

Targeting Large and Small

How a big company approaches the fiber optics market

●▶ A corporation that grows dynamically through acquisition needs two good strategies for success: one for the growth itself and one for the integration of the acquired companies. The positive development of the fiber optics business unit within the Leoni group suggests that the management has set the right course for the future. Andreas Thoss, publisher of O & P, asked Klaus Probst, chairman of the Management Board of the global supplier of wires, cables and wiring systems, to explain the cornerstones of his corporation's strategy.

Optik & Photonik: Over the last few years, Leoni has grown rapidly by acquiring companies in the field of fiber optics. Which companies are these in particular?

KLAUS PROBST: For our two divisions "wiring systems" and "wire and cable" we have acquired a total of 28 companies in the last few years. We have integrated 26 of these companies into the division "wire and cable" and with that we have significantly expanded the fiber optics area. It started with Fiber-Optic-Systems in Neuhaus-Schierschnitz, and the fiber technology business area of Prinz Optics in Stromberg. In 2006 we acquired 51% of the j-fiber-Group, who are located in Jena. In Austria we added the NBG-Fiber-Optics to our portfolio, which deals among others with the subject of "fiber to the home" (FTTH). The latest acquisitions until now were Iotech in Waghäusel and, finally, FiberTech in Berlin.

What do you want to achieve long-term with the acquisitions?

PROBST: With our growth strategy we are pursuing three aims. Firstly, we want to extend our technology and product portfolio. With the new companies we are further unlocking technology areas, which means production processes on the one hand and products on the other. Secondly, with these acquisitions we are opening new industrial

markets that we previously were unable to serve, like medical technology, health care or aviation and space. And the third aim is to get a foothold in new regional markets through the acquisitions.

And where are you now with regard to the aims you mentioned?

PROBST: With regard to the product portfolio, we are nigh on complete in the fiber optics environment. At least, this is the case in Germany and Europe. Meanwhile we can manufacture and offer everything along the entire value added chain that is from the preform via fibers, cables and assembled cables up to the complete system. Without doubt that is one of our strengths. Which is what differentiates us from almost all competitors in this environment.

Also within the industrial markets, which we define as our core area, we have almost reached our final target. Thanks to our acquisitions, we are now covering these markets. Regional development is still one of the future tasks we are successively implementing. We want to grow internationally in the fiber optics market.

Let's first stay with the core markets: here you aim for a strong market position in quite different areas. Are there any areas in which you have already reached a leading position and where do you see the chance to reach this position in the not so far future?

PROBST: With regard to Germany and Europe we are already in the lead with health care and medical technology – I mean medical equipment and patient medical care. And with industrial lasers we are right there in the front through our subsidiary Fibertech in Berlin. I see us occupying a leading role also in data communication, taken in the broadest sense. Regarding the subject fiber to the home I consider us as one of the medium sized players in Europe. This is a fast growing market and is therefore an important strategic area for us.

As your third aim you want to position yourself in new regional markets. Which countries

THE PERSON

KLAUS PROBST

Klaus Probst is Chairman of the Management Board of the Leoni group. He is also in charge of the Wire & Cable Solutions Division. He received a Dr.-Ing. degree in Chemical Engineering from the University of Erlangen in 1981. In his professional career he first held an executive position at Großkraftwerk Franken AG (1980). He is with LEONI since 1989, where he was appointed as member of Management Board in 1997. Since July 2002 he holds the position as Chairman of the Management Board.



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or continents have you specifically in mind for the fiber optics and how are you approaching the markets?

PROBST: The same strategy applies for this as for all business areas. First we build a strong position for us in our home market – Germany and Western Europe. Only once we have reached our aims there with regard to market position, branding and image, follows then the next step the international stage. This means we head towards Asia, the US or other regions. There we have succeeded differently depending on the business area. With our fiber optics activities we have in the last two years not only expanded our product portfolio but also strengthened our market position. At the moment



Production of fiber-optic-cables, detail of a jacketing line. (Courtesy of LEONI AG)

we optimize the day to day operation of the company. You can imagine that the integration of the acquired companies takes time. But together with that our views are already focusing on internationalization.

What do you think, how long will it take from acquisition to full integration and full efficiency of the acquired companies?

PROBST: Such integration processes are certainly never completely finished. There are always new approaches for further improvements. However one must if possible very quickly achieve functional processes and assure that staff identifies with the parent company, like for instance the staff of Fibertech now says: we are Leoni. We certainly have achieved that now with 80% of staff. And this happened in a very short time. We purchased Fiber-Optics-Systems five or six years ago. That was the nucleus to which we docked the other companies. The last acquisition was 2007, two years ago. I think today we are nearing the completion of the integration.

If we go back once more to the regional markets. Each market has its own specifics. Let us take for instance China. What is your recipe in order to be successful there in fiber optics?

PROBST: As the first step we escort our clients into this region. That assumes however that we are strong in our home market and have good relationships with our clients there. After we have established the first base together with existing clients we try in the following step to gain our own markets

THE COMPANY

LEONI AG

LEONI is a global supplier of wires, optical fibers, cables and cable systems as well as related development services. The group of companies, which is listed on the German MDAX, employs around 48,000 people in 36 countries and generated consolidated sales of EUR 2.9 billion in 2008. LEONI develops, produces and distributes sophisticated products for the automotive industry and various other industrial markets.

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in the region through local sales activities. This approach promises to be very successful not only in China. To build up your own activities from nil and against the local competition in a new country is very difficult. And it takes much longer to be successful.

Let us focus on the North American market. In the last twelve months came rather worrying signals from there. However, from where does your company take the courage to go there despite the momentary market situation?

PROBST: Fundamentally one should think counter-cyclical. If everyone steps on the brakes and we did the same there would be no real progress. Nevertheless caution is asked for. Especially where finances are concerned – the financing has to be assured.

Sure, it takes courage, you are right. But because our corporation produces in 23 countries, we have many local points of contact. We know how the industry in the US works. We can assess how the markets there will develop and with that in mind we have certain stability for our investment decisions.

Let us come back to the fiber optics. How do you see in that area your willingness to investment for the next two years? What would you make further commitments dependent on?

PROBST: Of course a corporation will always invests more readily in a market where the best profits can be made. Our fiber optics activities are well positioned with regard to that. We are not only satisfied with the rate of return up till now, but also with the growth story and the strategic development. These are good pre-conditions for further growth and investment. We have now only to decide what the next step should look like: in which area i.e., and whether we grant preference to the organic growth or to the external growth and also what will be achieved by this regarding our strategic position.

Especially in fiber optics you target the niche markets, for instance with application for the health care area. How do you achieve that a corporation like Leoni with a turnover of three billion Euros in 2008 is successful in the niche markets?

PROBST: That is a question of strategic positioning and above all how you organize the business. We manage the company with two divisions. First – wiring systems – it produces classic mass products for the automotive industry, for instance cable harness for the E class of Mercedes. There the turnover volume is in the region of 1.5 billion Euros. There, you cannot have the same organization like you have for wiring systems for products concerning fiber optics. Therefore the second division – wire and cable – is structured somewhat differently. Here there are business groups which deal clearly with either markets or technology. They arrange and organize themselves and work in a decentralized form. That is also the case for the business unit which deals with fiber optics. It sets its own targets and takes responsibility worldwide for the entire process chain: from sales to development to production. It is like a company within the company. To put it exaggeratedly, the corporation acts more like a holding company for all the units in the second division. But, and that is the positive side, the corporation offers additional opportunities which a standalone company in fiber optics would not have. Part of this is for instance the sales

channels of the other business groups. But also part of this is the financial power of the corporation and its global positioning. Above that technological synergies are created over and above various markets. What is needed and sold in one division or business group can be technologically fruitful for the other division or the other business group and vice versa. You could call it the quadrature of a circle. We put up an organizational unit like a speed boat, which can react fast and flexible to the market demands and simultaneously we create synergies within the corporation. That is our strategy and I am convinced that we have achieved this well in the past. You can tell by our results and particularly by our growth.

You keep the medium sized structures and organize these under the umbrella of the corporation so that the corporate finance and marketing power as well as its global position benefits the medium structures in an optimal way?

PROBST: That is exactly what we do.

One last question with regard to the area of conflict between medium sized companies and corporations. For FiberTech and businesses connected with it, innovation played a very big part if not even the decisive part. How can the corporation promote and keep the innovation abilities and innovation willingness of the small units?



Klaus Probst, President and CEO of the LEONI group. (Courtesy of LEONI AG)

PROBST: That is a very important aspect in our niche strategy. Take the fiber optics environment in general. The scientists and technicians there constitute an innovation potential as such. That must be exploited – primarily of course for the core business, for fiber optics. Within the frame work of integration it is however necessary to enlist and motivate the staff of the individual companies for the business area of the entire fiber activities. We want to derive at synergies above the existing legal limits. Thus we do not have to invent the wheel twice. That works very well.

Within fiber optics there is also know-how which can be exploited for other business activities within the Leoni group. For instance in the automotive area we assemble fiber optic parts into the cable harness. In order to make this work and to achieve a true cooperation within the group exists we had to create a very communicative environment in the run up. This now exists and works better day by day. Today we have a good cooperation above and beyond the business units, business groups and divisions. That is surely one of the strength of the corporation. It however assumes that the corporation is well set up organizationally and that its staff is motivated, so that they work in a corporative way, whether in the market place or in technology or other areas. The true power of a corporation becomes visible against the small and medium sized companies like for instance previously FiberTech. I am sure in that respect we are very much on the right track.

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