WHO'S HOT, WHO'S NOT

THE HOTTEST COMPANIES OF 2002

BY JOHN BUELL, EDITOR,
AND PEGGY SMEDLEY, EDITORIAL DIRECTOR

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It was a hot, harsh year for many companies. However, the winners of this year's Hottest Companies proved they could not only withstand the heat, but they could be cool.

IT WAS A TOUGH YEAR FOR MANY TECHNOLOGY PROVIDERS TO THE MANUFACTURING SECTOR. TO MAKE MATTERS WORSE UNEMPLOYMENT SOARED TO RECORD HIGHS AND MANUFACTURING PRODUCTION PLUMMETED.

The dreary economic landscape led manufacturers to clean house, paying close attention to their core competencies and cutting costs wherever possible. That meant focusing on the areas that could bring the greatest return on investment. With that in mind, manufacturers began to take a good long look at their suppliers and the technology they can provide today and tomorrow.

Vendors painfully realized they needed to hunker down and provide technology solutions that improved efficiency, productivity, and profitability. But that wasn't enough. They recognized they had to examine the services they were providing as well.

Despite all the turbulent times, a few companies were able to get through the murky economy and blossom. The companies that appear on the pages that follow offer hope that manufacturers are in for some interesting times as suppliers ratchet up their technological contributions.

The companies that made *Start's* fifth annual Hottest Companies of the Year are certainly hot. What makes the honorees this year so interesting is that they not only weathered the struggling economy, but their creative nature is clearly apparent.

The thumbnail sketches of the Hottest Companies will show clearly how open they were to meet and exceed the needs of their customers. In addition to the 19 Hottest Companies, the editors found 19 companies to Keep An Eye On and seven Up and Coming.

These lists prove there is a feeling spreading across the United States that the economy is on the upswing, and that manufacturing is getting back in the swing again.

Without question, this could be a make or break year for a few segments within manufacturing. Suppliers who understand they need to deliver solutions and services that give manufacturers a strong competitive edge will prosper. Others will perish.

For instance, plant-floor automation could prove to be the battleground for many automation suppliers. So far, all indications are that these companies are poised to have a good year thus increasing the competitive heat. Most of the vendors have good stories to tell. But the most interesting aspect will be whether they can deliver and sustain the success some are experiencing.

ARC Advisory Group, Dedham, Mass., concurs. ARC says those automation companies targeting the process industries this year as well as the next few years could prove profitable and productive.

The analyst firm predicts the market for automation products and services for such industries as pulp and paper, pharmaceuticals, chemicals, food and beverage, petroleum, just to name a few, will increase at a compound annual growth rate of just more than 5% over the next five years.

The market stood at $44 billion in 2001 and is expected to reach $57 billion in 2006, according to an ARC study.

"Despite recent economic turmoil, the worldwide market for automation products and services seems to be making a turn around in the first half of 2002," says Larry O'Brien, principal author of the study, "Total Automation Business for Process Industries Worldwide Outlook, Market Analysis and Forecast Through 2006."

O'Brien goes on to say "While new construction remains depressed, industries such as refining and petrochemicals are trying to drive more out of existing plant assets by purchasing advanced forms of automation. Meanwhile, hybrid industries such as pharmaceuticals and food and beverage continue to be areas of healthy growth."

These comments were echoed by the executives of the leading automation companies Emerson Process Management, Honeywell, ABB, and Invensys. Even the traditional programmable logic controller (PLC) suppliers such as GE Fanuc and Rockwell Automation, chimed in insisting growth is on the horizon. Some even went out on a limb and said this could be a breakout year.

The ARC study states that total process automation software "as an aggregate has the highest growth potential, including those that target integrating enterprises, such as legacy systems. This is good news for Invensys/Foxboro. Its I/A suite of products has been popular in migrating older control systems to more modern systems."

In addition, the study goes on to mention that the "ability to provide a wide range of project services will be a necessary ingredient for survival for any major process automation supplier in the future."

Emerson, Austin, Texas, was one of only two automation companies voted as a Hottest Company by the editors of *Start* for 2002. The other was GE Fanuc, Charlottesville, Va. Interestingly, Honeywell, Phoenix, Ariz., and Invensys, London, England, were selected as companies to Keep An Eye On.

Emerson should be able to hold onto its Hottest Company status next year with products such as PlantWeb and DeltaV. These two products have proven to be the lifeblood of the company, boosting sales and customer satisfaction.

Emerson's growth in 2001 was pretty remarkable considering the year and the market. Its sales grew 9% to $3.3 billion, an increase of $300 million.

Honeywell, on the other hand, should be poised for success if it delivers on its newly released Experion PKS system. Terry Sutter, president, Industrial Control Systems, Honeywell, says Experion is considered to be the biggest launch for Honeywell since distributed control systems (DCS) back in the 1980s.

Despite ARC's prediction that the discrete/PLC market will experience below average growth, GE Industrial Systems might be the one bright spot in that its new collaborative manufacturing solution is gaining serious momentum.

Late last year GE Fanuc finalized a restructuring process in which it launched its Global Solutions Business, which combines well-known programs within the GE corporate family. Now GE Fanuc is well on track to fulfill the goal that it set when Charlene Begley took over as CEO and transformed the company into a true solutions-based company.

If GE is successful in its mission it could continue to take marketshare away from competitors like Rockwell Automation and Siemens, which are experiencing dismal sales.

However, ARC does admit that the PLC market in China is expected to see some interest as plants move to update antiquated equipment.

ARC's PLC market analysis also includes operator interfaces, unbundled software, and related services. "Because of its broad industrial base, opportunities will continue to emerge for the entire PLC spectrum ranging from nano to large and from product to solution-oriented PLCs," according to A.V. Rajabahadur, ARC's director of Indian operations.

WEB SERVICES/EAM

Another area that the editors are confident will continue to take the market by storm is Web services. Although it may be too soon to label it a solid trend, the editors pegged a handful of Web services-type companies for this year's lists.

BEA Systems, San Jose, Calif., is probably the most notable. It made the list as a Hot Company. One of the points that caught the *Start* editors' eyes was the incredible revenue increase BEA Systems has undergone. For its 2002 fiscal year, the company saw a tremendous increase from $819.8 billion in 2001 to $976 million in 2002. The company added nearly 700 new customers just in one quarter, ending Jan. 31, 2001. Not too shabby in a down economy.

The rest of the Web services companies, Grand Central and Avinon, both of San Francisco, Calif., and Cape Clear Software, Campbell, Calif., were in the Up and Coming list simply because they are too young to be considered as a Hot Company. Companies two years old or less can only qualify as Up and Coming.

Time will tell if these Web services companies can maintain their momentum. Analyst firms such as AMR Research Inc., Boston, Mass., say while the industry is appealing, it's a bit too early to know how the market will shake out.

Says Beth Barling, analyst with AMR, "Web Services are coming, and they will ultimately provide a source of competitive advantage to your business. Just don't bet your business on" it just yet.

Another segment the editors believe is an emerging field is the enterprise asset management (EAM) space. Although none of the pure vendors in this space made it as a Hot Company, the three major ones, Datastream, Greenville, S.C., Indus, Atlanta, Ga., and MRO Software, Bedford, Mass., all made it as Keep An Eye On. While MRO Software and Datastream continue to mudsling, Indus has been flying below the radar snatching customers and marketshare. If Indus continues to drive its message home, it could help to put another nail in the coffins of other EAM players.

Indus and MRO both saw its revenues increase. Indus went from $146 million in 2000 to $176 million in 2001. MRO went from $168.7 million in 2000 to $190.5 in 2001. Datastream, on the other hand, declined in revenues from $97.4 million in 2000 down to $89.5 million in 2001. The company, however, improved its profitability, and its latest release, 7i, received some good remarks from AMR.

Recent comments by Marc McCluskey, analyst with AMR, reveals that the EAM vendors will see "measurable success as they create platforms for collaborative asset management (CAM) ...EAM has transformed from maintenance management to become a crucial part of a company's business processes."

UPSWING

As the manufacturing market appears to be improving, many vendors admit they are cautiously optimistic about what the future holds. This cautious optimism was not evident when *Start* made its call to entry. In fact, it's important to note that overall there were fewer entries to consider in this years' Hottest Company contest, indicative of the down economy. This year the editors named only 19 Hot Companies, compared with 33 the previous year. It was obvious that depressed sales hit many vendors hard as the economy sputtered. But the slowdown doesn't appear to be lasting as long as some expected.

Reports from the Institute for Supply Management (ISM), Tempe, Ariz., reveal the economy is making a comeback. "Manufacturing purchasing and supply executives are more optimistic than at anytime in the past year and see significant improvement in their organizations' prospects for 2002," says Norbert J. Ore, chair of the ISM Manufacturing Business Survey, and group director, strategic sourcing and procurement, Georgia-Pacific Corp.

Industries such as wood and wood products, textiles, petroleum, and chemicals are among segments that will see the greatest improvement in 2002, reveals an ISM survey.

Clearly, the vendors who landed on *Start's* lists are truly offering something special and something worth noting. And if the economy continues on its current course, and many of these vendors deliver the goods, the 2003 Hottest Companies should prove to be almost too hot to handle.

ESKER SOFTWARE
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Communicating more efficiently between customers and trading partners is a goal many manufacturers want to achieve. Esker's flagship product Pulse helps them achieve it. Pulse captures print documents or print streams from any enterprise application such as enterprise resource planning (ERP) and supply-chain management (SCM) and transforms them into multiple electronic formats and allows companies to deliver the reformatted documents to their customers via the Web, email, fax, and distributed print.

This is done through technology that Esker calls General Document Recognition (GDR), which recognizes document content and, based on this recognition, automates document formatting, addressing, and delivery.

The many benefits are e-document delivery is easier and faster to implement than any other document delivery products.

Pulse also has an SAP-certified Connector for mySAP.com. It integrates seamlessly with mySAP.com and one of the most widely used enterprise resource planning products, SAP R/3, to automate electronic delivery of invoices, purchase orders, and other documents directly from SAP platforms.

As a result, organizations can eliminate the high cost and wasted time associated with manual delivery of mySAP.com and R/3 output. Increase supply-chain efficiency. Shorten business transaction cycles. Improve cash flow. And enhance vital communication with their customers and business partners.

In a tough year, Esker was able to realize some revenue growth. It grew 2.5% in 2001 to $29 million. Also promising was a 4% sales growth in its information delivery products (Pulse and its fax servers.)

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