seasoned end user to remotely analyze the pump readouts in an effort to monitor system performance and determine the need for preventive maintenance.

Additional Thoughts

In general, the pump industry in 2009 should experience a good year, as pumps play a critical role in U.S. critical infrastructure; in Eastern Europe, China and India's emerging markets; and in Latin America, Russia and even Australia, where there is tremendous potential for mining. In our particular, dewatering centrifugal pump segment of the pump industry, I think that you will see continued growth and opportunity for quality pieces of equipment. I think there will be a move toward customers wanting better equipment as opposed to less expensive, less enduring equipment. That will bode well for us because we manufacture a high quality piece of equipment designed and constructed for the long haul and not the quick sale.

We intend to remain aware and plan for the future. We do not intend to fuel the downturn by changing the way that we do business. We will operate, as we always do, with our eyes focused on maintaining our reliability, responsiveness and reputation.

Markus Seitenberg, Executive Vice President/General Manager Lutz-JESCO America Corp.



Business in 2008 and 2009

We participate both in the municipal and the industrial market. On the municipal side, the North American real-estate market's slowdown influenced the market in 2008, reduced consumer spending—amounting for the majority of the United States' GDP—and consequently reduced the tax base, especially during the last quarter of 2008.

On the industrial side, the year showed a typical presidential pre-election slowdown in domestic business activity. The continued deterioration of the U.S. currency and its volatility additionally posed difficulties for European-based companies. However, we believe that—after a slowdown during 2009 in both municipal and industrial business activity due to the current recession in the United States, as well as the economic situation in Europe and emerging markets like India or China—the demand for water-industry related products and services will continue to rise due to increasing global growth and demand.

Critical Issues and Solutions

The American Water Works Association's (AWWA) 2008 State of the Industry report reflects on today's most critical issues in the industry. Overall, respondents for the first time rated the industry's expected future soundness lower than its current soundness, echoing that the water industry situation is likely to worsen during the next five years; the report also shows a continuing decline in absolute industry soundness-rating levels since 2004.

Source water supply and protection has become an increasing concern—amplified by the near depletion of the Atlanta, Ga. metro area's primary drinking water reservoir in 2007. Supply in growth areas like the Southwest and Southeast has to compensate for the regions' sometimes unfavorable climates.

Another critical issue, particularly from a long-term perspective, is the water industry's "aging" infrastructure including issues like deferred maintenance and aging water mains and storages. This problem is likely to increase due to the eroding public tax base and cuts in municipal spending.

A different concern is the shrinking skilled workforce within the industry. Globalization contributes to the perpetuation of the already existing "battle for brainpower," the increasing demand for highly skilled talent. Finding, recruiting and retaining talent will therefore become increasingly difficult, with global competition for talent on the rise and the retiring "baby boomer" generation leaving with a vast pool of industry knowledge. New talent meanwhile is tempted to enter into more prestigious and often higher paid industries.

Trends

While many deem the accelerated pace of privatization of municipal water and wastewater operations to be the most pressing trend, we deem the growth potential—especially on the municipal side—in international markets to be one of the most promising, especially in light of the weakening U.S. currency.

In addition, "Green" is still a growing market segment trend. Renewable energy sources like ethanol or biodiesel will continue to become more important and innovation within these segments will become a strategic key component for successful companies. The ability to serve these relatively new markets with customized, innovative and efficient solutions—often by means of complete systems solutions—is important.

Moreover, fluctuating domestic municipal revenues and budgets will increase the demand for maximizing capital spending efficiency. As a result, the trend for minimizing pump life cycle costs with lower energy costs will continue to rise and innovation will become even more important as a driver of the development of efficient products.

Globalization will continue to play an important role in the industry as well. Rising raw material costs have increased the demand for global sourcing. On the other end of the value chain, companies also need to capitalize on currency fluctuations by expanding into emerging international markets like the BRIC countries (Brazil, Russia, India and China). Moreover, global alliances will become increasingly important in order to maximize revenues, profitability and expand global presence in a weakening domestic U.S. economy. Infrastructural expansions in BRIC countries and other Latin and South American markets will drive the industry's demand, after they overcome the current economic slowdown.

Additional Thoughts

We believe that the current economic pressure will result in companies putting an even higher focus on bottom-line financial performance with increased "lean" mentality and kaizen efforts, resulting in potential negative effects on customer service levels, lead times, innovation and research and development efforts and expenditures.

We continue to go against these trends by expanding our knowledge base and experience in system optimization and high customer focus while exploring new markets with efficient, reliable, cost-of-ownership-oriented, high performance products that can help save energy, are environmentally sound and minimize costs resulting from downtimes and maintenance.

Robert Dotson, Western Regional Manager RSC Equipment Rental—Pump and Power Division



Business in 2008 and 2009

The economic challenges in the marketplace have affected all industries, and the pump and power industry is no exception. RSC Equipment Rental's business, specifically in the pump division, has fared well in the economic climate, in part because the company identified the opportunity to pair the market need for short-, medium- and longer-term pump usage with the advantages of rental.

In an effort to meet those needs, we have launched a new service focusing on industrial-scale pump and power solutions to complement an existing fleet of small pumps and generators. The fleet, which originally consisted of dewatering pumps up to 6-in, now includes an inventory capable of servicing a range of applications including industrial processing and mining.

In addition, we chose to strategically expand pump and power solutions to support high demand by the petrochemical, government, pulp and paper, agriculture, manufacturing, mining and emergency response industries nationwide. By diversifying the company's customer base and introducing new programs and services that streamline the rental process, we are prepared to meet the challenges of the marketplace in 2009.

Critical Issues

Aside from the economy, weather is one of the largest challenges that the pump market faces. When storm season hits in the fall of each year, we experience a surge of requests for industrial scale pumps. In addition to the frequently-hit Gulf

"With Americans tightening their belts, the most critical issue looking forward for 2009 will be how to best control the cost of a project. Web-based management systems can reduce operating expenses, improve productivity, save time and lower costs."

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Coast region, massive flooding in areas in the Midwest in 2008 created higher than average demand in those areas. Weather is unpredictable and creates a huge challenge.

While the economic "storm" is in full swing, it has a downstream effect, causing business owners to look for less capital intensive alternatives. Customers are looking for a solid company in the midst of economic instability, one that provides value and quality and can help to manage budgets and eliminate multiple-source billing. We supply small pumps in all 470 regional branch stores (40 U.S. states and three Canadian provinces); however, the introduction of the new pump division provides access to industrial-scale pumps and generators that can be shipped to any location in North America based upon need.

Furthermore, with Americans tightening their belts, the most critical issue looking forward for 2009 will be how to best control the cost of a project. Web-based management systems can reduce operating expenses, improve productivity, save time and lower costs. Via our system, all customers receive an instant snapshot of what they have on rent, the location of equipment, how long it has been on rent and the current rental cost. The system enables a project manager to manage multiple projects with a single view. Web-based management systems will help customers get through the next 18-24 months.

Steve Sonnenberg, President Emerson Process Management



Business in 2008 and 2009

During 2008, the automation and process control market grew faster than during any of the previous five years. Double-digit growth in the oil and gas, refining and petrochemical, and power generation segments of the market fueled this surge. Industry suppliers such as Emerson Process Management and other companies grew on top of the strong market.

Looking to 2009, we can expect the market to hold a degree of uncertainty. During the first six months, most companies' ongoing capital projects should move to completion if they are already funded. During the third and fourth quarters, we will see the demand for and prices of end products moderate, and companies may find funding for capital investments increasingly harder to obtain.

One thing we know from years of operating in dynamic markets is that the best time to strengthen competitive position is during a weaker market. Companies do that by investing strategically to gain both a competitive advantage during tighter times and to position themselves for growth when the tide changes. For our customers, this means fine-tuning operations, focusing on asset optimization and making cost-effective investments in targeted new technologies. This will position them to capitalize on the opportunities that this economic climate presents. As a result, they can become more competitive by responding to market changes, whatever they may be, and be ready to grow when the market does.

Critical Issues

Companies should view the expected moderation and market uncertainty over the next several months as an opportunity to creatively approach their operations with a renewed commitment to optimizing production and improving reliability.

Uncertainty in the marketplace can present multiple uncontrollable factors like fluctuating demand and price for end products and changing costs of feedstock. Market leaders can ride out the turbulence by focusing on improving certainty in their processes. Better-controlled plant operations provide the foundation on which companies can draw the ability to respond quickly and appropriately to market swings.

Tightening budgets and fluctuating market prices spur companies that want to stay competitive to adopt a "lean and mean" philosophy. The best approach is to spend limited money in the most creative ways possible to produce the best value as a return on investment. New technology can help market leaders optimize their existing assets.

Trends

Companies able to gain a comprehensive view of their processes

and asset health through innovative technologies can bring an increased level of certainty and reliability to their operations. This will enable them to drive business decisions for success, even during an uncertain market.

Wireless sensing in field networks is no longer an optional consideration. Today, wireless makes more sense than ever. Companies that have already invested in wireless technology have seen up to a 90 percent savings on their installed cost over traditional wired networks. With the adoption of the WirelessHART standard and the expanded range of devices available, 20 percent of all measurements in the field will be wireless during the next five years. In fact, the ARC estimates \$1.12 billion will be spent on wireless by 2012.

Wireless vibration, temperature, pressure and corrosion monitors can deliver critical data about pumps, compressors, turbines and other key plant assets and processes. Self-organizing wireless mesh networks operate securely and reliably, even in plant areas congested with equipment, to deliver information that may have been previously impractical or economically unfeasible to collect.

This data can help companies better manage processes, optimize production and protect assets. Integrated into business and process applications, the information enables personnel to work more efficiently and make dozens of incremental changes in the process to dramatically improve plant productivity. Armed with asset diagnostics data, staff can further bring certainty to operations by using predictive maintenance software to create customized reports showing problematic assets, trend alerts from the plant level down to individual assets and easily identify the highest priority assets that need attention.

Additional Thoughts

Companies that see economic uncertainty as an opportunity to reap the benefits of wireless sensing networks and asset optimization applications should leverage suppliers' expertise as they do so. Suppliers can not only identify the most cost-effective ways to introduce these new technologies into plant operations, but they can also help optimize the investment by integrating this new data into enterprise applications and work processes.

The trend toward collaboration between companies that use this new technology and supply it will continue to shape the development and application of these valuable tools in 2009 and beyond for operational excellence.

The depth and length of the economic slowdown is uncertain. Market leaders who grasp the underlying opportunities to bring certainty to their operations will not only stay competitive during these times, they will also emerge stronger at the end of this cycle.

Terry Rouse, President and CEO

WILO EMU USA LLC



Critical Issues

As we move into 2009, we as a nation must address many critical issues. The one that is most pressing for the water and wastewater industry is funding—both short term and long term.

For much too long, the public has not been included in the dialogue regarding the actual cost of the water and wastewater services they receive. This unintended exclusion has been the result of many factors, from political concerns to lack of knowledge.

Although the costs of water and wastewater services vary, it is interesting (based on research by NUS Consulting Group, 2007) that the cost of 1,000 gallons of water in the United States is, on average, \$2.65—an amount lower than 13 of the other countries studied. In Canada the amount is \$3.22, in the United Kingdom it is \$8.52, in Germany it is \$9.08 and in Denmark \$11.20. Are other countries overcharging? Probably not. Are we as a nation covering our utility costs? We are obviously not since we have a deteriorating utility infrastructure and virtually no money in the coffers to replace and upgrade it.

A better appreciation of the actual costs of utility services and full value pricing would help solve the utility funding problem in the long run, but more immediate problems exist for the water and wastewater industry today. These include increasingly limited funds for repairs and minor upgrades as well as closed avenues of finance.

Frankly, the answers will have to be found soon. Short term, funds are going to have to be made available to the water and wastewater industry. Some are hoping for grants, but the best solution is better funding for and the encouragement of the use of the State Revolving Fund (SRF) system, which is both fiscally responsible and in place now. However, to responsibly pay back SRF money, utilities will have to charge the full costs of their services in the future. This will undoubtedly be an economic and educational challenge, but it must be done.

Trends

Just as underpricing of utility services creates deficits in capital funds, procurement of equipment based solely on initial price creates deficits in value received. For this reason, industry leaders are looking more carefully at life cycle costs and the total cost of ownership relative to the equipment they purchase. This method is clearly more responsible and saves money in the long run.

Another trend impacting many water and wastewater facilities is a loss of knowledge and experience, which walks out of the door on retirement day. In a recent report (EMA, 2008), evidence indicated that more than one-quarter of the knowledge and experience in the water and wastewater industry will disappear within the next four years, as a result of retiring workers. The total loss will be more than 75 percent by 2017. Clearly, training and better use of knowledge assets will be a priority over the next several years.

This is all occurring at a time when public interest in pure water and the protection of resources and the environment is blossoming into an increasingly green vision of the future. As leaders in the *one* industry that has been "green" for decades, we must continue to maintain our leadership position as the responsible stewards of water in all of its phases.

Additional Thoughts

As leaders in pumps and submersible technologies—all of which are integral to efficient water handling, processing and treatment—we are dedicated to making our contribution to the industry's efficiency and effectiveness in both the short-term and the long-term.

As we have for the past 135 years, our team continues to employ its engineering know-how to make our equipment long lasting and trouble-free. We put a sharp focus on reducing the life cycle costs and total cost of ownership of our products. We incorporate only materials that will deliver full value in a lifetime of operation, and we employ advanced manufacturing technologies to maximize performance and minimize costs.

To directly benefit municipalities, we have initiated lifetime warranties with our Sealed-For-Life™ program for our pumps' mechanical seals. Our LEED and Star awards demonstrate our commitment to energy savings in the building service and commercial sector.

We have also opened our advanced testing facilities in Thomasville, Ga., to the water and wastewater industry to make quick access easier. In 2008, we began manufacturing pumps in the United States so that needed technologies are nearby.

Going forward, we are making our commitment to the water and wastewater industry perfectly clear. We are here to help, to provide answers and to cooperate in the effort to put our world on a more solid footing in 2009 and continue our small role in the stewardship of the environment—a task we all share.

Tom Ferguson, President

Flowserve Corporation, Pump Division



Business in 2008 and 2009

Through the third quarter of 2008, business has been strong in most of our core market sectors, with greater than 35 percent organic bookings growth year over year. Our success can be attributed to several factors. Chief among them, of course, is global investment in the oil and gas industry. Additionally, our company executed many important infrastructure and continuous improvement initiatives throughout the last several years that allowed us to capitalize on this strong demand.

We can also attribute our good results to our improved focus on the end user. By expanding our technical services and support infrastructure in key customer clusters, we are better leveraging our huge installed base while also securing important aftermarket service agreements with key customers.

Lastly, we continue to see strong demand for our products and services in our other core segments, including power generation, chemical and water resources. Much of this growth is attributable to infrastructure expansions and upgrades in emerging markets such as China and India.

Expectations

While the short term demand for oil has declined recently due to the global credit crisis and associated general market uncertainty, we believe that certain catalysts will lead to a sustainable high level of global, long-term demand for oil and gas. Our global customers continue to announce new investments related to refurbishments, upgrades and new production capabilities based on long-term projections.

We expect continued, overall strength in infrastructure spending, driven by several factors that include the need to add new or upgrade aging infrastructure; projected growth in demand for potable water; and energy security. This should result in significant project and aftermarket opportunities for all segments of our pump business.

The chemical industry continues to show strength in developing markets as evidenced by the demand for polymer-based materials, petrochemical products and biochemicals. In the water industry, we see significant growth and opportunities in desalination, water transmission, water/wastewater treatment, irrigation, flood control and drainage. With demand for power growing in many regions of the world, particularly in Asia, we expect to see continued investment in nuclear power facilities, geothermal technology and integrated gasification combined cycle plants (IGCC).

Critical Issues

A critical issue facing not only our markets but also the world is the reliable and economical supply of traditional and alternative energy sources.

The International Energy Agency (IEA) projects global energy demand will continue to grow 1.6 percent a year on average through 2030—a total increase of more than 40 percent. To achieve necessary production rates, the world will have to invest \$26.3 trillion by 2030, or more than \$1 trillion a year, according to the IEA.

On a related issue, the IEA also projects the world's electric energy requirements will double to 30 terawatts by 2030. Today, 80 percent of electricity is generated by fossil fuels. In 2030, fossil fuels will account for 77 percent of electricity generation. To achieve even this slight reduction, the alternative energy market will have to grow significantly. Along with a resurgent nuclear industry, clean coal technologies, biomass, concentrated solar power, geothermal and even nascent ocean thermal energy conversion technologies will have to develop generating capacity that approaches present public utility power station capability.

Trends

I was recently struck by several articles describing how production companies are looking to control labor costs by relying more and more on unmanned rigs and wells. One article in *Hydrocarbon Processing* described how BP runs several oil rig power generator turbines in the Gulf of Mexico from an office in California to save money. In the past, one person could monitor 40 engines; today that person can monitor 4,000 engines.

We see an extension of this trend to refineries, petrochemical and chemical plants, power generation and other process plants. The advent of wireless data acquisition and communication integrated with the Internet is making remote monitoring and control both technically and economically feasible. This integration of technologies is helping pump users maximize their investments in terms of performance, output, energy consumption, maintenance expense, etc. In other words, they now have reliable technology to minimize total life cycle costs.

An existing trend gaining momentum is the extension of downstream services. More and more pump users are recognizing that formal partnerships with pump manufacturers have many bottom line benefits. These include the maximization of pump performance and plant output with the minimization of maintenance-related costs and process interruption.

Tom Seymour, Vice President, Sales & Marketing The Gorman-Rupp Company



When Gorman-Rupp began business 75 years ago with a single pump, we were simply a manufacturer. Today, Gorman-Rupp is a solutions provider. Each of our more than 3,000 pump models does something a little bit different. Each product is also interoperable; it can be used in combination with other products to provide a truly unique solution to a customer challenge.

Business in 2008 and 2009

For the most part, 2008 for Gorman-Rupp was an extremely productive year. The company met nearly all goals set in place and surpassed most corporate benchmarks. We are looking forward to another year of continued and sustained growth in 2009. As we reap the benefits of our many technological advances, we will have to remain focused on technology to continue manufacturing the high quality product that customers have come to expect, one which consistently meets the needs of the global marketplace.

Trends

The impact of global competition and technological advances within the industry are two key issues that cannot be ignored within our sector. It is easier today than ever to find manufacturers with similar products at a lower cost.

However, thanks largely in part to the Internet and the transfer of electronic data—fax, email or text message—this speed of communication has bridged any distance gap that previously existed and mounted any hurdles that once kept us from efficient product design and enhanced customer service. Today, ideas and innovations are easily shared in the quest for new product design. Knowledge transfer, as well as the pace by which we bring products to market, is faster than ever imagined.

In an effort to remain competitive, it is paramount that we continue to harness the Internet and other technological advances to their fullest advantage. We have invested millions of dollars in state-of-the-art machine tools, which have returned faster turnaround for product development and allowed our engineers to improve repeatability and with tighter tolerances. This is a sizeable benefit to the industry, overall, as downtime is minimized and parts can be repeated less expensively and more quickly.

Computational Fluid Dynamics (CFD) programs, for instance, allow us today to simulate the fluids through the pump and examine how they interface and interact with other components on the computer before steel is even cut. This has

"We are running out of water, and conservation is imperative. Water reuse and putting forth solutions to maximize water so it can be reused again is reshaping the way we do business."

also allowed us and the industry in general to put better products in the marketplace more quickly, with fewer headaches and less field trials. In short, the capability of machines, tools and facilities is far superior than it was years ago.

Finally, maintaining a satisfied customer base is also a major concern amidst an increasingly competitive environment. To us, trust is the key to business. We spend a great deal of our time working to strengthen our distribution and customer relationships, from how we collect data to how we streamline orders. Innovation over the past several decades has clearly played an integral role in helping us build that trust, and ensure that the new and ever changing needs of our customers dictates the solutions we provide tomorrow.

Critical Issues

Our segment needs to continue to focus on addressing water conservation. Popular opinion says we take it for granted. At the end of the day, we never really question where our water is coming from, whether it is clean and disease free. However, we are running out of water, and conservation is imperative. Water reuse and putting forth solutions to maximize water so it can be reused again is reshaping the way we do business.

Fuel costs and energy are equally important as we search for more ways to conserve. The answer for us lies in uncovering more efficient ways to move the product with tighter tolerances—so more can be pumped, with less energy. Everything we do must contribute to a greener world—from moving sewage with less leakage and infiltration into waterways, to designing systems that take industrial waste to its designated location.

Today, some of the United States' brightest minds are grappling with issues they did not need to address decades ago—working hard to understand how we can best position ourselves to compete overall in this new global economy. In the end, we believe it all boils down to how you best manage sourcing, product development, technology and manpower to meet the customer's ever evolving needs.

Clifford Hahne, President

Hanson Pressure Pipe and Hanson Pipe & Precast South Central Region



Business in 2008 and 2009

Our company, along with the rest of the industry, has experienced challenges this year. I am optimistic that our continued focus, and the right team of people, will successfully get us through the next 18 months.

Critical Issues

It will take an estimated \$1.6 trillion during the next five years to improve America's infrastructure. Newly elected officials must recognize this need when determining infrastructure spending. The construction industry needs to reinforce the importance of our infrastructure because spending on new highways, bridges, water treatment plants and rail transportation creates jobs. Under-investing in our infrastructure has put us in a challenging position, but choosing to address it now could be the first step in helping our economy.

Trends

Customers will continually expect higher quality, enhanced service levels and value. All of our development is centered on these issues. We continue to monitor the market's expectations and strive to successfully stay ahead of the competition with a complete package of products.

Additional Thoughts

It should be no surprise that many people are talking about a downturn in the industry. Operating in this industry means that companies must be able to achieve success in a cyclical arena. We pride ourselves in delivering to our customers' expectations at the peak as well as the trough of demand. We do so profitably, which enables us to respond rapidly to market demand swings. We are currently poised to respond rapidly to the next upturn in demand when the market calls on us to do so.

Ken Graber, Team Leader—Marketing

ABB Low Voltage Drives, Low Voltage Products & Systems



Business in 2008 and 2009

Business in 2008 was solid, with a steady rate of growth in the single digits; the economy never entered recession (as of the fourth quarter). Automation suppliers provide the solutions that help end users not only utilize every kilowatt of energy effectively, but, in the process, save the energy costs that may have been lost or wasted prior to retrofits of automation equipment. This equipment simultaneously increases the productivity of these end user's equipment and processes.

It is too early to know, or predict with any surety, what 2009 will bring. In the current energy environment (expensive oil and fast-growing demand); it is safe to assume and predict that automation equipment able to deliver real energy savings will continue to be in demand. It is likely that the retrofit market and brownfield updates will continue, as end users seek to optimize their existing equipment, as opposed to "risking" large capital outlays. Time, the election and a renewed calmness to the economic environment will provide the foundation for continued investment in drives, motors and automation technology that ensure throughput and uptime for processors.

The economic changes in the fourth quarter of 2008 make the entire market more cautious and create a "wait and see" environment that should begin to steady and re-find footing by midyear 2009.

Trends

Some trends include a fast-growing demand for equipment that helps end users meet the IEEE-519 standard for harmonics as well as drives and motor products capable of capturing and using regenerated energy from processes that have residual energy. Every kilowatt of energy entering both commercial and industrial environments is more prized than ever as a resource that needs to be utilized fully and completely.

Additional Thoughts

For automation suppliers, this economy affords an absolute opportunity. Both the economy and the energy environment now create a foil to the energy saving capabilities inherent in automation equipment. The additional upside is that retrofit and installation of such equipment is "green" by definition; the equipment reduces the CO₂ stream, and helps facility managers optimize their use of pumps, fans and virtually all motor-driven equipment.

Critical Issues

One critical issue is continuing to make it compelling for end users to invest both in retrofits and new-product installations.