

IB: Agfa Gevaert

Agfa Gevaert

What do they do?

- Market leader in prepress computer plate technology (also ecological)
- Inkjet solutions
- Medical imaging and healthcare
- Specialty products: displays
- Solar energy
- Integrated colour management
- Software that reduces ink and paper consumption
- Chemistry free printing glase
 - ➔ Innovation, sustainability, technology ...

They are very divers, active in different domains

3 business groups

(all linked to the history of the company ➔ they were market leader in the 'image solutions')

1. Graphics
2. Specialty products (innovation driven for a broad range of industries)
3. Healthcare

Numbers

- 2017: turnover 2443 billion (8% specialty, 42% health care, 50% graphics)
- Agfa is a global company (42% Europe, 27% NAFTA (North-America), 7% Latin America, 24% Asia & ROW)
- Agfa Founded in 1867 in Germany
- 1964: merging of Agfa and Gevaert (biggest competitor at that time: Kodak)

Sustainability, growth and innovation ➔ 3 objectives

➔ They create more patents than Solvay, AB Inbev ...

Graphics

- Prepress
- Inkjet (drop the ink on the media you want to print) ➔ possibility for the manager to differentiate for the clients (for ex. you can print on leather ➔ Gucci wants its own patterns on it)
 - ➔ Printer used to be for the consumer, now the printing is part of our life (for ex. 3D printing)

Healthcare

- Radiology
- Imaging IT (X-ray, ...) ➔ the doctor can see everything directly on the screen + artificial intelligence that help discover what's wrong

- Hospital information system (Orbis) → only product that is different from the DNA of what Agfa stands for
- Integrated care (for ex. Patients that can stay at home but stay connected to the doctor etc.)

Specialty products

Chemicals: roots for everything at Agfa (except for IT)

Story of transformation

1877: one of the top factories to create images

- ➔ They had to transform with everything becoming digital (trend analogue → digital)
- 2008: horrible economy
- 2010: silver/ nickel (used in films) went up in prices → became extremely expensive
- 2011 - 2018: stabilization
 - o Gross margin went up
 - o Ebitda margin + 3,2% → goal was 10%, this was reached later on
 - o Cost elements (SG&A): +0,2% (effort for innovation)
 - o Net debt: - 285 million euro
 - o Net working capital: -5% on sales

Efficiency

- Manufacturing
- Service
- Procurement (they still produce a lot of hardware for which they need raw materials)
- Product
- Rationalisation

Result was good during 2011-2018 BUT topline was reduced by 16% → no growth, how?

- Evolution of the image market was not as expected (China is not growing as much, Russia wasn't increasing, Brazil is doing bad ...)
- Agfa still has a lot of business due to his history (market of film technology is declining → different to grow in these markets)

Next part of the evolution?

GROWTH PROJECT

- 4 pillars
 - o Resist the decline in our traditional business (aluminium plates, film ...). Reposition themselves in growing markets (newspaper market is still growing in China and India)
 - o Boost our growth engines
 - o Analyze clever, profitable acquisitions (look for new growth opportunities)
 - o Develop competences & cultural change
- Idea: create 2 companies out of Agfa: one imaging and one health care IT
 - o Why? 2 completely different businesses, split them to pursue growth, profitability and opportunities

- How to do this transformation? Technical split (this is completed), next step is 2 imaging partnerships

A global company

- Software for hospitals (Orbis)
 - Follow the patients in the hospital, the way of reimbursement is specific for Belgium, the way you go to your operation is specific in Belgium (and is different in other countries)
 - You need to use local support and services and local 3rd parties
 - Multi-local business: different approach for different countries
 - R&D: 70% global, 30% local
 - Service tea: 10% global, 90% local
 - Need for strong local markets share and sizeable market for profit
- Imaging IT
 - Software
 - More standardized model → DICOM standard
 - Equipment for medical imaging are all in the same standard
 - Support is still local and 3rd parties also
 - Some global 3rd parties
 - R&D: 0% local
 - Services: 10% global, 90% local
 - A real global market, global cost synergies
 - Globalisation of market share
- Plates vs Films
 - Plates for printing companies (aluminium)
 - Finished product
 - Heavy and very large assortment
 - Short lead time (you have to be able to deliver on time for ex. Newspaper)
 - SCM must be close to clients
 - 4 factories
 - Films
 - Semi or finished
 - Lighter product, small assortment
 - Global product (films for radiologists in Spain or Belgium is the same)
 - 1 factory (Belgium)
- Mature markets: new products, direct sales
Emerging markets: classic products, indirect distribution
- ExCo culture: 5 members of top management work in at least 2 countries (the top management exists of 5 member). Why? Knowledge
 - Local cultures (employees + customers)
 - Local regulations
 - Local business, competition, practices ...
 - Example: worst thing you can do when to negotiate in China is to say 'my plane is tomorrow at 7' → if you do this, they will not move until 5 in the morning, right before you have to leave

Q&A

- **Stock price has dropped in the financial crisis of 2008 but haven't recovered? What are the causes?** Stock price reflects the value of the company (minus the debts). They paid off their debt. Another debt still exists, the debt to pay the pensions of former employees. The pension funds in the US and the UK have been massively damaged in 2008, in Germany there is no fund (they pay with the cash flow). They still have a lot of pensioners', which is why they have a rather big social debt. The stock price has not improved because the interest rates have decreased, therefore the former value of the pensions have increased.
- **Why do they do business/ community angle?**
 - o Add value to the community: health care
 - o Profit
 - o Difference graphics vs. healthcare business: it's more pleasant for people to know you work for something that will add value to community. By essence the healthcare business is sustainable. The graphic technology has also evolved towards eco-friendly, these products are making the customers cleaner. They have reinvested to recuperate the energy of the factory, treat their water ...
- **Main strategic choice?**
 - o Differentiation
 - o Coast leadership strategy → they are not selling for costs, they want to sell value.
- **Which type of company are you? Corporate based, customer based or competitor based?**
 - o They are aiming at being customer based, you develop as a company if you serve well to your customers. Difficulty is that product has to be good for the customer, you need to listen to them
- **Which type of business?**

Centralised exporter, international projector, international coordinator or multi-centred?

Mix of centralised exporter (film, produce in 1 place, ship all over the world), for the plate business they are more an international coordinator (hedge currencies and answer to the short lead time). They are not multi centered.
- **Key motives for foreign expansion?**

Natural resources, new markets, strategic resource of efficiency?

 - o Health care IT: multi-local hospital systems → give access to new markets
 - o Imaging: is expansion needed? Being too present may not always end well. Agfa is powerful because they had initially a US market that wanted them. Most profitable are usually based in a single market, you cannot expand too fast.
- ➔ Market and efficiency seeking (for ex. The aluminium plates are located close to the customer)
- **To manage international management there are 2 ways of bondage 'Bounded rationality & Bounded reliability'**
 - o Bounded rationality: before you enter to a market you can't know everything
 - Acquisition with radiology business (product that you inject before the scan) → they were the same customers but not the same practices
 - o Bounded reliability: local managers manage for their company but not for the whole company
 - Not a lot of examples, sometimes it's hard for people to believe that they are self-sustainable
- **How do you lead as a leader? Communication with local managers?**
 - o Give flexibility

- Communicate the tactics → visit the people of other plants on business trips
- Give people a department, so they can be well aware of everything → they can decide locally. People need to understand their business.
- **What types of factories do you have?**
 - Film → 1 factory
 - Plates → different factories close to the company, they just execute (they are decentralized)
 - They are server factories
- **How do you Manage distributors?**
 - Why distributors in certain companies? Or why own personnel?
 - Who is the best to serve the customer → work with your own people in the new businesses, for traditional businesses they use distributors (for ex. There are too many hospitals in China to serve them all through your own sales men)
 - 3 reasons:
 - Product itself (know-how → own people)
 - Have a reach in big markets (distributors)
 - Be cost effective (distributors)
- **How do you position yourself?**

Operational excellence (efficiency), customer relationships (they have long lasting relationships) and product leadership (for the high tech products) → they have all 3, this is one of the reasons why they decided to split their company in 2
- **How do you expand?**

Inside Agents → his failure

 - They sell everything that a radiologists needs
 - They wanted to sell 'inside agents' → if you have a disease you get injected with a substance (contrastvloeistof) to see what's wrong on the radio picture (new product, existing market)
 - But it failed, why?
 - They thought they had a good idea but they did not realized they entered into the pharma industry. The pharma industry has a lot of regulations, in order to send a bill, ship a bill ... you have to get approval and this is quite hard to get.
- **What are the roles of the subsidiaries?**

They are not completely independent, he allows empowerment/entrepreneurship as long as it fits in the strategy. They get where they want but not in a bossy way.
- **How big is the R&D part?**

They centralize it. There are some exceptions for ex. A software company they bought in Ghent.
- **How do you organize R&D?**
 - Home-base exploiting: I have an iphone, you get it and do the research to get it sold. One-way, no information flowing back, only adapting to local market.
 - Home-based augmenting? Information flows back, 2 way communication.
 - What is Agfa? Home-base exploiting
- **How do you manage foreign currency?**

If aluminium prices doubles.... Production: → he buys it, does work on it and sells it → What would happen if the prices rise? Competition also uses aluminium, so your competitive advantage won't disappear as long as there is no substitute product.

- **How do you manage M&A?**

M&A in a big corporate is tricky, it is not always the best plan to do an acquisition. If you do it, you have to do it right. You have to have the right credibility to do this.

- **How do you manage environmental issues?**

- They started as a chemical company, they found a way to make this more sustainable.
- In the beginning they created a factory in the middle of nowhere, but later people started to build houses around it → so it isn't in the middle of nowhere any longer
 - They have been confronted with complaints of neighbours etc, but they found a way to turn this into a positive thing to find solutions