

QUIETLY GENERATING GROWTH

Kohler Power president talks about Liebherr, Clarke Energy, what's ahead for the global generator and engine manufacturer. By **Mike Brezonick**

One of the key architects of the company's growth strategy is Tom Cromwell, president of Kohler Power. A vice president at heat transfer specialist Modine Manufacturing before coming to Kohler in 2009, Cromwell served as president of gasoline and then global engine business before assuming leadership of the company's overall engine and power generation segments in 2009. *Diesel Progress* recently talked with Cromwell in his office in Kohler, Wis.

In 2016, Kohler partnered with Liebherr on a new range of generator drive engines and then launched the KD series generator sets based on those engines. Where might that relationship go in the future?

Liebherr's capability, from a development standpoint, has been outstanding. They have strong engineering capabilities; strong technical capabilities and they've invested a lot into the partnership. They've built a brand new facility in Colmar, France, for

these units. They've continued to add more and more capacity into both the Bulle and Colmar facilities to support our growth.

They've done the engine development work on the mining and construction application for those engines and we've helped them from an engine



development standpoint specific to G-drive engines. If you think about most generator applications, it uses an engine that was developed for something else and at some point, the engine is retrofitted to be an acceptable generator engine?

Everything that has been launched by Liebherr so far for these large platform engines has been for generators. We changed where the turbos are configured and a lot about the base

EDITOR'S NOTE:

KOHLER POWER, a division of the multibillion dollar, privately-owned Kohler Co., has made a number of significant moves in the industry over the last several years – a global partnership with Swiss engine manufacturer Liebherr, the acquisition of U.K. power generation specialist Clarke Energy among the highlights – yet has managed to do it all rather quietly.



TOM CROMWELL, president of Kohler Power

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In 2016, Kohler partnered with Liebherr on a new range of generator drive engines and then launched the KD series generator sets based on those engines. With the KD series the range is everything from a 700 kW unit up through eventually 4 MW at the top end of the range.



engine configuration to make it a strong generator engine. Liebherr's willingness to invest from a capital standpoint and from a development standpoint, exceeded even what we anticipated going into the partnership.

With the KD series and where we've gone from a generator standpoint, the range is everything from a 700 kW unit up through 4 MW at the top end of the range. Right now we're capped at 3.3 MW, but we'll start doing a lot of the prototype work in 2019 and then in 2020 will be in full production with the 4 MW unit.

We've been extremely pleased with the overall success of the KD series and where we've been able to sell the generators. We've had much, much more success in data centers and other mission critical markets than we've had historically. Those types of customers want door-to-door service, where from the time you start the specification work through long-term service agreements, they want one party that's in control and providing the complete package. Historically we could do all the specifications, the generator

development, installation, but then if there was a problem in the generator specific to the engine, we had to pull in the engine partner at that point. For some bigger customers that always created a level of concern. With the KD series, that's gone away completely. Kohler owns every bit of the technology, every bit of the service and, and so it's opened up a lot of doors for us.

The other thing that's happened is Liebherr has given us a lead time advantage in the market, as all of their current large platform production is focused on Kohler. With a lot of the other engine generator companies, as mining and construction and other markets have picked up along with the impact of Stage 5, they've been really stretched from a capacity standpoint.

As to our future with Liebherr, I was in Europe recently and met with Gebhard Schwarz (managing director of Liebherr Component Technologies) and we talked about what are the next steps for us from a partnership standpoint. We're looking at additional geographies – maybe going after certain territories

a little more aggressively and somewhat collectively. We're looking at some areas where maybe historically Kohler hasn't been as strong – mining for instance – and we're talking about how could we use the Liebherr partnership in certain spaces like that? Then in general how could we expand the range?

Right now the partnership starts at 700 kW – could we go down lower than that from a power range standpoint? Could we expand into other product categories with them? We're looking at a lot of different options, but I would just say based on the success we've had to date, we definitely want to continue to expand that relationship.

As the engines built for you by Liebherr are branded Kohler, since Liebherr does not have a significant engine presence in North America and since Kohler has a growing engine program itself, has there been any thought to having those engines become part of the Kohler Industrial Engine portfolio?

At the end of the day, we know our focus is going to be on the generator side and their focus is going to be in selling engines and using them in their own equipment. So at this point, we haven't explored beyond that too deeply, nor do I necessarily think we will. It's a fair gap from our current KDI range at 135 to 150 hp to starting to sell 700 to 800 hp engines.

Related to that, we have been very clear that in our generator ranges as a company, we want to have Kohler-branded engines from the 10 kW solutions up through the 4 MW solutions. If you think about our range today, we've got the KDI engines that power everything up through 70 kW, and then in the middle of our range we're using primarily John Deere and a few other solutions depending on the region and emissions levels. And then at 700 kW and above is all Kohler through

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Early last year, Kohler acquired Clarke Energy in the UK, one of the biggest distributors of GE gas engines. Kohler feels that large gaseous generators is a market that is going to continue to grow strongly. Plus it adds more prime and continuous applications to its portfolio.

continuous basis. We see that as an attractive market space.

We were very interested in those lines. We spent a lot of time going through the process and ultimately, we just decided that we didn't think we could get the kind of return out of that business that we really wanted.

the Liebherr partnership. We've been very clear that we want that entire range to get to Kohler-branded engines, so we can control that service experience and make sure the customers are taken care of by Kohler personnel.

Kohler was among the companies interested in acquiring GE's Waukesha Engine and Jenbacher engine businesses. Was that interest reflective of an interest in those companies specifically or more of an

ambition to expand your gaseous-fueled engine options?

We definitely were very interested in the Jenbacher-Waukesha business. We do see the gaseous fuel generator market continuing to expand. If you think about renewable solutions where you're going to start using solar and wind and battery technology, you're still going to have days where the wind doesn't blow, or the sun doesn't shine. There are still going to be periods of time where there's a need for a true power generation infrastructure that you can run more on a prime and

Early last year, Kohler acquired Clarke Energy in the UK, which is one of the biggest distributors of GE's recip gas engines and has operations in something like 25 countries, many in the less developed regions of the world. What was the thinking behind making Clarke Energy a Kohler company?

We felt like large gaseous generators was a market that was going to continue to be an attractive space. It was going to continue to grow faster. Our base diesel



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A long-exposure photograph of a city street at night. The street is filled with light trails from cars, creating vibrant streaks of red, white, and blue. In the background, several tall, modern skyscrapers are illuminated, their lights reflecting on the street. The overall scene conveys a sense of urban energy and motion.

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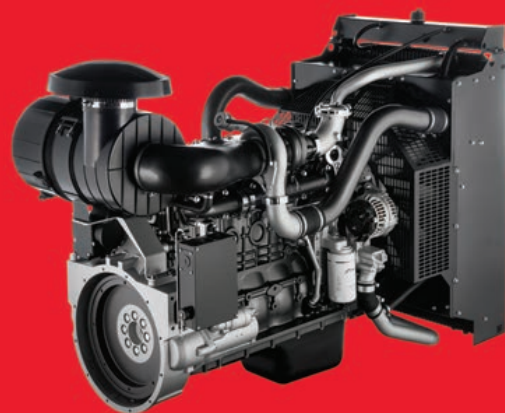
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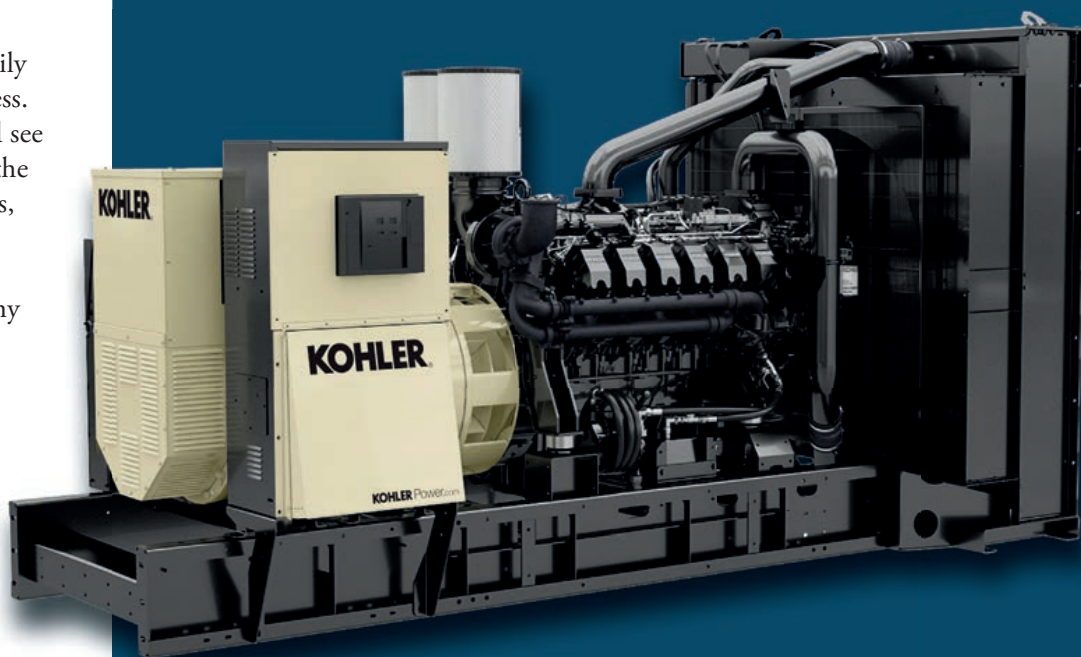


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power generation business is primarily a standby/emergency backup business. We look at gaseous fuel systems and see more prime and continuous where the generators are running a lot of hours, in many cases, 8000-plus hours per year. We know there's a very attractive parts and service side to any prime or continuous business and Clarke Energy does that extremely well. They've built their model around being very strong from a parts and service standpoint, taking care of customers first and then selling hardware as a part of their total solution.

We've been extremely pleased with the Clarke acquisition. It's a great leadership team with really deep knowledge in that industry. They are also a very strong EPC (engineering, procurement and construction) firm. A lot of the solutions they put in place are really complex – they do a lot of things like bigger mining sites in Australia, where they're starting with a bare piece of ground doing all of the site work, putting in the generators, getting them commissioned and turning the keys over to the new owner once it's fully commissioned. Then they may stay on and operate it for the new owners and they will typically sign a long-term parts and service agreement as well. It's a bit



Kohler has been very clear that it wants its entire range of gen-sets to have Kohler-branded engines, so it can control the service experience and make sure the customers are taken care of by Kohler personnel.

of an annuity-type business where they sell the hardware upfront but then they get a lot of parts and service down the road and do that very, very well.

Looking again at engines, there was a significant investment in developing the KDI engines and as of last year, all of the displacements

have been fully launched to the market. How is the investment in the KDI product line paying off and are you where you thought you'd be in terms of sales?

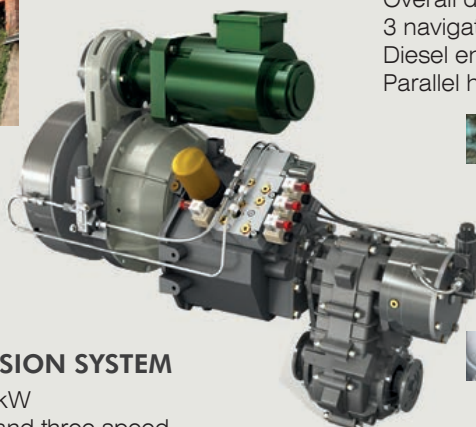
When we started the development of the KDI engines, we didn't anticipate Stage 5. That additional regulation brought with it another round of development

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activity and expense. But the team has come up with a fantastic solution that's going to again give us a good competitive edge in Stage 5.

We're just continuing to build the business every year, more than double-digit growth rates. We track our growth rates versus our key competitors in that space and we've been consistently outgrowing our competitors. So very pleased with the success of those engines.

I think the other interesting opportunity with the KDI right now is the pending changes to tighten emission regulations in China. I think that's going to give foreign engine manufacturers a bigger chance at the China market and I think that will play out over the next three to four years. We believe our KDI engines are very well positioned to take

share in China when the new regulations are implemented.

Kohler is one of only a select few engine manufacturers that still manufactures single-cylinder, air-cooled diesels, along with some air-cooled twins and at least one air-cooled three-cylinder. With Stage 5 looming, are you going to invest to make all those engines compliant and what's the longer-term outlook for air-cooled diesels in general?

We will continue to invest in our air-cooled engines, but right now we support significantly more families than we will in a Stage 5 environment. So we will narrow

the range, take some of the models out as we transition to Stage 5. But we recognize there are still certain applications, like agricultural applications, where those engines serve the purpose very, very well. So our intention going forward is we will support air-cooled engines but a smaller family than what we have today with less power nodes.

You came to Kohler in 2009 and have been president of Kohler Power since 2014. What's it like being one of the most senior executives at what's still a family-owned business?

Kohler has been a great company for me. It's different from a publicly-traded company in a couple of ways. I get to sit in front of Herb and David Kohler and present business cases, talk about the strategy of the business and get a very clear, "yes, I agree and go ahead and execute that strategy," or "no, I disagree, we need to think about this some more."

Being able to sit in front of a family member, tell them what you want to do and why you think it's a good strategy and getting a very clear yes or no, is a big advantage.

The second big factor is the family tends to be very long-term investors. They not only want a return over the next one to five years, but they want to understand, what is the strategy to win over a 5-, 10- and even 20-year horizon?

The investment with Liebherr and that joint partnership, that was two privately held family companies with two owners looking each other in the face and talking about what did this mean and why do we want to do this together? Both partners made 20-year plus commitments to each other and that's really hard to do in a public company environment.

Another point I would add is Herb and David (Executive Chairman Herbert V. Kohler and President and CEO David Kohler) are tremendous leaders. They could run publicly-traded companies anywhere. I think Kohler is gifted in having that strength of leadership. ■



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