

Knauf corporation case study



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The following assignment is a case study, in which we are going to analyze the Knauf Corporation worldwide, but mostly the operation of the business in the European countries. The objective of this assignment is, by analyzing the operation of the company inside Europe to be able then to recognize, whether we see a common strategy or if there are any differences on it.

In the first part, there is a research about the organizational function and the activities of Knauf worldwide and mainly in the European environment, starting from the past until the year 2009, where you can see the latest actions of the company. In the second part I will concentrate my analysis regarding how the general strategy of the company is differentiated depending on the local requirements, laws, cultures, market potentials, etc. In the end of the assignment we will make an analysis of the Greek market in order a close idea about the business operation.

1. Company's history and profile

Knauf Group is a multinational producer of building materials and construction systems based in Germany, in Iphofen, where the head quarters and the master plan are located. In Iphofen exists also the historical museum of the company. Knauf is a family name. The Company began its operations in 1932, when the brothers Dr. Alfons N. Knauf and Karl Knauf established the firm “ Gebr. Knauf”. It was a difficult beginning and at this time, no one could have thought the future big development of the company. Knauf finally became a multinational producer of building materials and construction systems, operating with more than 150 production facilities worldwide. Today the company ranks among one of the world's leading manufacturers

of building materials. Knauf has a workforce of 22, 000 employees in 40 countries and in 2009 the company achieved sales of 5, 5 billion Euros.

The product portfolio varies from the traditional plasterboard to the production of conveying machinery for construction site logistics, including the segments of gypsum plasters for interior and exterior use, insulation materials made of glass fibers or expanded polystyrene. The wide-ranging assortment also includes some other very special products as gypsum fiber boards for walls and floors, as well as a variety of special ceiling systems. The final aim, which comes out from this wide range of products, is that Knauf Group always focuses its efforts in being the leader producer in the construction sector by fulfilling any requirement of the architects, planners, building developers, etc.

A strong characteristic of Knauf is the continuous courage for visions, innovation and investments as well as simple decision-making processes and a wealth of ideas on the part of its personnel. Despite the fact that the company is so large the CEOs of the company Nicolaus and Baldwin Knauf insist that the company is a family business, since it is still managed worldwide by the second and third generation of the family Knauf. The company doesn't belong in any stock market and every investment is created by their own profits without loans from the bank or any other external fund.

2. Company's structure and operation

Gypsum plasters (core selling material of the company)

The Group started to go international as early as the beginning of the Seventies of the last century and the trend has continued until today. Today the Group produces and sells its products in all European countries. In the developed countries such as E. E. countries, Turkey, Russia etc., the company has production facilities. According to the market demand in some occasions there are two or even three plants, whereas in small countries as Cyprus for example, there is only a local branch and the market is supplied with materials from Knauf Greece. Furthermore, there are factories located in North and South America, in the CIS states, in Northern Africa, in China and in Indonesia.

Insulation materials

Whereas in earlier times the sectors of dry construction – and here we mention plasterboard as the primary product – and gypsum plasters were the traditional areas of activity of the Group, meanwhile the insulation materials segment has developed into a further mainstay of the Group.

The foundation stone for this was laid in 1978 when a glass fibre manufacturing company in Shelbyville, USA, was taken over. Today the company bears the name Knauf Insulation USA and operates a total of four production sites in the United States.

The production of insulating materials on the basis of glass wool and mineral wool becomes more and more important. For about 30 years, the company has gained experience in the production of glass wool in North America.

Within the last 5 years, Knauf has acquired 10 glass wool and mineral wool

factories throughout Europe and additionally built new plants in Eastern Europe and Russia.

Emerging and acquisitions activities

Focusing before some years in the developing strategy into further segments of construction, where Knauf didn't have experience, the Company needed the knowledge and the facilities of existed companies well known for their quality in their field. Some of them were bought from the group in order to serve all the local Knauf companies with the special products that they're producing. Some of the companies that have been bought and managed now from the group are AMF, Danogips, Marmorit, Sacret, Richter Systems, Knauf Perlite, Knauf PFT, Knauf Alutop.

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Most of these companies are selling their products only via local Knauf businesses. The interesting point is that the group doesn't hesitate to change its policy according to the target groups, different distribution channels and market needs. Being more specific, for example AMF Company is operating as a different business in the local markets, who sells products to the local Knauf businesses, but also to several wholesalers for example. PFT Company, which is occupied in machinery equipment (totally different market segment), is also developing separately from the local Knauf businesses in the European markets in order to serve other distribution channels and target groups. Knauf insulation, which is a totally different company is as well acting separately in the markets and sell its products

directly to wholesalers without local Knauf's help. In many occasions in the European countries they are also selling only via local Knauf businesses.

An interesting history is about a merging that the group has made with its one of the biggest competitors. The company USG is the market leader in United States producing and selling the same range of materials. United States of America is too much mature market in constructing with dry wall systems. Knauf group realized a big gap before some years in their product variety. They didn't have a board suitable for exterior constructions. Then the idea came from USG that had been producing a cement board, which is the ideal product, if someone wants to construct exterior walls – facades for example. Then Knauf group in order to gain the technical knowledge and experience in cement board market, has been cooperated with USG. They have created together a joint ventured company under the name Knauf USG Systems, which is an independent company located in Germany and its aim is to produce and sell cement boards in Europe, Middle East, and Africa but only via the local Knauf businesses.

3. Organizational structure

Knauf local businesses are managed by CEOs that usually are locals. The Local CEOs are supervised by the regional CEOs who are usually coming from the Knauf family. The local CEOs are fully responsible for the local organizational structure. Usually there is the plant manager, a logistics manager, sales and marketing managers, IT managers, technical department and sales department. Depending on how big the market is, sometimes as in Greece for example the technical department is merged with the sales department, which is finally consisted from sales engineers.

4. Vision and Mission

The Knauf vision stems from the model on which the company is based: “From a family company to a family of companies”[i]. Knauf’s mission is to remain a family which will always include its employees, customers and consumers. The company mainly emphasizes its philosophy on the following:

Sustainability, Ecology and economy. The company produces economic construction systems based on raw materials that come straight from the earth and are completely friendly to people and the environment.

Plan innovations to meet tomorrow’s requirements.

To be the market leader in the building materials industry

Focusing in long term growth and continuous increase of company’s value

To be as good as the sum of its total employees. The company depends on its employee’s skills, efficiency and creativity. In that sense production plants are designed to be pleasant to work in, efficient and to ensure a conscientious approach to resources and the environment.

Quality management is a key factor for the group

5. Knauf Business and Marketing Strategy model

5, 1 DISTRIBUTION

Knauf’s general strategy is to sell their products only via wholesalers. These dealers can then sell products further to second hand dealers, contraction companies and technicians (Knauf system installers). This model can be

changed if a local market is used to work with another way, as for example in Northern Africa countries. In Europe this strategy is generally followed.

5, 2 TARGET GROUPS

If we follow the whole chain of construction industry, we all know that Architects are planning the projects which means, that they're specifying materials (they create the demand). This means that they are the main decision makers in the construction chain.

Contractors are taking over to complete the project, and the technicians as sub contractors they are installing Knauf systems.

As you can easily realize, Knauf target groups are all the above mentioned groups. Company's concept, is to follow the projects from the early start of the planning until the final procurement. And that means, that they support all the phases of the construction by being present and service with technical support all the groups referred. In addition they focus a lot to the individuals (private investors). Individuals are Knauf's long term objectives, since they strongly believe that they are at the end of the day the basic mean of continuously adding value in the company and make their products even better known to the market. This sector is going to empower the already famous " Knauf" brand in the market, and of course the materials demand.

5, 3 COMMUNICATION – PR – ADVERTISEMENT

In this paragraph, I'm going to show you a small part of the general ideas regarding the company's marketing approach. Knauf in Europe proceeds in specific advertising actions to introduce its products variety in its all target

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groups. This marketing approach operates since the start of the company and it is already very successful.

A very important thing in business is to follow up your customers. Thus, Knauf via its CRM system saves its contacts and post them direct mails. In addition they are also sending e-direct mails, as is “ the Knauf monthly newsletter” or any other subject they would like to promote.

Moreover, they’re participating in exhibitions which are usually taking place in the construction concept with target groups from architecture, planning, decoration, etc. Another way of advertizing is by creating inputs in magazines for architects, contractors and technicians. Except of magazines, they also make inputs in newspapers and daily free presses, so they could be able to approach also the individuals. TV spots, radio spots are as well important ways of advertising their systems. Knauf invests a part of each turnover to offer free advertising gifts to its customers. These gifts might be templates, banners, signs, flags, samples, vehicles and memorial gifts, all having as design the Knauf logos and the Knauf partner’ s logos as well. Local technical documentation and web sites are other ways to find information for the company’s products. These documents are very well developed and they obviously offer an assured technical support to the customers.

The corporation invests a lot in education regarding its systems installation. Every local business has its own training center where seminars are taking place in certain dates every year. Those who have participated in the seminars are taking in the end a Knauf graduate clarification that writes “ Mr

... has successfully participated in the Knauf seminars the dates...” And this small thing makes them feel that they belong in a special group.

Consequently they spread this idea to other people.

5. 4 POSITIONING

Knauf continues to increase a premium brand and separate its position against competition. That’s why the corporation always invests in developing new products and improving the old ones.

6. Gypsum Industry Market Analysis – Europe

The gypsum industry belongs into the broader industry of building materials. For the scope of our assignment we will only analyze the gypsum industry and especially the European Gypsum Industry as Knauf is mainly active into the European market. The European Gypsum Industry is characterized as a growing industry in comparison with the US or Australian Gypsum Industries which are already in the maturity face of their life cycles. With a turnover of over 10 billion €, the European gypsum and anhydrite industry operates 160 quarries and some 200 factories and generates employment directly to 28. 000 people and indirectly for 85. 000 people. It is one of the few fully integrated industries within the construction products field.

Thirty years ago, the Gypsum Industry was made up of many small manufacturing enterprises mainly producing building plaster and stucco for local markets. The emergence and growth of the plasterboard and the plasterboard solutions market in the 1980s – requiring high capital investments, equipment, R&D and securing access to natural resources – led to a consolidation process within the European Gypsum industry. Currently in <https://assignbuster.com/knauf-corporation-case-study/>

the industry nowadays three main operators cover 80% of the gypsum product market[ii]. These are Knauf Group of Companies, BPB (British Pasterboards) and Lafarge. BPB, a UK based manufacturer, acquired by Saint Gobain in 2005 and organized within the Saint-Gobain's Construction Products Sector[iii]and Lafarge, the well known building material manufacturer, established in 1833 in France initially as a limestone mining company[iv].

6. 1 PEST Analysis

In analyzing the macro-environment via a PEST analysis, we can configure the environment which gypsum industry producers compete and identify the factors that might in turn affect a number of vital variables that are likely to influence the organization's supply and demand levels and its costs.

The European building material industry is not that vulnerable to Political issues but into the Greek Construction Industry political issues arise more frequently as the support from the European Union funds have major role into Construction Industry growth rates. From 2001 till 2009 where more and more privately funded big real-estate projects were implemented the industry was growing very fast but the economic pressure that affects, for the last year, all companies and investors involved is slowing down the rates of the industry. In such critical times, most governments are identifying its policies with social and environmental care policies. Into the construction environment there is the need, more than any other time, of energy efficient buildings and construction techniques that exploit those advantages, and governments in assessing the socioeconomic impact of energy spending reduction are already subsidizing such constructions through government or <https://assignbuster.com/knauf-corporation-case-study/>

EU fund raising. Technology itself was always the main concern of producers in order to find ways of reducing their production cost as well as to invest in new R&D fields, such as antiseismic technology, for exploiting the unique advantages of gypsum.

6. 2 SWOT analysis

European Gypsum Industry is a growing one and most European countries only now capitalize the advantages that gypsum offers as a building material. Gypsum is virtually indispensable for the interiors of homes and offices and all types of building where people congregate, such as schools, shops, airports, etc. Its superior performance in providing everyday comfort, in fire resistance and in insulation, heralds an ever greater role for it in buildings of the future. In fact, the safety and protection of people and property against fire, and effective thermal and acoustic insulation of buildings depends, more often than not, on the unique properties of gypsum. And many of the attractive features of the modern interior would be impossible without the versatility of gypsum as a building material.

The gypsum wallboard industry is highly competitive. Because wallboard is expensive to transport, does not travel well in large quantities and lacks of product differentiation, producers compete on a regional basis, primarily based on price, product range, product quality, and customer service. The sector is highly competitive especially in Europe and North America with production mostly concentrated among few international players.

The drywall solutions are seen in growing countries as a substitute for traditional construction solution like for example cement and brick and block

constructions. The unique advantages that systems offered to the engineers made them a huge threat of substitute for the traditional techniques. But, soon the industry will be into the maturity face and new innovative and evolution building materials like magnesium or perlite have already started to threaten gypsum's raising empire. The industry has to invest into new materials, new technologies and diversify towards innovative building material and construction system solutions.

The capital investment that is required in order to enter into the gypsum industry is high. Equipment is expensive, know how is difficult to acquire, access to natural resources is prohibited and investment in R&D is mandatory. That is why in very few years the European Gypsum Industry from the state of many locally situated small producers it transformed into an extremely concentrated market where three companies cover approximately 80% of the market. In global level the same concentrated situation is observed where 81% of the market is covered by 7 players (Georgia Pacific, Knauf, Lafarge, National Gypsum, Saint-Gobain, USG and Yoshino)

The Gypsum Industry covers the whole life-cycle of the product. Indeed, the companies which extract the mineral " gypsum" also process it and manufacture the value-added products and systems. The full integration that characterizes the industry is a fact that removes any danger of suppliers' bargaining power but at the same time it leads to higher production costs for the producer. The ownership of the gypsum reserves is a power game between the main competitors of the industry as it is at the same time a main clue of product differentiation and product quality resulting from the

mineral gypsum purity. Gypsum reserves are now rare around Europe and that turned the producers to invent new technologies by producing synthetic gypsum mainly from fly ash which is a byproduct of energy production plants.

The industry is mainly selling through an extensive dealer's network in each country. Those dealers are commercial companies selling a series of building materials either to contractors or consumers. In Western Europe more mature markets dealership is also concentrated into few very big companies (Praktiker, Leroy Marlene, OBI etc) which due to its size and concentration they have already obtained a big bargaining power over the producers. In the Greek market the dealers' network is still based on small, unorganized depots with no special power over the industry but big retailers are already into the market and soon the situation will change.

7. Key Success Factors of the Gypsum Industry

The following factors have played a major role in a gypsum company's prosperity:

Cost advantages and economy of scale:

The recent trend of acquisitions and mergers exploit potential cost advantages to be found in R&D facilities serving global operations. They create larger and more diversified market focused organizations. All the top performing companies in the industry have faced, at least once, a major merger in the past. In 2005, BPB, one of the top 3 companies of the industry in Europe, was acquired by Saint Gobain which invested 5.9 billion €, for

setting itself a step ahead from its major competitors in the building materials industry.

Access to natural resources:

As previously noticed, the Gypsum Industry covers the whole life-cycle of the product and producers strive for securing reserves all over the world. In that industry, due to the cost structure, privileged access to the raw material is vital for the company's growth. For that reason, companies started investing either in finding new ways of composing synthetic gypsum from several sources (e. g. energy plant waste) or by implementing systems for recycling their the products at the end of their life cycle (demolition waste).

Differentiation through technical specifications and customer service quality:

The main target for all producers is to offer a complete solution with their systems of products in order for engineers to be able to substitute traditional ways of building. They managed to specify with standard norms the use of the plasterboard walls, ceilings, floor or any other use as well as their technical characteristics like fireproof, sound insulation, thermal insulation etc. With the combination of professional sales and technical support as companies are using only engineers for sales reps with extensive and professional training, in order to serve customers and specify the systems in a market that is constantly gaining market share from the traditional construction methods.

8. Greek market analysis

As we previously noticed, into the Greek market there is also one competitor to Knauf, Rigips Hellas (BPB) with one production site situated in West Greece. Both companies have their own reserves of the raw material close to their factories which are both situated into the same geographical area resulting to equivalent quality levels of raw material. A main difference is the production capacities as well as the plants' sizes. Knauf operates a plant that was build from scratch in 1991 in Amfilochia, while on the other hand Rigips acquired some years after Knauf's establishment in Greece an old gypsum factory from a local producer. That explains the estimated difference in local production capacities for the two producers. Having the appropriate capacity levels, Knauf can control its production cost and overheads better than the competitors and therefore result to higher margin levels.

Knauf from 1991 invested a lot of money for differentiating through technical specifications and customer service quality. In order to achieve that high level engineers were recruited and were extensively trained into Germany's headquarters. The experience and professionalism of the mother company was soon transferred into the Greek subsidiary and the company culture was quickly transformed according to the following:

“ The future lies in the hands of talented and highly motivated employees. An important aspect is the “ family culture” which prevails in the company: Learn from one another, hold together, pass on knowledge, assume the role of mentor, take fast and direct paths and press for special achievements[v].”

In very few years, almost 10 professional engineers were covering all the Greek territory offering technical support to contractors, extensive training to installers and professional customer service to retailers. Rigips which was established a few years later used same techniques for expanding into the Greek territory but always by following Knauf's steps. That was something that reduces its cost for training the market into new building materials but cost them the reputation of the leader in the market.

Knauf was and still is characterized as the leader industry in the gypsum market in Greece. Their competitive advantage in the market is the ability of its people to open the market, train the customers and lead to a new age in construction industry. All the above are mainly achieved by the following:

A huge database of active engineers is informed once every month by direct mail regarding new and innovative solutions. Over 7.000 installers are trained for efficient installing drywall systems into Knauf's Training Centre in Amfilochia. Retailers are supported by professional sales engineer all over Greece. Finally, Knauf has invest a lot in marketing by extensive advertising into press, technical magazines, radio and TV, by providing signs to all its retailing network and by participating into all main fairs in Greece.

Rigips haven't tried to differentiate significantly from Knauf into the market. They have not invest as much as Knauf into penetrating and training the market and their main position in the market is to let the leader open the way and then to follow. The main differentiation point for the two companies was the price. Knauf is the leader and for that the customer has to pay a premium.

9. Strategic recommendations – Conclusion

As we saw in this assignment Knauf Corporation is developing in Europe with a certain way which is driven by the values, the culture, the ethics and the historical success model, that the family developed for their business.

However, we also saw that several differences exist, depending on the needs and the culture of the local markets. Such differences for example could be the style of the management, the variety of products, the developing of the other corporate businesses and so on. Knauf family believes a lot in the different local adaptation of their business model and this is visibly proven from their willing and trust to choose local people as general managers to run the business in the countries. They invest a lot of money and efforts in order to find the correct person who is going to implement Knauf successful business style according to the local needs.

Knauf group has proven its ability to penetrate, train and lead new markets. As a group it has a promising future as it is in line with the major key successful factors for the industry. Its competitive advantage is very strong and it is implemented into most countries in the world as it is into the Greek market. The industry is highly competitive and it is getting more and more concentrated. In order for Knauf to continue growing into such a competitive environment it needs to diversify its building material portfolio into more developing and profitable markets. Such a market is the insulation material industry in which the group recently invested by acquiring a lot of local producers in Europe and becoming the world's fastest-growing insulation manufacturer with full ownership of its activities since 2002.

Finally, Knauf should invest into countries that are structurally unexploited like for example in Asian or growing African countries initially by securing raw material reserves into strategic places.