

# Hammond Power Solutions: Seizing opportunities in high-growth energy markets

To read Hammond Power Solutions' annual report, you'd think 2008 was a time of global economic prosperity rather than a year of staggering financial decline. Against the backdrop of a steadily deteriorating American economy, the transformer manufacturer generated record sales and profits, acquired its largest Canadian competitor, launched a second Mexican factory, and accelerated its penetration of the U.S. distributor channel.

HPS more than doubled distributor sales in the United States over the past three years and expects to continue expansion in the channel—diversifying the company's market footprint and providing opportunities to grow sales in case some of its original equipment manufacturing markets slow.

"The tough economy is certainly on everyone's mind today, but our opportunities are still huge," said Ken Hermann, marketing manager for HPS. "We offer leading-edge products that fulfill the needs of the emerging higher-growth markets such as solar and wind, ultra-energy-efficient transformers, and others."

HPS has grown from a small family-owned business in the short-wave radio market to the largest dry-type transformer manufacturer in North America. Oliver Hammond and his son Len founded the company in 1917 in Guelph, Ontario. They started out making specialized tools for the foundry industry and

later began building radio sets. After Oliver Hammond died in 1925, his sons Len and Roy took over the business and expanded into battery chargers, eliminators, and AC power amplifiers. Hammond amplifiers were soon used in movie theaters, auditoriums, and fairgrounds across North America.

The stock market crash of 1929 brought a collapse in sales of products that represented the good life. The Hammond brothers adapted by developing an ever-growing list of products, such as specialized audio and transmitter transformers as well as high-voltage transformers. By 1962, the company's transformer product listing included more than 50,000 special designs and more than 1,000 stock items.

Hammond Power Solutions now has seven manufacturing facilities throughout Canada, the United States, and Mexico, and 10 regional distribution centers across North America. It has corporate offices in Guelph, Ontario, and Baraboo, Wis.

The company's acquisition of Delta Transformers in Quebec in 2008 gave a significant boost to its market share in Canada. HPS plans to keep separate sales and support organizations for the HPS and Delta brands.

Thanks to diversification efforts it began six years ago to take advantage of the growing global economy, HPS saw strong growth in 2008 in the sales of engineered transformers to the mining, oil and gas, alternative energy, and industrial systems sectors around the world. The company estimates that more than 30 percent of its OEM sales were exported to markets outside of North America, helping to offset a decline in sales to the U.S. commercial construction market as it began to slow in the second half of 2008.

"We have the broadest product line in the industry across all product categories, with a huge depth within each category," Hermann said, summarizing the company's strengths.

#### Mexico manufacturing facility

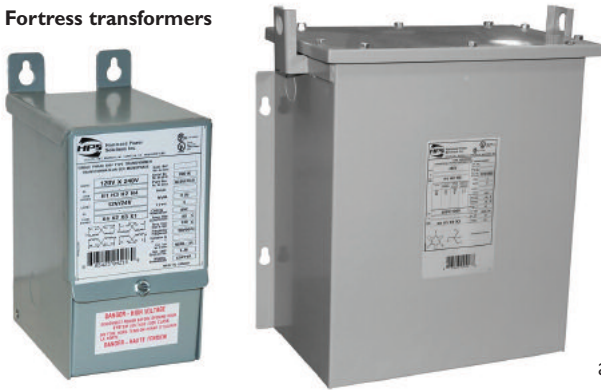


"We also have roots in the custom OEM business across a wide range of markets, so we have excellent capabilities to bring 'special transformers' to the distributor as new business."

### Launching new products

HPS is introducing several new product lines this year to meet the needs of the growing energy markets, including its Fortress line of general-purpose encapsulated commercial transformers; a new control transformer line to complement the one it launched last year; and a new line of energy-efficient, medium-voltage distribution transformers to satisfy new Department of Energy regulations taking effect in January 2010.

Fortress transformers



"We have launched at least two or three new products every year for the last three to four years," Hermann said. "Examples include our Titan class 1, division 2 industrial encapsulated distribution transformers for hazardous locations, HPS Imperator machine tool industrial control transformers, and a complete line of energy-efficient and super-energy-efficient, low-voltage distribution transformers."

This year, HPS launched an online training center, HPS Academy, with more than 20 learning modules, to provide a better understanding of the characteristics of transformers, electrical standards and regulations, installation procedures, and how to select the best product for an application. More modules are being added every month, and 40 are expected to be online by the year's end.

"We also developed a unique and proprietary online quotation and stock check tool called E-Quotes," Hermann said. "It allows distributors to do business easily and find inventory to fill their customers' needs immediately. They can even check inventory using a Blackberry or other mobile device."

E-Quotes users can obtain quotes for standard or custom products by entering either an HPS part number or one from a competitor for standard products or specifications for custom products. The system offers the ability to check price, availability, and lead times for almost any common specification product.

Hermann said the company focuses on three main objectives: to be easy to do business with, to offer the greatest breadth and depth of product in the industry, and to provide reliable quality.

HPS puts a high priority on being a good corporate citizen by supporting several charities and not-for-profit organizations through financial assistance and employee volunteerism.

Corporate dollars are primarily directed to support health initiatives, education, social services, arts and culture, and civic leadership.

Becoming an IMARK supplier has given HPS the opportunity to participate in new MRO, institutional, industrial, and export business. "IMARK membership, along with the planning and marketing tools it provides, is a great way for us to spread the word about what we have to offer," Hermann said. "We are also participating in the IMARK Eye on Energy program that is helping members sell new energy-efficient products, including transformers."

The focus for HPS in 2009 is to continue operating in a fiscally conservative manner to minimize risk, to control costs, and to seek out profitable opportunities to grow sales in the global economy.

Expanded production and warehousing capabilities in Canada, the United States, and Mexico will give HPS greater capacity and flexibility to react quickly to short lead-time opportunities that will win orders at the right price. And when the turnaround in global markets arrives, the company will be well positioned to accommodate increasing levels of business.

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