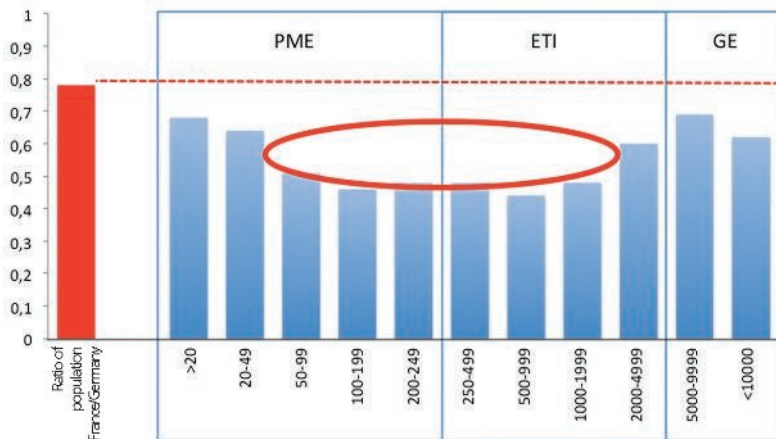


Chapter 5

THE ALTRAD GROUP: A “HIDDEN CHAMPION” LIKE THE GERMAN MITTELSTAND*?

France questions its competitiveness and reveals competition rather than integration between its business categories (sizes). The comparison between the French situation, which sees an inexorable erosion of the position of its industry, and the German model is unfavourable to French companies and, for many, is a source of inspiration and solutions.

The number of companies in France with a given number of employees compared with Germany



Source : INSEE, Destatis 2008, Calculs KOHLER Consulting&Coaching.

German patriarchal companies, long derided in France, eventually became models for our industry and our leaders. Worse, the weakness of midmarket companies (MMCs) in France (in number and competitive position) has transformed the market into a fool's game: the clay pot (MMCs) against the iron pot (major groups). The latest episode we are experiencing is the demand by major French groups to their French subcontractors to reduce margins created by the French tax credit for competitiveness and employment (CICE). Incredible, when seen from abroad. Incredible, full stop.

Being an MMC in France is in itself unusual. For Jean-Yves Gilet, Director General of the Strategic Investment Fund (FSI):

[the lack of MMCs in France compared with the German Mittelstand] is considered by many as one of the reasons for the decline of French industry.

The report to the Strategic Investment Fund 2012, *Pour un nouveau regard sur le Mittelstand* ("A new look at the Mittelstand (German)", points to a recent (2008) awareness in France of the concept of MMCs. In his preface, Louis Gallois indicates that:

the thrust of this report is also to shed light on the factors leading to the success of the Mittelstand. Not to copy them, but to take inspiration from the "virtuous circle" of the Mittelstand based on the strategic independence of enterprises, a niche and high-end position, innovation, the quality of human capital, an efficient ecosystem and high margins.

The Altrad Group is positioned in the upper category of higher Mittelstand, i.e. businesses which have a turnover of between 250 and 1,000 million euros (0.19% of them):

The hidden champions are the third face of the German Mittelstand and it is largely thanks to them that the Mittelstand is considered one of the determining factors of German competitiveness.

The report refers to the key factors of success of “hidden champions”. According to Hermann Simon (2009) these are:

1. Specialization in niche markets:
 - Markets are defined as niches in which strong positions can be constructed (typically 70 to 100% market share).
 - Niches are above all identified by perceived needs and client-oriented criteria. Products and technology are additional elements.
 - Hidden champions are very knowledgeable about these niches.
2. The construction of a market position:
 - Growth and market leadership are the dominant objectives, expressed extremely ambitiously and formulated early.
 - Market share is won without reducing margins, through superior performance and not by price reductions.
 - A clear, unequivocal and shared strategy is defined by long-term objectives.
3. The defence of market position:
 - A part of the value chain is perfectly mastered through specialized skills and a search for perfection, a strategy of small steps that creates barriers to entry.
 - Close and regular interactions with clients, valued by management, stimulate innovation and quality of service.
 - An ambition for leadership that does not focus only on the conquest of market share, but embraces technology, innovation, quality and reputation.
 - Innovation is not limited to products and technology but includes all aspects of the offer and searches for all opportunities for improvement.
 - Incremental innovation (rather than a rupture) is particularly effective in the improvement of production processes.
 - A leading position is consolidated internationally by business investment: early opening of subsidiaries in foreign markets and direct relationships with end customers.

Three major principles underlie these key success factors:

- the economy and the concentration of resources;

- the consistency of targets and objectives;
- the constant interaction between the identification of the client’s needs and internal innovation capacity.

Like our “low-cost/high-ambition” holding company, Mittelstand companies have low management ratios: 4.6 in Germany against 9.4 in France, according to Alfred Kieser and Peter Walgenbach (2010):

This enlightened family capitalism also relies on a form of informal communication and on trust and mutual loyalty, giving a strong sense of cohesion within the company. Values are often those of the “patriarch” that he disseminates and embodies within the company.

The essence of the Mittelstand can be expressed in five points, (qualities and values that are also to the fore in the Altrad Group):

- entrepreneurship;
- autonomy;
- sustainability/durability;
- social responsibility;
- local roots,

to which should be added an appetite for work well done and love of the sector (see preface).

A reading of the report on the Mittelstand, in other words on the competitiveness of the German model, shows a convergence with the model developed in the long term by the Altrad Group. However, the conditions for development in which the Altrad Group operates are not as favourable as those of the Mittelstand. The ecosystem, cooperation between businesses and ease of access to finance are all points that are very unfavourable to the development of a group like Altrad.

This explains the fundamentals of the financial culture of the Altrad Group (strict reporting and ruthless cash management) that support a spirit of conquest for the Group’s sustainable development, as is the case of the German Würth Group. The

FSI report cites, for example, a few aphorisms underpinning the corporate culture of the Würth Group:

- The company that grows by less than 10% per year is dead.
- It is not me who employs my people; it is the customers.
- The more he achieves significant successes, the greater the degree of freedom of the employee.
- Power moves towards he who makes progress.
- Knowledge is soporific; power is in action.
- Every time, a little bit better.

This context allows us understand why the rights of managers of subsidiaries are associated with very strict duties.

In contrast to the “hidden champions” of the German Mittelstand that cultivate secrecy and do not publish their accounts, the Altrad Group has developed a culture of financial disclosure and partnership-based governance. This translates into a willingness to disseminate quality financial information to relevant stakeholders. Examples include:

- applying IFRS¹ accounting rules for the last four or five years, even though we have no obligation to do so;
- in 2013, making the “Strategic Memorandum” available to stakeholders.

In the same spirit, Mohed Altrad likes to say that he is in a minority on the Board of Directors since the vote is based on the principle of “one man, one vote”.

1. The International Financial Reporting Standards, or IFRS, are accounting standards developed by the International Accounting Standards Board or IASB for listed companies or companies seeking investors, in order to harmonize the presentation and clarity of their statements.

Following the financial scandals of the early 2000s in Europe and the United States (Enron, WorldCom...), public authorities have been committed to enhancing the quality of financial communication in order to restore the confidence of the public, savers and investors. This important movement is reflected in the adoption of a set of texts whose common goal is the improvement of financial security.

Any other company would have emphasized this important component of corporate social responsibility (CSR). In the Altrad Group, the term CSR is not defined since only actions are important; it is the job of the media or researchers to describe all the dispositions of the Group as socially responsible, or not.

It is however certain that the Group, through all its policies and provisions, aims for the same sustainable development as the Mittelstand groups.