INTERNATIONALISATION AS A STRATEGIC OPTION.

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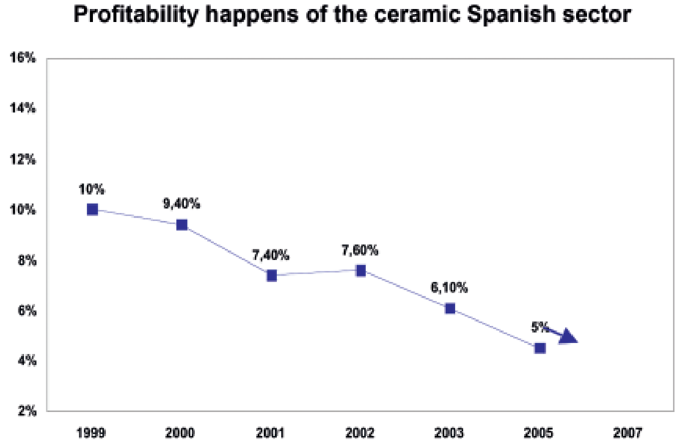
1. INTRODUCTION

The economic-financial information on the Spanish ceramic tile sector shows a reduction in profitability due to various factors, such as the strength of the euro, a fall in growth, competition from emerging economies, rising costs of raw materials and energy, etc.



Graph 1.

The Spanish ceramic tile sector is confronted by two kinds of competitors: one, the emerging economies (such as China, etc.), whose commercial strategy is based on price, copying of models, and an enormous production capacity, and the other, such as Italy, whose strategy focuses on design, quality, brand, etc.

The ceramic sector is faced with a decrease in low-range product volumes, and has to compete in design, quality, innovation, and technical performance, by improved R&D&I, new distribution channels, development of the brand, company size (7% have more than 250 employees), etc.

Nevertheless, the sector's solid financial structures are enabling it to withstand these to-and-fros and tackle new challenges.

In order to carry on growing in a stable manner it is fundamental that the sector companies should acquire a strategic vision of the international markets, making suitable medium- and long-term plans.

Graph 2.

Globalisation places companies before new challenges, such as: business collaboration, new competitors, improved communication, multi-culturality, product adaptation, new technologies, marketing, distribution channels, mergers, political drivers, delocalisation, etc.

Faced with this panorama, company managers in the sector must analyse and choose the strategy best suited to their objectives.

It is often heard said that our ceramic sector is immersed in a process of reflection.

What to do? Where to go?

Very well, as a contribution to this process, I should like to present and to analyse a further option open to you, namely internationalisation.

2. WHAT IS INTERNATIONALISATION?

In my view, internationalisation is not the same as delocalisation or as multi-localisation.

From my standpoint, delocalisation means closing some production units in a country and transferring them to or investing in another country, with a view to producing more cheaply and being more competitive in a globalised market. Fundamentally, this strategy is based on cost, and more specifically, on labour costs. Typical example: car factories.

On the other hand, I believe that Internationalisation implies the development of new production units in external markets in order to respond more rapidly and efficiently in those markets, working more cheaply and with greater benefits, based on the concentration of knowledge, development, and value creation in a country (Spain) that has its own production units, combining these two aspects in a complementary way and with an operative synergy.

Up till this point two things are clear: one, the decreased profitability in the sector and the other, the number of parameters we need to consider in order to be able to choose the most suitable strategy in the complex globalised world in which we live.

3. MEDIUM- TO LONG-TERM STRATEGIC ANALYSIS

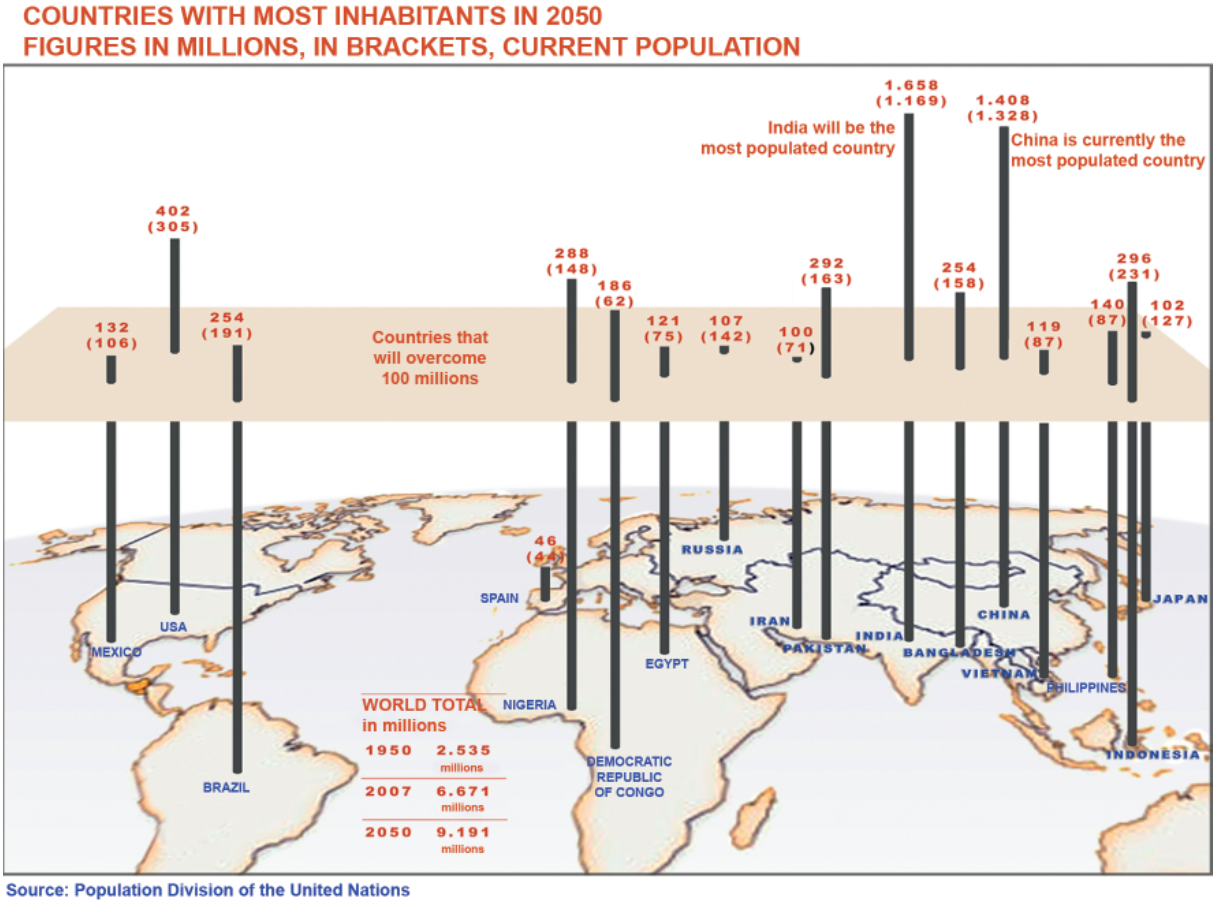
We are going to try to fashion a strategic vision, looking 40 to 50 years ahead, and attempt to make out in which direction our ceramic industry will develop.

The ceramic industry is directly related to that of construction, and this, in turn, to that of demographic development.

Similarly, the use of ceramics in the face of other competitive products, such as wood, marble, vinyl, plastic etc. depends to a large extent on fashions, cultures, advertising, etc.

Let us look at these two parameters:

a) Demographic Development



Graph 3.

According to the Population Division of the UNO, the world population will reach 9200 million in 2050. During the next decades this increase will be concentrated in the developing countries, especially in the 50 poorest. The fastest growth will be centred in the countries of the Middle and Far East with the greatest ceramic tradition and use (China, India, Brazil, Turkey, Pakistan, South-East Asia etc).

The population of the industrial world will stay practically the same, thanks to the sustained, moderate growth of the USA, Canada and Australia. Nevertheless, in Russia, The Ukraine, Japan, Korea, Germany, and Italy, etc. the population will decrease.

As the graph shows, the larges growth will occur in the Middle and Far East. In addition to the countries already mentioned, the population will grow in Egypt, Iran, Bangladesh, Indonesia, The Philippines, Brazil, etc.

b) Ceramic tile consumption in m²/inhabitant

CONSUMPTION M²/ INHABITANT / COUNTRY

	Consumo 2005 (Mm²)	Población actual (M habitantes)	Variación 2004 / 05 (%)	Ratio m² / Habitante
China	2.053	1.328	9,4%	1,6
Brasil	455	191	3,3%	2,5
Estados Unidos	307	305	-0,4%	1,1
India	303	1.169	11,8%	0,3
España	278	44	5,6%	6,5
Italia	225	58	5,8%	3,9
Turquía	175	70	30,8%	2,5
Indonesia	161	243	14,7%	0,7
México	159	108	1,4%	1,5
Francia	133	60	1,0%	2,2
Alemania	128	84	-4,9%	1,5
Tailandia	124	64	4,5%	1,9
Federación Rusa	124	144	6,7%	0,9
Arabia Saudí	122	26	10,0%	4,7
Iran	119	69	-0,8%	1,7
Resto del mundo	2.180	2.609	9,2%	0,8
UE 27	1.290	486	4,0%	2,6
Total mundo	7.048	6.572	7,9%	1,1

Source: ASCER (2007)

Graph 4.

As the graph shows, much remains to be done to foster the use of ceramics.

The ratios of m²/inhabitant in each country depend on the country's economic capacity, wealth, tradition, fashions, etc.

To grow and promote the consumption of ceramic products in countries like India, Indonesia, Pakistan, Bangladesh, etc., with all the expected population growth in these areas, would be of great importance.

The most innovative countries in ceramics (Italy, Spain) should make an effort to develop new ceramic products that encourage consumption and which can, with good taste, technical quality and style, replace other products competitive to ceramics.

Even though it does not lie in our hands, on analysis of graphs 3 and 4, we can conclude that the demographic development in the next 40 to 50 years will occur in areas where there is already a ceramic tradition and style (China, Brazil, Turkey, South-East Asia etc).

Barring the unforeseen, it is reasonable to assume that WORLD ceramic development bodes a good future.

The problem is in knowing if we, the Spaniards, will be capable of benefiting from this presumable growth.

I personally think so.

Because we have experience, knowledge, capabilities…and, for this reason, I propose to those in the Spanish ceramic tile sector that they consider the internationalisation of our sector as a strategic aim, one of several that merit consideration and that may be useful to the objectives we set ourselves in the future.

4. EXPERIENCES IN INTERNATIONALISATION

It is true that within the ceramic tile sector, there is not a great deal of experience.

In Italy, there is Marazzi which, with 90 million m^2 produced abroad, is leader in this experience. There are other examples, but they are few.

In Spain, we have the Roca Group, which has factories in various countries in Europe and Central America, and there is Pamesa in Brazil, in addition to a few other experiences.

Nevertheless, in the Frit, Glaze, and Colours sector, the companies associated in ANFFECC, have dedicated themselves for many years to a substantial internationalisation.

Firstly, the foreign multinationals such as Ferro (USA), Colorobbia (Italy), and JM-Endeka (England) concentrated in Spain, not only in regard to their operating units, but also in the concentration of their knowledge, design, and ceramic development.

Moreover, other multinationals of Spanish origin emerged, such as Torrecid, Esmalglass-Itaca, Fritta, etc., each of which began internationalising from Spain.

Most of the leading glaze-producing companies in the world are concentrated in 400 km^2 of Castellón province.

All of these (whether of Spanish or of foreign origin) develop, research, and innovate in their production centres and engage in R&D&I from their facilities in Castellón.

However, a great number of these have gone international, that is to say, they have built up businesses with production units in various countries of the world (China, Brazil, Vietnam, Italy, Portugal, Eastern Europe, Mexico, Indonesia, India, etc.) approaching all those Markets in order to provide their clients in those areas of the world with closer, quicker, and more efficient service.

The internationalisation of the Frit, Glaze and Colours factories has allowed them to grow steadily and maintain their international leadership.

It is important to point out and to highlight that none of those factories have reduced their levels of activity in Spain; rather they have strengthened their innovation and development facilities, at the same time boosting their investment in other countries, providing local assistance and production in order to better their service to clients in different parts of the world.

5. FORMS OF INTERNATIONALISATION

There are many different kinds of internationalisation, depending on the available financial possibilities, but there are also infinite ways of adapting to this internationalisation.

There are expensive forms and cheaper ones.

There are 100% investments, 50/50, mergers, acquisitions, partial purchases, technology agreements, commercial agreements, strategic agreements, etc., etc.

The example set by **Roca** is clearly that of **acquisitions** of factories and markets in developing countries.

The example of **Pamesa** is the installation of its **own factory** in Brazil.

Marazzi's example has been a **mix** of the aforementioned with branches installed in different parts of the world.

Nevertheless, the Frit, Glaze, and Colour factories have gone international step by step, firstly with the installation of a **technical service** in the chosen Area, later expanding with **service stores** and **laboratories**, and lastly with the investment in **production units**.

There have also been examples of acquisitions of other companies with installations in complementary markets, but in whatever way this has been done, business units have been created wherein the Spanish company has retained the majority shareholding.

However, internationalisation, as it might appear from the examples given, does not necessarily always require large outlays, or large investments.

It is possible to reach agreements with local companies in technology or knowledge exchanges, or simply in commercial exchanges.

The most important thing for me is that Spanish ceramics enjoy **huge prestige and appeal** worldwide, and it should be possible to **capitalise** on that value.

Spanish ceramic tile, Spanish ceramic manufacturing technology, the quality of its products, of its designs, etc.; are successful throughout the world.

The experience in wall-cladding, in monoporosa, in large formats, in spectacular designs, in product quality, as in our experience in white-body or red-body flooring, in stoneware or porcelain tile, make Spanish ceramics a reference worldwide, and cause its products to be highly valued, as anyone who has visited a trade fair or an exhibition anywhere in the world can testify.

My professional experience has led me to speak with many ceramic producers in almost every part of the world and, after 33 years in the sector with various trips around the globe, I have found that Spanish ceramics and above all its technical and production knowledge are highly appreciated.

All over the world there are local producers that attend to their markets, better or worse, with run-of-the-mill products of better or worse quality, but generally we can say that they satisfy the middle–low sector, which may be estimated at about 60-70%. Nevertheless they find difficulties in satisfying the remaining 30-40%, which is that of greater added value. This percentage is satisfied by imports from Spain and Italy and also by some improved local producers (depending on the country).

Many of the friends and clients in different parts of the world with whom I have spoken, all of whom are big producers (more than 10 million m^2) would be very happy to achieve some kind of collaboration with Spanish producers in order to be able to break into this part of the market, which is that of the greatest added value in their own areas of influence, access to which still poses difficulties for them.

Bearing in mind that we are in middle of Qualicer 2008, we have the great fortune and opportunity to have here important international producers, as well as prestigious Spanish manufacturers that can use this forum, as they can the Cevisama trade fair and many others, to make contacts, discuss complementary positions, and perhaps arrive at mutually beneficial agreements.

However, let us continue with the presentation, since nothing comes easy in this life, and achievement requires some effort.

As we mentioned before, the Spanish-Italian ceramic tile is being exported and sold, cornering market segments of high added value in different countries, between 10 and 20 euros/m^2, depending on quality, format, technology, etc.

However, as many of you know better than I, exporting from Spain to far-off lands is becoming progressively more difficult, either because of local competition (run-of-the-mill products) or because of competition from high-quality products (for example from Italy), transport costs and tax and trade barriers being important issues to be considered.

In the case we are discussing, that of internationalisation, if we do not wish to consider private investment in production in countries of interest, it is possible to find partners and associates that are already manufacturing run-of-the-mill products and that, because of their lack of knowledge and technology, or simply because of their exclusive involvement in run-of-the-mill products, are unable to provide sufficient quality to cater for the higher range of the local markets.

In our beloved worldwide ceramic family, people think they can handle everything, but when it comes down to it or one speaks honestly, we encounter many technical, commercial, management, and other shortcomings, and, as I mentioned previously, I can conclude, from my professional experience that many of the important local manufacturers in different parts of the world, would be happy to share our Spanish companies' know-how, entering into technological and commercial agreements to satisfy, with little initial investment, the demands of the local market with a quality similar to the Spanish, at local costs.

IMPACT OF AVERAGE COST PER TYPE OF PRODUCT (%) YEAR 2005

	Personal producción	Materias primas	Energia	Trabajos externos	Mantenimiento y consumibles	Esmaltes	Amortización	Embalajes	Total €/m²
Bicocción	26,16	15,58	8,86	18,35	8,19	13,79	5,59	3,47	**6,15**
Monococción pasta blanca porosa	26,12	15,99	8,89	17,89	9,09	12,68	6,25	3,01	**7,72**
Monococción pasta roja	37,88	7,11	21,09	1,06	7,34	14,15	6,80	4,58	**4,01**
Monococción pasta blanca	36,65	14,87	14,43	2,97	9,33	11,67	6,33	4,75	**4,51**
Porcelánico no esmaltado	20,97	23,48	14,33	12,64	10,43	5,09	8,86	4,20	**8,07**
Porcelánico esmaltado	23,89	19,71	12,81	12,74	10,24	9,51	7,03	4,07	**6,86**
TOTAL	**25,11**	**19,09**	**13,50**	**11,84**	**9,82**	**9,20**	**7,34**	**4,11**	**6,53**

Source: Confindustria cerámica-Italy (Dec. 2006)

Graph 5.

Although many of you will have exact cost data on ceramic tile per m² in accordance with your reality, the graph shows us the average production cost per product type in Italy: wall tiles (double fired/single fired) and floor tiles (red-body and white-body stoneware and porcelain tile).

Despite the costs being Italian, I believe that the percentages that each head or the manufacturing costs considered represent can be extrapolated in our case. Thus, approximately 25% is production labour, almost 20% raw materials, 13-15% energy, another 20% goes to maintenance, external work and consumables, 10% to glazes, 7% amortisation and 4% packaging.

So, in other less-developed countries one can possibly reduce the cost of wages, perhaps of raw materials, and, depending on the place, one can possibly save on energy, but I believe that glazes of similar quality will cost the same; so, finally, we can see that in certain foreign countries the average cost can be reduced from about 4-7€/m² in wall cladding to 2-4€/m², and in floor tiles from 5-8€/m² to 3-5€/m².

Though one can disagree with certain facts, one thing is clear: the costs of production in Spain-Italy are higher than those that are to be attained in many foreign countries.

But in those countries they lack Spanish technology for the large formats, the knowledge necessary for achieving the quality suitable for the high-range market, which means that, given this technology exchange and adequate commercialisation and local marketing with Spanish technology, it should be possible to sell these products at prices around 20-30% less than import prices (10-20€/m²).

And between well-assayed costs and a well-sold high-range product there should be an adequate profit margin to satisfy all partners.

With this system one favours the local manufacturer who can pick up new knowledge and benefit from it, while the Spanish producer also benefits from the commercialisation of a product, sharing earnings in markets that otherwise would be inaccessible or, at least, difficult to penetrate.

One could negotiate the name or the brand to guarantee future stability, and apply lower costs with which one could defend oneself against other local competitors who may decide to set up this kind of mixed company in the future.

To sum up, so great is the prestige of Spanish ceramics, so appreciated its technology and its ceramic expertise, that I can assure you it is possible to find local or large-scale manufacturers in the world at large, with excellent teams, who would gladly consider going into partnership with renowned Spanish manufacturers to produce and commercialise high-quality ceramic tiles in their markets with minimum investment.

Certainly we have seen that with internationalisation there also exists other ways involving greater investment and a greater portion of the financial gains, but don't think that everything is simply a question of money and investment.

There remain other concepts that the Spanish fully command, which can be sold without such investment effort and risk.

6. NEW CHALLENGES

Internationalisation changes life.

Nothing in Life is easy, especially if you can't or won't take risks.

Everything has its advantages and disadvantages.

ADVANTAGES

- **Access to a larger market**
- **Risk diversification.**
- **Use of full production capacity**
- **Lower production costs.**
- **Less dependence on the national market.**
- **Enhanced image.**
- **Improved management techniques.**
- **More possibilities for promotion and motivation in the company.**
- **Etc.**

Graph 6.

Some of the ADVANTAGES of internationalisation could be:

- Access to a larger market
- Risk diversification.
- Use of full production capacity
- Lower production costs.
- Less dependence on the national market.
- Enhanced image.
- Improved management techniques.
- More possibilities for promotion and motivation in the company.
- Etc.

DISADVANTAGES

- **High costs of product adaptation.**
- **Risks of change.**
- **Lack of skilled personnel.**
- **Possible lack of engagement by executive management.**
- **Lack of information about foreign markets.**
- **More complex administrative red tape.**
- **Difficulties in repatriating profits.**
- **Etc.**

Graph 7.

However, as with everything in Life, there may be DISADVANTAGES, such as for example:

- High costs of product adaptation.
- Risks of change.
- Lack of skilled personnel.
- Possible lack of engagement by executive management.
- Lack of information about foreign markets.
- More complex administrative red tape.
- Difficulties in repatriating profits.
- Etc.

Nevertheless, with greater or smaller investment, it is evident that the world is globalising, and we strategists need to be farsighted and take the best decisions in order to position our companies in the best positions to face the times to come.

KEYS OF SUCCESS

- **Executive leadership.**
- **Motivation.**
- **Stable commitment.**
- **Technical/commercial/financial resources.**
- **Human capital.**
- **Knowledge.**
- **Etc.**

Graph 8.

The KEYS of SUCCESS in this adventure are many, including:

- Executive leadership.
- Motivation.

- Stable commitment.
- Technical/commercial/financial resources.
- Human capital.
- Knowledge.
- Etc., etc.

It is clear that what is needed is a strategic compromise, guided and directed from the top of the organisation.

One must know what goes on and how to function in the world outside, and above all, have human capital available to be successful.

It's not easy, but it's possible.

— Winners (Difficult but Possible).
— Losers (Possible but Difficult).

Attitude is very important.

7. A CHALLENGE FOR THE SPANISH TECHNICIAN

Before finalising with the conclusions, I should like to take advantage of this wonderful platform that Qualicer 2008 has offered me to talk to Spanish technicians, many of whom are present here in this room.

Without a shadow of a doubt, and I have enough experience to state it, we have the world's best pool of ceramic technicians.

Fortunately we resemble more our national basketball team than our "dreadful soccer squad".

From the press operators, to the oven operators, through the glazers, analysts, designers, to factory and laboratory personnel, etc.

Recently I had the opportunity address these in their association (ATC) in a panel debate which we organised to raise the awareness of the Spanish technician regarding his future challenges, and the conclusion that came out of that was that the Spanish technician is more than **capable on the technical front**, but should try to shake off this **"local air"** which impedes his moving in foreign lands, possibly because till now it has not been necessary.

In our blessed Castellón province there has been plenty of work, stability, and a very Mediterranean local quality of life.

Why change?

Well, the world changes, globalisation is a reality, and languages are increasingly needed for communication; people travel more and also gain new experience from the international challenges.

Our future technicians will be more willing (maybe through necessity) to take up these challenges, but the point is simply to begin, since the most important thing, the technical ability and experience gained in the best centres of learning, is already guaranteed. I think here of our Universities, Research Centres, Professional Schools, courses given here at our Chamber of Commerce, etc., in addition to the experiences acquired in practice with good masters and companions with experience.

We, in each of the companies associated with ANFFECC, have had the experience of training technicians in starting up different types of factories in the four corners of the world (and when I speak of corners, believe me, I'm not exaggerating) and the fact is, they do it really well.

It's not easy to get them to go out, to train them, but then some carry on, acquire a taste for it, while others do not.

Nothing comes easy.

With these experiences one gains some things, and one loses others.

I myself have had some personal experience in this regard since I was an expatriate technician and manager for 10 years of my life (3 years in Venezuela, 2 in Mexico and 5 in Taiwan-China) and my experience has been totally positive. I've gained experience, knowledge of the world, as have my children, who've always accompanied us.

Well, my recommendation to Spanish ceramic technicians is if you get the chance, take it, you'll not be sorry.

One is always left with constructive and unforgettable experiences.

I have come to know many technicians throughout the world, some with contracts of some months, others of some years, and others without a time limit.

All have performed magnificently, all have triumphed technically, some have stayed abroad and others have returned, but all have been improved by this unforgettable experience.

8. CONCLUSIONS

It is certain that the Spanish ceramic tile sector is going through a critical period, in which one has to take medium and long-term strategic decisions, and it is, furthermore at present in a period of internal reflection.

In this presentation, an option is offered, a possible additional strategic alternative to the existing ones, that of internationalisation of part of the production, approaching new markets, with new costs, challenges, and possibilities.

We have analysed different successful experiences, although nothing can be guaranteed.

Our experience, that of all the companies in ANFFECC, shows us I firmly believe that it should be possible for prestigious Spanish ceramic companies with knowledge and experience to attract partners or associates in the world at large, reaching technological, commercial, and strategic agreements, without the need for great investments, which can result in benefits for all the parties involved.

Internationalisation is a strategic option:

— Difficult, but possible.
— Remember: Loser-Winner.
— Attitude and Leadership.

And, what's more, the forum that Qualicer 2008 offers us is an excellent opportunity to make the first contacts with your future partners.

Good luck! And have a good time in Castellón!

Thank you for your attention.