Financial markets driving change at company level: Granitifiandre S.p.A.

About Granitifiandre

Key financial facts and figures

Company strategy

Sectoral context

The role of financial markets as a driver of change

Conclusions

This case study is available in electronic format only.
This case study provides background information on Granitifiandre S.p.A., including a brief description of the company, its history and its product range. It also highlights some key facts and figures of the company, elements of its growth strategy and a discussion of the sectoral context. The study seeks to place the analysis of the role of financial markets in the context of the company and the sector.

About Granitifiandre

Granitifiandre is a leading manufacturer of full-body, top of the range vitrified porcelain stoneware. The company aims at being the market-leading provider of alternatives to quarried marble, stone and granite. Since its inception, the company has always pursued an aggressive growth strategy, focusing on constant improvement of its product lines, intensive research and development (R&D) programmes, the creation of an innovative sales network and vertical integration. So far, this strategy has proved very successful in terms of sales and profit growth.

Granitifiandre was founded in 1980 (initially named Castellarano Fiandre Ceramiche S.p.A.) as a joint venture between two vitrified stoneware-producing companies, Ceramica Castellarano S.p.A. and Ceramiche Le Fiandre S.p.A. Following its incorporation, these companies merged to form a single entity with a resulting share capital of €10.3 million. Soon after the Graniti product line was launched, a key turning point for the company came as it began to focus on the creation of products similar to naturally quarried materials.

After a period in receivership between 1983 and 1985, the company merged with Genova Ceramiche S.r.l., another company operating in the vitrified stoneware sector. Following this, in 1987, it became part of the Iris Group, a leading player within the ceramics industry. The company finally adopted its current name in 1989.

In recent years, Granitifiandre has focused on producing high quality products of similar aesthetic qualities to quarried materials; for example, Geologica™, its most recent product line, was launched in 1998. In addition, the company has adopted a strategy of providing a complete ‘turnkey’ service to clients, including fitting and installation services and consulting.

In June 2001, Granitifiandre decided to go public, listing on the STAR division of the Italian stock market. 14.2 million shares were listed at a price of €8 per share. The associated capital increase diluted the stakes of the two controlling shareholders – Finanziaria Ceramica Castellarano S.p.A. and Finanziaria Ceramica Le Fiandre SpA – from 42% and 58% to 25.8% and 35.7% respectively. The IPO generated €106.5 million, which Granitifiandre sought to support its growth strategy, including the construction of a new plant in Germany, further expansion into the American market, a strengthening of the company’s current distribution capabilities and the provision of resources for research into new product lines.

The current group’s corporate structure is supportive of Granitifiandre’s growth strategy. Figure one illustrates the corporate structure as it was presented in the preliminary offering circular in 2001. Granitifiandre has acquired stakes in companies engaged in complementary activities such as distribution, fitting and installation.
These shareholdings are illustrative of the pursued strategy of:

- positioning itself in the international market;
- acquiring companies with strong ‘turnkey’ (fitting and installation) service capabilities;
- developing an Internet-based platform, enabling online exchanges between the company, architects and planners.

The company currently produces and markets two main product lines under the brand names Geologica™ and Granitstone™, which are mainly used for flooring and wall covering. With its ‘New Mari’, ‘New Granite’ and ‘New Stone’ collections, Geologica™ represents a high standard alternative to quarried marble, stone and granite with identical aesthetic features. The material advantages of Geologica™ products over traditional quarried materials include: a two to three times lower absorbency rate; a breaking strength two to three times greater than granite and seven to eight times greater than marble; a three times higher deep abrasion resistance; and higher resistance to acidity. Furthermore, its production has minimal environmental impact and results in very little processing waste – 3%, according to company management compared with the 66% of waste in the marble and natural quarry industry.

Granitifiandre’s products have been very successful over the last few years. In addition to remarkable sales growth, Granitifiandre’s clients include many well-known companies, with key accounts such as Mercedes Benz, McDonalds, Carrefour and United Colours of Benetton. Products from the Geologica™ line are also present in a number of world-famous sites, such as the executive office of the White House in Washington DC, the Bocconi Museum in Milan and the Grand Stade de France complex near Paris.
Key financial facts and figures

Figure two summarises the progression of company sales and earnings before interest and tax (Ebit) for the period 1995-2001. As can be seen, GranitiFiandre achieved growth in annual sales of 54% over the period, increasing from €91.9 million in 1995 to €141.6 million in 2001. Earnings also grew sharply by 105% over the period, rising from €12.9 million in 1995 to €26.5 million in 2001.

Figure 2: Sales and earnings before interest and tax (Ebit), 1995-2001

![Figure 2](image)

Source: Presentation of GranitiFiandre, September 2002

Figure three illustrates GranitiFiandre’s revenues from sales in 2000 broken down by product type. As can be seen, sales of vitrified stoneware products account for nearly 75% of revenue. It must also be noted that a strong growth area for revenue is ‘fitting and installation services’, reflecting the company’s ‘turnkey’ strategy.

Figure 3: Revenues from sales by product type in 2000

![Figure 3](image)

Source: Preliminary offering circular, 2001
Figure four displays the geographic distribution of Granitifiandre’s sales. Italy accounts for nearly half of all sales and this contribution has been gradually increasing over the period 1998-2000. Looking ahead, however, the company’s expansion plans in Germany and the US will most likely increase the non-Italian share of sales.

**Figure 4: Geographic representation of sales in 2000**

![pie chart showing geographic distribution of sales in 2000]

Source: *Preliminary offering circular, 2001*

Figure five provides a breakdown of the company’s capital structure. Two important points to note are the decline in long-term borrowings over the period, and the dramatic increase in total common equity following Granitifiandre’s IPO in 2001.

**Figure 5: Capital structure of Granitifiandre S.p.A.**

![bar chart showing capital structure over years]

Source: *Bloomberg Professionals*
Company strategy

In its preliminary offering circular, Granitifiandre stressed the following factors as being critical for achieving a turnover growth of over 10% per annum:

- **Continuous improvement of its product range**: to raise company profitability, Granitifiandre will focus on producing its higher value-added product lines, particularly Geologica™. There will be a gradual phasing out of low-range vitrified stoneware and semi-finished products.

- **Expansion in the residential segment**: by increasing its number of Geologica™ shops, the company hopes to raise its profile in and sales to the residential market in Italy and abroad.

- **Increased worldwide output**: two new plants in two major marble and granite markets, Germany and the US. Both new plants became operational in 2003, and should reach a production capacity of six million square metres by 2005. Both plants will be highly automated and close to raw material suppliers, thus bringing about efficiency savings and increased competitiveness.

- **A strengthened distribution network**: the company hopes to expand its distribution capabilities into other promising regions of the world, particularly eastern Europe and the Far East.

- **Services and new applications**: As part of its vertical integration of activities, Granitifiandre hopes to improve its ability to provide ‘turnkey’ services to clients, such as technical advice and design consulting, and fixing and fitting services by specialised staff.

Sectoral context

Granitifiandre’s strategy appears to be well placed in the context of the sector’s dynamics. The vitrified stoneware industry amounted to 36% of the total output of the ceramic sector in Italy in 1999. Furthermore, the market has increased its production from 121 million square metres in 1998 to 134 million square metres in 2000. This growth is set to continue, according to company estimates, with production reaching 155 million square metres in Italy by 2003. This growth was mainly driven by a more sophisticated use of flooring products. Granitifiandre operates at the top end of this market and manufactures high quality substitutes for marble and other quarried products.

The flooring market represents a key indicator of growth prospects for the company. The worldwide market for marble and natural quarried products is expected to increase in size from 556.7 million square metres in 1998 to 1,220.3 million square metres by 2010, a growth rate of nearly 120%. Thus, Granitifiandre expects continuous growth, particularly in its Geologica™ product line, and an increase in its worldwide market share, from the current level of 1% to 2% by 2005.

Such increased market share is likely to arise because of continued substitution by the construction industry from quarried marble and granite into its Geologica™ products. This substitution is likely to be even more pronounced in the future, partly due to certain characteristics of the quarried stone and marble industry, such as scarcity of quarried materials and a growing number of quarrying restrictions because of environmental concerns.
The role of financial markets as a driver of change

Management perspective
Granitifiandre’s management maintains that their expansion strategy has benefited from the recent growth of financial markets, in particular the equity market. In June 2001, the company raised €106.5 million through an IPO on the Italian stock exchange. This marked an important break from its traditional methods of financing, most notably its historic reliance on bank loans. The share of long-term borrowing in the company’s balance sheet, used to fund past investment, started to decrease over the last years (see figure 5).

Due to good relationships with banks and the high prestige of the company, Granitifiandre’s management believes that it would not have been difficult to raise a comparable amount through bank finance. However, despite the low interest-rate environment, the decision to go public was perceived as the most appropriate, given the additional non-pecuniary benefits arising from the status of a listed company. These benefits include a better corporate image, corporate prestige, enhanced visibility and a signal of greater reliability, which is related to the rules on information disclosure and transparency. Up to the end of 2002, the Granitifiandre stock has systematically outperformed the reference index for the Italian stock exchange (Mibtel). The company did not consider raising finance through corporate bonds, partly because they were new to this instrument, and partly because a proper market has not yet been established.

Granitifiandre believes that it benefits from deeper and more liquid financial markets in terms of a lower cost of equity capital, arising from a reduction in the perceived risk of the stock. The company’s management considers that banks tend to respond very slowly to changes in financial markets. This is partly due to the fact that borrowing from banks is mainly related to established reputation and availability of appropriate collateral.

Granitifiandre’s management is of the opinion that the company’s governance has changed dramatically following the listing on the Italian stock exchange. This is primarily because the STAR division1 of the Italian stock exchange requires companies to meet more stringent conditions than other divisions of the stock market in terms of transparency, information disclosure, composition of the board, etc. For example, two independent members have to be on the board, and the company has to produce six reports per year (four quarterly, one every six months and one annually).

As a result of the public offering, the company’s remuneration policy has changed. Important innovations include the introduction of remuneration closely linked to the share price (stock options), productivity-based bonuses for the director of production and the creation of a committee in charge of the remuneration policy. The remuneration policy for lower-level employees depends on the national collective agreement which applies to the sector.

With reference to company organisation, Granitifiandre’s management points out that important changes occurred as a result of the listing on the stock exchange. For example, having to comply with all the IPO requirements in terms of information disclosure and transparency means that the company has in place competent teams who can provide this information on a timely basis. Management control is another area which has been improved. Compared with past years, there is now a higher division of competencies, in the sense of having each individual responsible and accountable for fewer tasks.

---

1 STAR is the segment of the Electronic Equity Market (Mercato Telematico Azionario-MTA), organised and managed by Borsa Italiana, reserved for small and medium capitalisation companies who are operating successfully in the traditional sectors of the economy and meeting stricter and more specific requirements with respect to transparency, liquidity and corporate governance.
Relationships with stakeholders have evolved following the company listing. Currently, the management aims at offering competitive remuneration schemes to personnel with specific and non-replaceable talent and/or to personnel who are perceived to play a key role in the company, such as particularly skilled vendors and employees involved in R&D activities. Key suppliers can also profit from these remuneration schemes.

Granitifiandre’s management maintains that fundamental business choices in relation to setting their targets, ownership of the firm, choice of locations, range of products and the nature of the production process are largely unaffected by financial markets. For example, the company’s key objective is to double their market share by 2005, as declared at the time of floatation. However, there is no evidence of giving priority to short-term objectives as opposed to medium and long-term strategies. The decision to build one plant in Germany and another in the United States depends mainly on considerations of logistics and the improvement of the distribution network. The nature of the production process can be regarded as exogenous or driven by technological factors, and is therefore largely independent of the dynamics in financial markets.

**Suppliers’ viewpoint**
Granitifiandre’s suppliers follow developments in the company with great attention, in particular the current expansion strategy. Arredo s.r.l., an important supplier of top-end exposition equipment to Granitifiandre, is convinced that Granitifiandre’s growth strategy will provide them with an important opportunity for:

- dimensional growth;
- greater cooperation between the two firms in terms of designing enhanced installation tools and systems, show rooms, etc.;
- higher investment in R&D with consequent improvement of their product range and functionality;
- more national and international visibility, following the planned enlargement of Granitifiandre’s network of retail shops.

**Conclusions**

The recent development of the financial market, such as the emergence of stock exchanges for new and smaller companies, has greatly benefited Granitifiandre. It provided the company with a new source of funds supporting its expansion strategy and reducing its reliance on the traditional source of bank finance. The listing of Granitifiandre on the stock exchange resulted in corporate governance changes and facilitated the use of a performance-based remuneration system for senior managers. Moreover, the increased transparency and reporting required by the listing on the stock exchange have resulted in organisational changes improving overall business performance. Granitifiandre, however, continues to adhere to its medium-term business planning approach, and does not appear to have been driven towards increased focus on short-term financial targets.

---

2 Further information about Arredo s.r.l. can be found on www.arredosrl.it