

TODAY'S

VOL. 1 NO. 5 MAY 2005

TMW

MACHINING WORLD



AN INTERVIEW WITH BRUNO SCHMITTER

Hydromat Adjusts to a Changing Rotary Transfer Market

Today's Machining World Magazine
P.O. Box 847
Lowell, MA 01853

CHANGE SERVICE REQUESTED

PRST STD
U.S. Postage
PAID
Permit #649
Liberty, MO

\$6.95 US \$8.95 INT'L

Hydromat Adjusts to a Changing Rotary Transfer Market



An Interview with Bruno Schmitter

Bruno Schmitter came to St. Louis 25 years ago to build Hydromat's business in North America. Today Hydromat dominates the rotary transfer market, and has dramatically increased its prominence in the machining community.

LLOYD GRAFF:

Bruno, do you think we are finally out of the three- to four-year recession in manufacturing?

BRUNO SCHMITTER:

I definitely believe so. Things have shaken out. I think we are going to see a number of good years ahead of us.

LG:

Why?

BS:

Because we (the industry) didn't invest in any new equipment for quite some time. Very few machines were purchased; therefore, some of the older machines need to be replaced. Some of the work has come back here from Europe due to the Euro exchange rate. I see quite a bit of that.

LG:

What kind of work?

BS:

Automotive industrial-type work. It is actually some good Hydromat work. People feel good about the next couple of years, and they are investing in equipment. We are doing the same here, investing by buying a couple of new machines.

LG:

What kind of machines are you buying?

BS:

We are buying tool-room equipment — a surface grinder, and we're looking at EDM machines for some of our tooling work.

LG:

What brands will you buy, and why do you buy them?

BS:

I'm looking for quality; I look first and foremost for European quality. I bought a Blohm Grinder, which is a very high-quality grinder. I like to replace machines on a regular basis.

LG:

So when you look to buy machine tools for your plant, are you looking for a particular payback? How do you justify what you buy?

BS:

It is kind of tough for us to look for a large payback, but obviously I'm looking for some results, which will have an effect on the bottom-line. These are typically machines used for our tooling business, so I start with European manufacturers. I feel comfortable with their quality and what they are doing. Not to say that Japanese manufacturers don't produce some of these machines, but on the tooling side I think the Europeans offer a good selection.

LG:

So when you are the buyer, how do you evaluate one against the other, price versus payback, price versus quality?

BS:

We start out with the supervisor for the department, and he does the assessment. He does the spreadsheet. Quality is important to him. I will get involved in the later phases, and I will go over some of the specifications. I would probably pay a little more for a feature that was not so important to someone else.

LG:

How does the salesman figure into this, or don't they figure into it at all?

BS:

Truthfully, the salesman doesn't enter the picture in my case. I evaluate the machine myself based upon the information provided.

LG:

Can you make any judgment from that about how people buy your machines?

BS:

Sometimes I wish the customer would get a little more involved in the details. I've seen recently that the quality doesn't enter into the decision as much as the price. We are confronted with their target price, and that is when I can't understand the thought process behind not paying a little

more for certain features for their future. They basically say, "I have somebody else. They are going to build it for so much and that is what we are going to pay." In my own mind, this is no solution for their company. That is where I would like to be a little more involved, to see that the CEO takes a stand and says, "Okay, this is short-term thinking. What is the larger picture?" I would like for the presidents, the owners, the CEOs to sit at the table and be exposed to some of that decision-making. A lot of shops recently have delegated some very important decisions out to the shop floor and to a number of people. You don't want to neglect their opinion, but in the end the CEO needs to know what he is buying. It is so important for our business at Hydromat, because every purchasing decision I make I have to justify to myself somehow, and sometimes paper is too patient.



LG:

What do you mean?

BS:

That you can make everything work on a piece of paper.

LG:

When you are talking CEO-to-CEO, what do you tell them?

BS:

I try to open up their eyes to what they are making the buying decision for—Why are they buying the Hydromat machine? It is not just a piece of iron; it is a whole system. The Hydromat machine is one part of it: It is also the support; it is the inventory I have on the shelf; it is the engineering expertise. Customers can call me up any day; I'm available personally for any questions they might have about their

business or equipment. I personally stand behind every machine we sell. If it doesn't work out, I'm prepared to take it back.

There are not many people who do that these days. It is a small community we serve, and I want to uphold my reputation. I have always done it this way, for over 25 years now.

LG:

So what do you say to the guy who says, "Look, you want \$800,000 for your Epic machine. This job doesn't justify that expense. I don't know what job I'm going to have two years from now, but I know the job I'm buying the Epic for today doesn't justify \$800,000. Tell me why should I buy this Epic when I could stick with what I have. I'm running this on a couple of single-spindle machines, or I'm doing a second operation with a multi or I can buy used a machine."

BS:

I basically say they need to buy state-of-the-art equipment to get the process under control to make their parts, to have a clean process. Yes, you can start with a screw machine and then load a Hydromat, buy a used Hydromat to accomplish the same thing. But then you have so many unknown factors in that process, which costs you a lot of money. The handling of the component parts from one machine to the next, for example. People need to look at the complete picture, the complete process, and have something in the bucket at the end of the day that they can sell. A lot of people don't look at process cost that closely. They say, "Okay, \$800,000 is too much for the machine," but do you have to jump through hoops with another process? If you have secondary operations off a screw machine, or if you have quality problems on a used Hydromat, in the end it is going to cost you money with every part.

LG:

Look at the complete picture.

BS:

Yes, the complete picture. That is what the people who get the job and evaluate a particular machine or process don't look at sometimes. They may not have the experience doing that, and that is where I hope the CEO comes in and says, "Hey guys, let's look at the whole picture. Let's look how much electricity we need. Let's look at what kind of service we need.



BRUNO SCHMITTER/TMW

LG:

Look at what they are going to scrap.

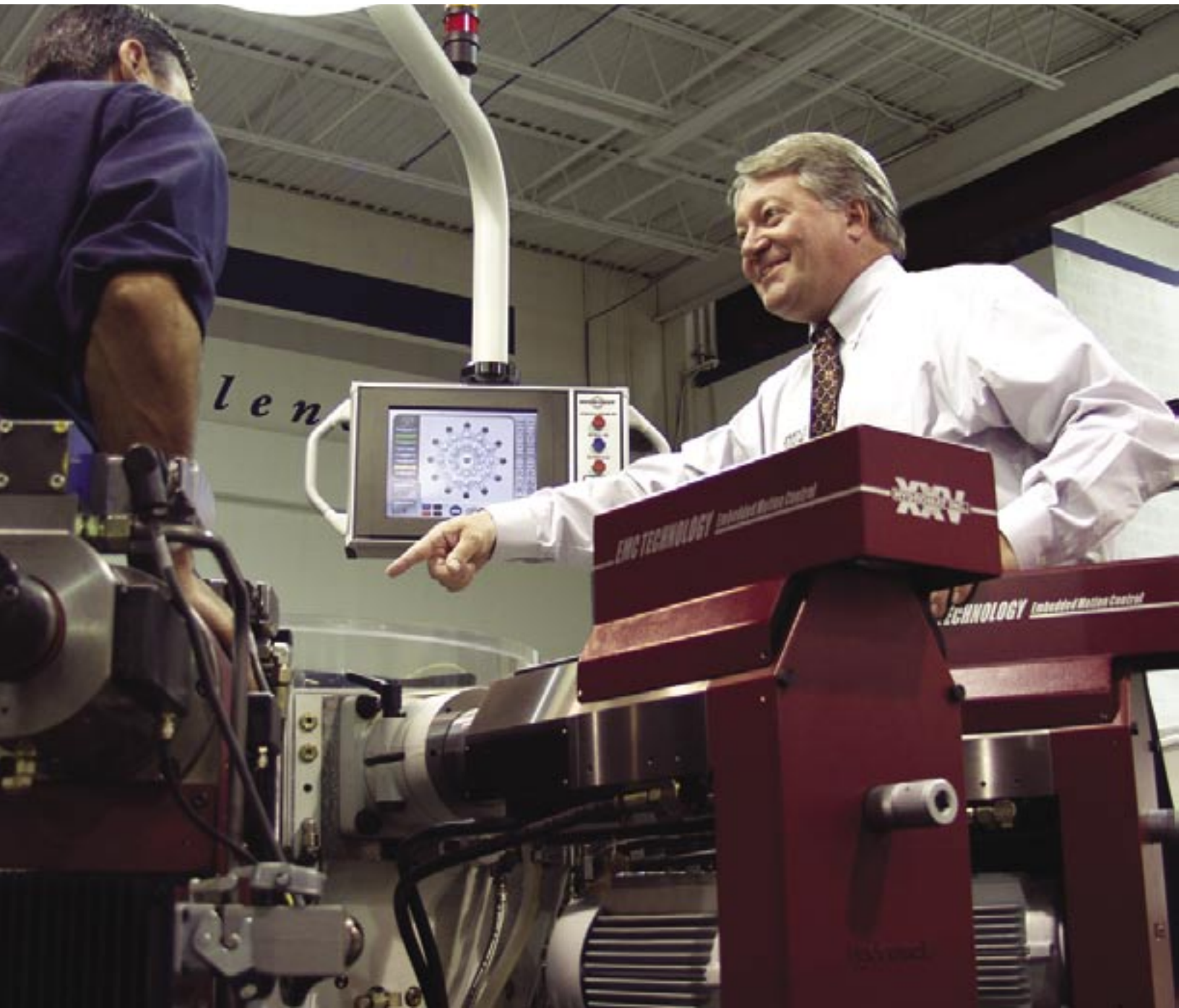
BS:

People who invest the right amount of money upfront for the right equipment — whether it is \$1 million or maybe \$1.2 million versus \$600,000 or \$700,000 — will be ahead in the long run. If you buy quality equipment, it is going to maintain its value. I can hardly believe it, but a Hydromat

built in 1985 can sell for what it cost to buy then.

LG:

It is a good argument. You are occasionally selling against a used Hydromat. How do you counter a person that says, “Well, I will retool my old Hydromat, but I have a problem in retooling it because it has the old units on it.” They have problems in getting parts from you to refurbish the old units.



BS:

Once some parts of the Hydromat machine have reached a certain life cycle, we are not going to produce them anymore. That is basically what the issue is. If you have a 25-year old machine, we might not have some of the parts on the shelf anymore, and therefore it is cheaper to buy a new one. The good news is I can actually mount a brand new unit on this very old machine. So even though the machine is an old vintage, I can actually run some fairly decent quality on it with the new equipment.

LG:

Are you saying you could take an old machine and make it into an EPIC R/T-type machine?

BS:

No, you couldn't do that.

LG:

But you can put CNC units on it.

BS:

On an old machine, yes. The process question then comes back into play. We have engineered and reengineered components, and the machine is a lot better. It is faster and a lot more accurate. That is why a customer can justify the \$800,000 for an EPIC.

LG:

How do you think the Hydromat Company and the Hydromat brand are viewed in the marketplace?

BS:

I think our brand has been clearly established. I think if you compare us with just about anybody else in the same industry, we are probably one of the leaders in providing equipment. But where we really shine is with the customer support. I hear over and over that we are the leader when it comes to customer service and support. We take it very seriously. We dig into the details. We help the customer any way we can. My ultimate promise is that I'm the gatekeeper, I'm the promise keeper, and if I can't make it happen I'm willing to make some kind of a compromise and, in a worse-case scenario, take that sold machine back. But it needs to be a partnership to try to make it work.

LG:

How do you think you are viewed by the people who have the older machines and who aren't in the market for the new machines?

Your One Source For OEM Parts, Sales & Service



GALLMEYER/GRAND RAPIDS
Surface Grinders

Reid
PRECISION
SURFACE GRINDERS



K-O Kent-Owens
Horizontal Hydraulic Milling Machines

BARKER
Horizontal Milling Machines

Leland-Gifford
Drilling Machines

LELAND-GIFFORD
Center Lapping Machines

Leland-Gifford Inc.

1497 Exeter Road
Akron, OH 44306
(330) 794-1960
Fax (330) 794-9912
www.barkermill.com

BS:

I believe they claim that I'm charging too much for the parts. I think that is definitely out there, and I have come to realize that with that many used machines in the field, I have to participate a little more in the used-machine market.

LG:

What does that mean?

BS:

I'm evaluating offering less-expensive units for the older machines; to provide older style units at a lesser cost. They wouldn't go on an EPIC machine, obviously, but they will go on older Hydromats.

LG:

Nobody has been able to really get any traction developing a gray-market presence on Hydromat parts.

BS:

The reason for that is the variety of parts we use. The transfer-machine system uses many more parts than a typical screw machine because of all the features we offer between the various flanges, the milling heads, the cross drilling heads, the recessing heads and so on. There is a lot more equipment required, and we are very well equipped to make these component parts ourselves in the factory in Switzerland. We are competitive at it. We store a lot of inventory here; therefore, we are the preferred supplier for that. That is the main reason why nobody else has entered into it.

LG:

I would agree with you, and people may complain about the prices but they don't complain about the quality.

BS:

They don't complain about the quality or availability. I have the parts on the shelf and that costs money.

LG:

Except on the old units.

BS:

Except on the old units, which have to be replaced with new units and I really can't help that. There have been a number of variations over the years, and at certain times, we just have to cut them out.

LG:

Do you think that will expose you to the secondary market, ultimately?

BS:

I believe the time has come where, because there are enough older machines in the field, I'm interested in participating together either with the customer, the potential customer, or direct. I will buy up some of these machines, refurbish them and put them back into the field. I think the time has really come for that, whether I like it or not.

LG:

That's interesting, because it seems like since you truly own the rotary transfer market in America, one part of your competition is the used machines and used units that are out there.

BS:

That's correct.

LG:

So then the question is: What do you do about it?

BS:

The time has come where Hydromat is going to participate in that market, taking older machines back for trade-ins or taking them back, period, refurbishing them, and putting them back into the field. I believe it would be foolish at this particular juncture to avoid or neglect that business. I think it is important enough to justify keeping these machines going.

LG:

Yes, because the problem for a customer, when they have a machine that is worth \$200,000 on their floor that they don't need at that moment, it is like frozen money for them. I know you are not thrilled about seeing those machines come on the market, but on the other hand it is a fact of life now, and you are happy that the machines have held their value. How do you look at this huge installed base that you have? Is it an opportunity or is it a problem?

BS:

I think it is an opportunity for sure. Today we are looking at new programs that require brand new equipment. These new programs are being slated for component parts that have to be manufactured here, in the diesel field and some industrial



applications, compressors and so on. I believe these components being made here are going to provide enough opportunity for new business. The used machinery business, along with the spare parts and retooling, represents a big chunk these days.

LG:

How big a percentage is the retooling business for you?

BS:

We separate that into three parts; the refurbishing, retooling

and spare parts. And the three different parts represent probably about 30% of our total business.

LG:

That is a nice chunk. And normally the spare-parts business is the most lucrative part of a machine-tool business.

BS:

It is a lucrative part. On the other hand, if you handle a large inventory like we do, you have some obsolescence. But all

“*To stay in business and be successful you must make the right decision for the right machine. No one machine can do all the work. You need to select the right machine for the right application and if it is a Hydromat application, you are going to have to use a Hydromat.***”**

together it is a decent business. We need to do it and are happy to do it.

LG:

Bruno, do you still have the same energy for the business that you have always had?

BS:

Our business has grown substantially bigger. I have delegated a lot of it to our people. Many of the people have come through the departments and taken on important roles in the organization. My goal as the team leader is to keep everybody motivated. I deal more with some of the unpleasant issues in the business, such as the IRS, and the lawyers for contracts or disputes. Sometimes I wish I could be more hands-on.

LG:

That is what you really enjoy.

BS:

I enjoy the technical aspect, yes. I enjoy the mechanical aspects to get the problem solved and see it through.

LG:

Who do you think your biggest competitors are? Are they multis, sophisticated multis, single spindles?

BS:

It is a combination, obviously, of different methods. It's single-spindle, CNC, lathe, machining center, the multi-spindle machine; a grouping of different machines together, which all compete with Hydromat. But the process question comes into the picture. If a screw-machine part drops off complete from a multi at the same cycle-time as a Hydromat, I might say, "You ought to buy a multi-spindle because you don't need the features of a Hydromat part." But if you try to start out with a screw-machine part, and then transfer it, and put it on another machine and then maybe another machine, that is the wrong way to go about it. You want to feed stock in and have finished parts in the basket.

LG:

For someone who has \$1 million to spend this year on their business, and who has lots of opportunities in parts that probably go on a CNC Swiss; opportunities that might go on a Mazak; someone who has high-volume parts, but is inclined to buy Citizens or Decos because their people understand them and can run them, what do you say to those people? They may say to you "This big mechanical thing comes in, this Hydromat, my people are awed by it." How do you respond?

BS:

I don't think you have a choice. To stay in business and be successful you must make the right decision for the right machine. No one machine can do all the work. You need to select the right machine for the right application, and if it is a Hydromat application, you are going to have to use a Hydromat. If you put it on three or eight Citizens, you are going to lose the job as soon as it's tooled up, because someone else is going to buy the Hydromat EPIC R/T and be more successful. **TMW**