Marc Grynberg, CEO of Umicore

Marc Grynberg was appointed Chief Executive Officer of Umicore in November 2008. He joined Umicore in 1996 as Group Controller. He was Umicore's CFO from 2000 until 2006, after which he became the head of the Group's Automotive Catalysts business unit until his appointment as Chief Executive Officer. Marc holds a Commercial Engineering degree from the University of Brussels (Ecole de Commerce Solvay) and, prior to joining Umicore, worked for DuPont de Nemours in Brussels and Geneva.

Umicore is a global materials technology group. It focuses on application areas where its expertise in materials science, chemistry and metallurgy makes a real difference. Its activities are centered on four business areas: Catalysis, Energy Materials, Performance Materials and Recycling. Umicore generates the majority of its revenues and dedicates most of its R&D efforts to clean technologies, such as emission control catalysts, materials for rechargeable batteries and photovoltaics, fuel cells, and recycling.

The Umicore Group has industrial operations on all continents and serves a global customer base. It generated a turnover of € 9.7 billion in 2010 and currently employs some 14,400 people.

The (precious) metals industry distinguishes between "turnover" and "revenues". The latter is turnover minus the value of metal used in products sold. It is a more meaningful metric of topline performance than turnover as it excludes the impact of metal price fluctuations. Umicore had revenues of € 2.0 billion in 2010.

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"Strategy is about Consciously Creating Options Based on Your Competencies. So is Innovation."

Interview with Marc Grynberg, Chief Executive Officer of Umicore

You went public with your Vision 2015 for Umicore at the end 2010, two years after your appointment as CEO. Why did you decide to take your time? Many new CEOs emerge with their plans after a "first 100 days" reflection period.

» In the period 2002-2007 Umicore managed a complete transformation of its business mix. We morphed from a commodity supplier into a premium provider of value-added solutions. After this successful metamorphosis, we had to ask ourselves in 2008: What's next? «

Unless your company is in urgent need of a turnaround, I am rather skeptical of the "first 100 days" concept. Anyhow the first 100 days were not so relevant for me. I had been a member of the Executive Committee for eight years and our existing strategic plan was still running. There was no need to question it and risk losing focus or undermining the organization's commitment to it. On top of that, I was appointed in November 2008, two months after the financial markets collapsed. So my first 100 days were focused on keeping Umicore on track and coping with the heavy headwinds. Looking back now, I am convinced that taking the time to build our Vision 2015 was a good decision. By doing so, we garnered the full buy-in of the organization.

If continuity was so important, why then did you bother about a Vision 2015 at all?

In the period 2002-2007 Umicore managed a complete transformation of its business mix. We morphed from a commodity supplier into a premium provider of value-added solutions. After this successful metamorphosis, we had to ask ourselves in 2008: What's next? How do we bring Umicore to the next stage of development? Of course standing still was not an option.

Can you tell us a bit more about this transformation?

Let's look at the numbers first. In 2002 we had revenues of € 1 billion. By divesting our commodity copper and zinc smelting businesses, we shed about half of those revenues. We then quadrupled our revenues to € 2 billion by 2010 through a combination of acquisitions and organic growth, both in the existing and acquired businesses. By far the most visible move was the entry in the automotive catalysts business through the acquisitions of PMG and Delphi Catalyst. Moves like these show the essence of our transformation: to shift downstream in the precious metals value chain.

Why this urge to move downstream? Quite a few players upstream in the mining and metals business are earning decent returns these days.

Umicore did not have the critical mass to compete with leading players in the commodity metals and mining business. This type of business is capital intensive and does not offer much room for technology differentiation: the name of the game is cost cutting and capital management. What drives us is the development of products and processes that command a premium pricing because of their unique properties. A sign of our successful repositioning is that Morgan Stanley Capital International changed Umicore's industry classification from "Diversified Metals & Mining" to "Specialty Chemicals" in 2005. The financial markets today appear to understand well what we do.

» With our transformation strategy we knew exactly where we wanted to go, but how to get there was unclear to all of us. However, we prepared intensively and created options to ensure that we would be able to seize opportunities when they passed by. «

Once you had decided to transform the company's business mix, did you specify a clear implementation trajectory upfront?

No, certainly not. With our transformation strategy we knew exactly where we wanted to go, but how to get there was unclear to all of us. However, we prepared intensively and created options to ensure that we would be able to seize opportunities when they passed by. The acquisition of the PMG catalyst business is a good example of this strategy. For several years we had been analyzing a variety of segments and screening different acquisition options. We had prepared our business structure for flexibility and were waiting patiently. When the PMG opportunity passed by in 2003, we were completely prepared to hit the button.

The PMG acquisition added more than 50 % to your revenues in one stroke. How essential is a mega-acquisition for a successful business mix transformation?

It is very important. It gives some real traction to the movement. A string of small acquisitions may have the same financial value as a big one, but it won't have the same result. The energy, management time and cost required for an acquisition are nearly independent of its size. I'd even say that doing one large acquisition is less risky than doing several small ones in a row. The very size of the acquisition concentrates management attention and the quality of preparation tends to be much higher when more money is involved.

When you go for a mega-acquisition, do you prefer to first "clean up", i.e. divest and then "build", i.e. acquire?

That would indeed be the ideal scenario from the point of view of financial firepower. Reality is different, though: you create options but you don't know upfront when you can best exercise them. As it so happened, we seized the opportunity to acquire PMG in 2003 before we managed to spin off the copper business as Cumerio in 2005 and put the commodity zinc business into the Nyrstar joint venture in 2007.

» The energy, management time and cost required for an acquisition are nearly independent of its size. I'd even say that doing one large acquisition is less risky than doing several small ones in a row. «

When you put a business up for divestiture, how do you keep its employees motivated and thus safeguard its value?

Clearly you do not want to destroy value in one place before creating value in another. Clear, open and upfront communication about your intention to all employees in the business concerned is essential. You have to explain the rationale and demonstrate the eventual benefits to them. In the case of our commodity metals business, we clearly communicated internally that our position in the market was not good enough to be competitive. We openly acknowledged that we did not have the size to remain a leader in this business. We admitted it would have the best chances when being part of the core business of another company with the right focus and financial and human resources.

How do you make such talk truly credible and reassure the people concerned?

By not labeling the business as a cash cow, we showed the employees we were serious about looking for better options. We continued to do business as if the divestment decision had not been taken. We continued to invest and recruit, and we even did an acquisition in China that made the business more valuable. All of this protected our employees against feeling "second class".

» *In my experience, by far the biggest challenge is one of people management. You have to keep all teams on board and willing to evolve and implement the transformation strategy.* «

What are the major risks that can derail or slow down a business mix transformation like the one that Umicore managed?

There are many potential setbacks. The flow of good acquisition and divestiture opportunities may be too thin. Integrating acquired businesses and preparing divestitures may take more time than expected. You may be short of financial firepower. Some stakeholders may want to take the time required to see the impact of a given move and thus be reassured that the company is on the right track before taking the next move. But in my experience, by far the biggest challenge is one of people management. You have to keep all teams on board and willing to evolve and implement the transformation strategy. Getting all employees ready to make a drastic shift as we did is not obvious. It requires time and intensive learning. Looking back at our metamorphosis, I conclude that the vast majority of our employees have made the turn and are successful in their new environments. It is something of which we can be truly proud.

And what about people management at an acquired business?

The quality of the management of the acquired company is crucial. They often play a critical role in the integration, as they know the acquired business best. In fact they are often instrumental in tackling the people management challenge I mentioned before. They can help the existing workforce shift more rapidly towards the new direction. That is also why we favor fast integration of acquired companies. Fast integration is the best glue.

Aren’t there cases where differences in company cultures make integration difficult?

Diverse cultures may co-exist. Cultural differences are a source of richness. What is key, though, is to share the same values, because values are universal. Values are much more important than rules. Shared values are definitely facilitators of the integration process. “The Umicore Way” defines our five values: openness, respect, innovation, teamwork and commitment. When we discuss with the management of a target company, understanding their values is the best way to assess whether the integration will work out. This is a qualitative measure, but no less crucial for future success.

Let’s get back to the Vision 2015. Often a vision is summarized in an ambitious, engaging and even sensational statement. There is no such one-liner that captures Umicore’s Vision 2015?

“The Umicore Way” defines our five values: openness, respect, innovation, teamwork and commitment.

We intentionally did not create new one-liners next to the five-word mission statement “Materials for a Better Life” that we had already made ten years ago. We wanted to avoid confusion, both internally and externally. Internally, a slogan does not create commitment – involvement does. As far as the external world is concerned, I wonder whether it really is waiting for one-liners. The risk of oversimplification is rather high. The markets and opportunities we address are very diverse. We do not want to be boxed in. We prefer to explain systematically our four focus areas for growth: rechargeable battery materials for electric vehicles, emission control catalysts, materials for photovoltaics and recycling. And we ensure that our internal structure is fully aligned with how we want the outside world to perceive us.

Your Vision 2015 puts a clear focus on organic growth and considers acquisitions to be supplemental, unlike in the past. Why this preference for organic growth?

As we occupy strong leadership positions in many segments, antitrust rules may prevent further consolidation in a number of cases. More fundamentally, though, as a result of our metamorphosis we currently have a wealth of competencies that position us uniquely to address emerging market opportunities with proven technologies. We simply can't afford to miss out on these opportunities.

Can you give an example of how this works out in practice?

Take the electrical vehicle. Umicore currently is the only player that can support the full electrification roadmap: emission control catalysts for hybrid cars, rechargeable battery materials for hybrid and electrical vehicles, fuel cells for vehicles of the future, and end-of-life solutions for all previous elements. No other company has this unique combination. Not leveraging this is just not an option for us.

So you are confident that Umicore can keep growing fast?

Certainly so. In our focus areas we can achieve average annual double-digit growth between now and 2015/2020, while generating an average return on capital of 15 %-plus between now and 2015. Organic growth in the long run tends to create more value than a trajectory driven by acquisitions, certainly if you take the risk-reward trade-off into account. Organic growth relates to initiatives where you are fully in charge, whereas the outcome of an acquisition is never sure. That being said, we are definitely not excluding acquisitions. We are not short of ideas, financial resources or competencies. If valuable prospects come along, we will seize them. But with the position we are in, we can afford to be more selective.

» *Organic growth in the long run tends to create more value than a trajectory driven by acquisitions, certainly if you take the risk-reward trade-off into account. Organic growth relates to initiatives where you are fully in charge, whereas the outcome of an acquisition is never sure.* «

As there is an abundance of growth opportunities, how do you decide which to pursue and which not to?

Provided the business development opportunity falls in one of our four focus areas for growth, we assess it on three criteria. First, the opportunity should be sizable and have a material impact on our performance. Cleantech developments tend to be very R&D-intensive, and we want to make sure the reward will at least equal the efforts made. Second, the development should bring us in a position where we can distinguish ourselves from our competitors, be it in terms of innovation, technical performance or uniqueness. Third, the development should build on our existing competencies. We know what we are good at and want to leverage it. We can and will of course acquire additional competencies if needed, but the basics need to be present in-house.

» Innovation is more than just product R&D. Innovation relates as much to process improvement, non-technical innovation, EHS (environment, health & safety), business model innovation and so on. «

The Vision 2015 refers to "innovation as a differentiator for success in all areas". The interesting part in that statement is "in all areas". What is behind it?

There is a double message. First, innovation is more than just product R&D. Innovation relates as much to process improvement, non-technical innovation, EHS (environment, health & safety), business model innovation and so on. Second, innovation is important in all our businesses despite differences in growth potential. One business may be science-driven and another process-driven, but this is all innovation. Along these lines, all employees can engage in our internal innovation award contest, called Umivation, which distinguishes between five separate categories: technical process improvement, non-technical process improvement, new business, environment health & safety, and science & technology.

You referred to business model innovation. How do you steer this type of innovation?

We certainly promote business model innovation, but it cannot be mandated. It requires a lot of competencies and adds value only when strengths in the various stages of the value chain connect well. Our battery-closed-loop is a great example of an innovative model that we brought to the market. We are the only company in the world proposing a real closed loop solution for Li-ion batteries combined with an environmentally sound management of these end-of-life batteries and high recycling and/or recovery rates. Managing this opportunity required a lot of competences, though. Consciously creating options also applies in this context. Innovative findings that turn out to be unsuccessful in one field may one day be useful in a completely new field.

Umicore is spending about 6 % of revenues on R&D. Where and how does Umicore distinguish itself from its peers?

I am quite sure that the 6 % puts us at the high end of the range. The real question is whether we have been efficient in transforming this spending on R&D and innovation into profits. Looking at our growth and profitability record of the last years, the answer is quite clear. We distinguish ourselves from our competitors in the way we spend the money. "Technical intimacy" with our customers is the key word. Our R&D portfolio includes several joint development programs with customers and partners. Our early involvement in the development phases of our customers allows us to come up with tailor-made solutions.

» *We see ourselves as enablers. Our solutions allow our B2C customers to respond to their customers' penchant for emotional elements.* «

Business-to-consumer companies increasingly compete on style, design and emotional connection with customers, rather than on ever more features and functions. How will this trend affect business-to-business companies?

We see ourselves as enablers. Our solutions allow our B2C customers to respond to their customers' penchant for emotional elements. We daresay we support our customers in being "the Apples of this world".
Let's take the example of the electrical car again. We were first to market with a new generation of low cobalt-containing lithium-ion battery material that enabled our customers to develop performant electrified vehicles. Another example is the previously mentioned closed-loop model: it enables our customers to create a genuinely greener image among consumers than their competitors can.

Another trend is "frugal innovation", i.e. taking the needs of low-income consumers as a starting point and working backwards to come up with new products at a radically lower cost. How does it affect Umicore?

It is an area where Umicore could make a real difference for its customers. For example, from an affordability point of view a vehicle with a combustion engine scores much better than an electrical one, given the high cost of the Li-ion battery. That is exactly where Umicore can step in. If we manage to come up with innovative systems to make the battery part more cost-friendly, we enable our customers to make the electrical car more affordable.

In that perspective, how important is it for Umicore to have R&D-centers close to markets with lots of low-income consumers?

» *Our "basic" and common platform research takes place in our hubs in Belgium and Germany, from which we feed the technical development in the various countries.* «

Today we have central R&D facilities in Belgium and Germany, and business unit dedicated research centers in Japan, Korea, China, Brazil and a number of other countries. As we are playing in niche markets, decisions about the location of our R&D centers are simply driven by where the technical developments of our customers take place. For example, our R&D centers for Li-ion battery materials are located in Korea, Japan and Belgium because our customers have their battery R&D centers there. A similar story holds for our vehicle catalysts R&D centers in the US, Japan, Germany, Korea, Brazil, China and so on. Our "basic" and common platform research takes place in our hubs in Belgium and Germany, from which we feed the technical development in the various countries.

You mention an R&D center in China. What is your stance on the risks related to the protection of your intellectual property rights?

We have had good experiences so far, but it is always a trade-off. Our global customers have operations in China. When they visit our Chinese facilities and notice that we have state-of-the-art technologies similar to the ones we use in Europe or America, it helps us to win their business in China as well. Of course we shouldn't be overly naïve. Let's say we prefer focusing on creating new technologies rather than merely protecting what we developed in the past.

Next to "focused growth" and "innovation as a differentiator", "sustainability" is the third thrust of Vision 2015. How do you turn this in something more than a trendy banner?

Sustainability has been and remains an all-pervasive driver of our strategy and day-to-day actions. And it shows up in our results, also as measured by independent institutes. Corporate Knights, "the magazine for clean capitalism", ranked Umicore 5th in the 2011 top 100 of the world's most sustainable companies, following Statoil, Johnson & Johnson, Novozymes and Nokia, and preceding Intel and AstraZeneca. Ethisphere Institute, a think-tank, put Umicore on its list of the 110 World's Most Ethical Companies in 2011.

» As the champion of sustainability at Umicore, I am very happy to see that sustainability is embedded in our organization. If affects choices in day-to-day decisions. It is part of our DNA. «

What do these rankings measure?

The rankings are based on a wide range of criteria, such as energy productivity, water productivity, carbon productivity, waste productivity, safety productivity, CEO-to-average worker pay, taxes paid, sustainability pay link, leadership diversity, innovation capacity, transparency, contribution to the public wellbeing and internal compliance programs. The top rankings make me very proud, since they are the result of many years of effort and hard work and recognize a true commitment to sustainability. If our customers, competitors, the market and even independent institutes recognize this, it shows that we are doing a good job.

How are you personally involved in sustainability?

Our Executive Committee tends not to interfere with operations. It focuses on defining the company's global strategy and shaping the future. However, I am engaged personally in a number of sustainability projects that are key for our organization. As the champion of sustainability at Umicore, I am very happy to see that sustainability is embedded in our organization. If affects choices in day-to-day decisions. It is part of our DNA.

Interview conducted by Herman Vantrappen (Director at Arthur D. Little and Chief Editor of Prism) and Isabelle Coppens (Consultant).

Arthur D Little