

# 'Deceuninck will return to growth'

## Interview with Tom Debusschere, CEO

Victor Dubois  
Journalist VFB

**W**'With its innovation and investment in growth and growth markets Deceuninck will return to growth', confirms Tom Debusschere, CEO at Deceuninck during his interview with Beste Belegger. 'This is certainly the case in emerging countries, the US, Turkey and certain European countries. There are countries in some parts of Europe where it's challenging and where we need to cut costs and restructure. However, I believe that the growth figures of +18% from the first half of the year show that we are on the right track.'

'In Europe, the UK returned to growth last year, after many years in decline. In Spain and Italy PVC is gaining market share, due to increasingly strict regulations in the area of insulation. Those countries used to prefer aluminium. Now the penetration of PVC has grown to between 30 and 35 percent and we are benefiting from that. Belgium is also doing well. And the Netherlands are making a strong comeback after the enormous decline in previous years.'

**VFB** *The French market still seems to be suffering. What developments do you expect there?*

**Tom Debusschere** In 2014 the French market declined by over 15 percent. This was partly linked to the economic situation in general. Also, the socialist government announced an incentive in July to stimulate energy-efficient building and renovation. In October, however, the government announced that this would no longer be the case in 2014. This was a real blow

to our sector. Indeed, consumers postponed their purchases, in order to still benefit from the incentive. In the meantime, the incentive is up and running. However it's not sufficient to create a return to growth. We do see, however, that the decline has been stopped. And we do expect growth in 2016.

**VFB** *There's also the cheap competition from Poland. To what extent does this bother you?*

**Debusschere** The Polish competition has been around for a number of years. It started in Italy, then in France and we are now seeing it in Germany. It shouldn't be exaggerated. The total market share of all Polish manufacturers is estimated at

between 12 and 15 percent in France. And that is mainly at the cheaper end of the market and in projects with standard sized windows.

**VFB** *How strong are you in Central and Eastern Europe?*

**Debusschere** In Central and Eastern Europe we operate under a different brand name: Inoutic. That comes from the Thyssen takeover in 2003. We are not as strong there as we are in Western Europe, where we are market leader. In Eastern Europe we are a medium-sized player. That's the German playground.

A few years ago we streamlined our range of products there, under the Inoutic brand. Today, nothing is sold under the brand Deceuninck between the German border and the East. This has significantly improved our costs and efficiency. Our aim is now to gain market share in a very targeted way under the one brand Inoutic.

Each country is very different when it comes to PVC. However Eastern Europe is the exception. When the wall came down the Germans exported the way they made PVC windows to the whole of Eastern Europe. That led to a relatively homogenous market in the field of window design.

**VFB** *Turkey is a success story. What's going on there?*

**Debusschere** Today, with the collapse of the Russian market, Turkey has become the second biggest PVC window market in the world, after China. In Turkey, sales have continued to grow nicely over recent years. Now, growth has stagnated due to political instability, meaning that consumers have become more cautious. We are gaining in market share slightly in a market that is in slight decline, and in this way we manage to keep our volume stable.

We are the only Western player in the Turkish market. Besides Deceuninck you will only find local Turkish players. Three of these are quite big. The market, with its 80 million inhabitants, is still enormous. And in this market, PVC holds a share of around 85 percent in the market for window frames.

On the one hand it's an enormous renovation market, in which PVC is replacing wooden windows. On the other hand there is lots of new building going on. As the metropolises develop in the country, many multifamily residential buildings are being built, often up to fifteen or twenty floors high.

"In France we expect to return to growth in 2016."



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**VFB** How would you explain your strength in Turkey?

**Debusschere** In Turkey we have three strong brands, but these require continuous support. We do that firstly by delivering good reliable quality. Secondly we keep on innovating. We launch a new window system under each brand every two years. Finally we do quite a bit of promotion. In Turkey you'll easily get to hear or see a media campaign on the TV or radio for one of our three brands, Egepen Deceuninck, Winsa and Pimapen.

With Pimapen we now own the top three brands in the middle to top-end segments in Turkey. When we gain additional volume in Turkey these days it's generally with the Pimapen brand. This brand is head and shoulders above the rest in terms of brand awareness, due to the fact that it was pioneering in the Eighties. This brand was the first to bring PVC windows to the Turkish consumer.

We took the company over at a point when it had been neglected for ten years, being a small part of a bigger holding. We are

“We're already on our fourth price increase in Turkey this year.”

now upgrading the brand with new products, a new image and attractive promotions.

**VFB** Each year since you've been on board, the Turkish subsidiary has delivered quite a significant EBITDA, even in euros. However, there can be large fluctuations in the lire. So how do you explain this continued growth?

**Debusschere** With a strong brand it's possible to increase your price. We're already on our fourth price increase in Turkey this year. If the cost of PVC increases we manage – all be it with a small delay – to increase our prices. In Turkey the increase in our PVC costs can be linked to a stronger dollar, as our imports are in dollars.

In most other countries we can pass on the cost increase with a delay of six to nine months. In Turkey we succeed in doing this more quickly, and that's entirely due to our strong brands.

We also manage more quickly in the US. There, the value-chain differs considerably to the one in Turkey. Where in Turkey we have strong brands, which are well known by the consumer, this is not the case at all in the US. In the US every large manufacturer has his own window system. The manufacturer then controls the brand. We deliver the PVC profiles.

This means that we work with a formula in which price fluctuations can just be passed on. That means that 80 to 85 percent of the volume we sell in the US is indexed. Our price fluctuates with a delay of two to three months in line with the price of PVC. Therefore our margins are quite safe.

**VFB** The US market is recovering, and more quickly than expected. Why do you think this is?

**Debusschere** That's entirely down to the performance of our local team. In fact the market isn't growing that fast, just 3 to 5 percent. The good news is that growth can be maintained in the coming years.

With our perfect service and, in particular, our innovation – we launch a new product there every year – we have managed to attract

a more than average number of new manufacturers. That's how we have come to have quite spectacular growth figures.

In the US, in the first half of this year, we grew by 15 percent in dollar terms, which represents a growth level of around 40 percent in euro terms. That is three or four times faster than the market. The rapid growth is also improving our margins in the US.

We also have very strong customers-partners. The customers expect a perfect service and they know that they are working with the leader when it comes to innovation. Each new idea for improved energy efficiency or improved looks is to be found with us. Our relationship there is pure business-to-business.

**VFB** *You are building a second factory in the US, in Reno, Nevada. Is that a reaction to the rapid growth?*

**Debusschere** There are two reasons for building a new factory in Reno. Based on current growth patterns our factory in Monroe, Ohio, will be full by the end of 2016.

But in fact we are doing it mainly to attract new business to the West coast. On top of that the window systems, profiles and tools we need for the West coast are quite different to the East coast.

**VFB** *Your plan is to continue growing in the emerging markets. Can you tell us more about your plans in those areas?*

**Debusschere** Brazil was on the hotlist until a year and a half ago. However, with the present economic and political climate we are sticking to a warehouse at present and waiting for a new dynamic in the market.

If you compare Brazil to Turkey then you also see that there is quite often bad news in Turkey. However the economy there just keeps on turning. It can be compared with the Sixties in Europe. Turkish consumers are fundamentally optimistic.



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**“In the US, in the first half of this year, we grew by 15 percent in dollar terms, or 40 percent in euros.”**

Maybe it also has something to do with a better business climate to be found there. Everywhere in Brazil you find administrative bureaucracy. It's a drama. You just dread having to do business there. And that does influence your decision considerably.

I won't tell you what's on the hotlist right now. But I can tell you that Latin America is interesting, as are India and the Middle East. These currently appear to be interesting markets.

**VFB** *The oil price dropped early this year. Yet the PVC price rose because a number of chemical companies announced a 'force majeure', which suppliers can normally only claim in the case of e.g. earthquakes, fire, strikes or flooding. What was going on?*

**Debusschere** From February last year one manufacturer after another suddenly started having problems in their production site. This was not only that the production of PVC was under pressure in Europe, but also poly-

ethylene, polypropylene and all kinds of olefins.

The reason was that the entire plastics supply chain was operating with very low margins, due to the low oil price. This in turn led to one factory after another going under.

In the end there were a grand total of 40 'force majeures' this year, over twice as many as the previous year. In statistical terms that is unheard of. And also when you look at the timing of it all, it raises fundamental questions.

What can be seen is that with the oil price continuously in decline the price for PVC rose in two to three months by 40 percent. There was even talk of double this figure in the case of polyethylene and polypropylene. Worse still, there was not even sufficient volume to supply certain factories. Never in my 23-year career have I seen an increase

of 40 percent in the price of PVC.

We did manage to pass on the cost increases to some extent. And being a big player we also got hold of sufficient material, even if we had to pay the historically high prices. There was just one weekend where it was very touch and go.

In the meantime, the 'force majeure's have been resolved and you can see the price, with supply back to normal, gradually dropping again. However I do wonder what's in store for the market next February or March. That's the beginning of the spring when the market gets going again.

We approached the European Commission as an industry, but they have confirmed that there's nothing they can do for the moment.

**VFB** *You are active in innovation. Do you see developments in this area?*

**Debusschere** Every year we invest around 40 million euros. But these days we invest



more in new technology and innovation and less in buildings and factories. We used to look for wider and deeper window systems providing better insulation, just like our competitors.

I then asked our team to work on innovations that even my mother would notice, without a sales person standing next to her telling her what to look for.

It's actually all based on three areas. Firstly, colour, namely our investment in Omniral. Secondly it's about linktrusion, our investment in fibreglass technology, which allows slimline profiles, such as iSlide sliding windows. And lastly is the investment in recycling.

**VFB** *There are some difficulties with the first innovation, Omniral, 360° coloured PVC frames. What's that all about?*

**Debusschere** We discovered a quality issue and that's why we have withdrawn our product from the market. We are continuing to work in this area.

We have changed the chemical composition of the paint. For ecological reasons we work with water-based paint. However it's not that simple to make this type of paint stick properly to plastic, let alone PVC.

We have continued work on the adhesive qualities and are now ready to relaunch the product in 2016. To start with we'll limit production to Belgium. The reason being that the logistics aren't that simple.

In Belgium, PVC and aluminium each represent around 40 percent of the market. That means that colours are really in demand, so there is definitely a market for it, and that's why we invested so heavily in this technology.

**VFB** *Linktrusion is an alternative to aluminium. Fibreglass is used to give additional strength to the material. How far can you go with this?*

**Debusschere** The limits of this technology have certainly not yet been reached. The traditional technology in PVC windows is plastic



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inserted with steel reinforcements. We now replace the steel reinforcements with fibreglass strips. The biggest advantage is that you end up with a product, which offers superior levels of insulation.

In the US we are working with frames made of 80 percent fibreglass, enclosed in polyurethane to hold it together.

In the last couple of years you can really see that we are operating as a global organisation, whereby innovations developed in the US are also brought over to Europe. Or whereby, for example, we serve our market in Chile using our product ranges from both the US and Turkey.

**VFB** *What is the market's reaction to the new technology?*

**Debusschere** The market is reacting very positively. We already have made well-insulated iSlide-sliding doors, which we have shown at a number of exhibitions in France and people were very enthusiastic.

In fact, fibreglass was one of the main reasons to invest in recycling in Diksmuide. Since the technology to separate PVC and fibreglass didn't yet exist. We developed it ourselves in our factory in Diksmuide.

**VFB** *Recycling in Diksmuide hasn't yet lived up to expectations. What's the problem?*

**Debusschere** We faced two issues. First there was the technological problem, which

are suitable for recycling. The Commission is currently working on a directive in this area. That is unlikely to happen in the immediate future. And by the time the laws have been enforced in France we're talking quite a long time.

In any case I do predict that we will make a profit in 2016 in our recycling in Diksmuide. We have alternative sources of PVC waste in the meantime.

In each of our new products we look at the level of recycled PVC that can be used internally. In the longer term our aim is to do this as much as possible. We are developing new products fast in this area. Meanwhile, we have a number of customers who are using our recycled PVC to make other construction products not available in our range.

