



non-stick coatings

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“DO VALUES MATTER?”

Recently, GMM’s I.T. department enrolled our company website www.gmmdl.com in Google Analytics, a fantastic back-end tool that allows us to see how many people visit our website on a daily basis. We can see what countries (and cities) visitors hail from, which web pages are the most interesting to viewers (as measured by time spent and clicks), and which key words are driving traffic to our site via search engines and social media sites. It’s fascinating, relevant data and we watch it closely because it helps us learn about our clients. It turns out that our most popular pages on the GMM site are in the “Research and Testing” and “Product” sections of the site, which makes sense since we are a technically focused company. However, we were stunned to see that the least viewed page is the one entitled “Our Values.” Our Values! This lonely little page which lists our 7 core operating principles has only been viewed 21 times out of 3,100 total visits in the last 90 days. This leads us to a few possible hypotheses:

1. Our Values don’t matter;
2. Our Values matter, but are uninteresting to our clients;
3. We should fire our web designer.

First of all, everyone knows that values matter in some mysterious way, so it can’t be #1. And we like our web guy, so #3 is out as well. Therefore, the answer must be #2—our values matter, but they are just not interesting to customers. To be fair, many businesses today slap together a recycled, tired list of platitudes which they trumpet as “values,” so perhaps this page is a dud because people are understandably cynical. Nonetheless, in this paper we are going to discuss a few of GMM’s key values, with a goal of making it obvious why clients should be very interested. Let’s start with GMM Value #4:

GMM believes that the only thing constant in any industry is change. If the industry is changing faster than our company is changing, we are in trouble.

How has this principle about keeping our company constantly changing helped define us as a firm? And why is it so important? We will answer that question very shortly, but first let’s talk about the radical and unforeseen changes that have occurred in the nonstick coatings industry over the past 25 years.

The first big change has to do with the pricing levels in the industry. Back in 1985, there were only 5 suppliers of nonstick coatings worldwide, and the largest one (DuPont) had a strong monopoly position that had been in place for decades. For this reason, the other 4 firms (ourselves included) were forced to sell for prices far beneath DuPont’s because of skepticism about “unbranded” coatings. However, even with this lower pricing, we all had attractive profit margins and were content to compete in other areas such as service and innovation. It was a great time to be in this business. However, over the



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next 10 years a couple of us smaller shops became better and better at formulating high performance coatings, and by the late 1990's the playing field had been leveled from a quality standpoint. This was an important development, because for the first time clients had credible options when looking for the highest quality nonstick coatings. These customers (who had had no options for decades) were ready to get even! A few of the largest cookware companies made it clear to their existing nonstick supplier that (putting it mildly), they had other good options. And they weren't bluffing. As a result, the big nonstick manufacturer slashed prices to protect business. Then, the smaller shops followed suit. Initially, this all seemed like a minor price war that would abate within a few months. But it didn't. It went on year after year. *Believe it or not, over the last 15 years the average selling price of nonstick coatings has fallen by almost 80%.* There aren't many innovation driven industries outside of personal computers and home electronics with this type of long term price behavior. Add to this the fact that raw material prices are higher than ever, and it's a pretty ugly picture today.

But it gets worse...

The second big change in the industry relates to the number of companies that manufacture nonstick coatings. Even though the virulent price reductions described above were bad, a small silver lining was that up until 10 years ago there were still only a handful of credible companies that were producing nonstick coatings globally. One hoped that eventually some stability (and common sense) would return to this market, and the few coating firms would stop undercutting each other. Then something happened which shattered this dream forever, something that spawned a multitude of new nonstick coatings companies all viciously competing with each other every day. The "something" was the tidal wave of American and European housewares manufacturers that (due to price pressure) were forced to shut down their domestic factories and source all products from foreign (mainly Asian) factories. Starting in around 1996, small manufacturers in China, Taiwan, Indonesia, Brazil, Turkey, Vietnam and India began to receive billions of dollars in new revenue each year to make cookware, bakeware, and electrics that were exported back to the USA and Western Europe. Many of these companies grew staggeringly quickly, and today some of them employ over 40,000 employees.

Of course, this huge growth in lower-cost countries meant a tremendous amount of new nonstick coatings usage, and suddenly a multitude of coatings companies emerged locally to try and get this business by any means necessary. Many of these new "firms" literally consisted of a few guys mixing paint in their garage, so buying from them was dicey for many reasons (no safety measures, no raw material controls, no technical service, and no credible formulations/quality.) However, if the price was right (and it always was) many local manufacturers started to use some of these products. Ultimately, many of these firms failed, but some won business for local consumption, used on truly disposable cookware and bakeware. We have seen cookware that you can actually crumple in your bare hands because the gauge of metal is so thin. If you drop one of these cookie sheets, you almost expect it to float to the ground like a feather. Even though we can feel smug and say caveat emptor ("Let the buyer beware!"), the fact is today there are almost 100 manufacturers of nonstick coatings operating around the world. You've not heard of most of them, but trust us, they exist and they're tenacious.



Then it gets REALLY bad...

The final change in the industry (which we have discussed in previous papers) is the staggering increase in nonstick coatings quality over the past 10 years. Surely, this is a positive change for coatings manufacturers, right? To answer the question, consider the following transcript of a recent meeting between an ambitious GMM nonstick coatings salesperson and a large, savvy cookware manufacturer known as Customer X:

- GMM:** I am proud to report that GMM's nonstick coatings outperform your current supplier by 9%!
- Customer X: (yawns) Look, our existing coating is so good, a 9% increase in quality will never be detected at the consumer level. Plus, all you coatings guys say your products are the best--
- GMM:** --But you can market this improvement with a great ad campaign! Won't your retailer customers care about a quality increase?
- Customer X: Sure they care, but do you think I can raise my prices at Wal-Mart based on a tiny increase in nonstick quality? No chance.
- GMM:** So if quality increases aren't enough, how can we win this business?
- Customer X: The way any commodity supplier wins business...on price.
- GMM:** Um.

What bothers our fictional salesperson isn't the fact that he has to compete on price—he already knew that was going to be key. What chills him is the use of the dreaded “c” word...commodity. In recent years, because nonstick coating quality has become so good, and so widely expected, some clients feel that nonstick coatings (amongst the top firms) are no longer distinguishable from each other and thus should be thought of as commodities such as oil, pork bellies, or gold. Is this valid? By definition, a product is a commodity if 3 key characteristics are present: 1) The product is supplied without any qualitative differentiation, 2) The end customer doesn't care who supplies the product, and 3) Prices of the product are almost identical amongst suppliers.

Based on the above, nonstick coatings clearly *are not* a commodity in the orthodox sense, because all three rules are violated: First, the all manufacturers are vigilant about trying to differentiate themselves (one can argue the effectiveness of this but that's not the point). Second, clients are extremely concerned and picky about who supplies them. In fact, most of our customers would scream bloody murder if forced to use products from a company that they don't know well. And third, prices are opaque and not at all standardized yet. But all of this is cold comfort, because in practice serious clients only deal with the top few firms who are capable of producing high quality products. Therefore, if these clients treat the top suppliers as indistinguishable, and no supplier can break away from the pack using incremental quality increases, the market exists in a sort of “quasi-commoditized” state. Given that this market was a monopoly a few decades back, it's been a massive change.



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Stop whining!

So, we arrive at the big twist: GMM has continued to thrive in this market. In fact, business is great, we enjoy what we do, and we are having more fun than ever. How can this be possible? It comes back to Value #4: *We have always understood that this industry would change, and thus we have been vigilant about changing even faster as a company.* How have we changed to position ourselves better given the current situation? First of all, we are not in denial—we have accepted the current nature of our market and are not clinging to memories of the halcyon 1980's when profit margins were 4x higher than today. That in itself is important. We are smarter about what countries we manufacture in to maximize efficiency and productivity. We are vigilant about working with newer and more sophisticated chemical suppliers so that our technical team has the strongest arsenal when creating innovative products. We have brought in the best possible people who know how to wear different hats, and who know this industry inside and out. We seek out deals with local governments who provide enterprise zones for companies that hire local staff. And where it makes sense, we have vertically integrated. The way we see it, any company that has the time to complain isn't going to last too long.

But the willingness to change has not only helped us operationally. It has also allowed us to abandon previously sacred axioms about nonstick coating brands. Over the last few decades, nonstick coating brands have ceased to be highly meaningful to consumers (see last month's report.) Unlike the competition, we have changed to accept this important shift. Though we have brand names available when needed for special projects, we don't shove them down our client's throats and charge licensing fees. Our job is to show our clients the best and most novel food release technology, and to trust them to decide what to call it, and how to market it. They are smart, and we have full faith that they will do what is in their own best interest. To those who consistently get angry at us for proclaiming the death of coating brands, remember that a real technical breakthrough could truly change the landscape, and at that stage we may change our mind. But until then, GMM Value #4 allows us to stop wasting valuable resources trying to squeeze water from a stone. To our competitors who think this is a hypocritical, we are reminded of what the great economist John Maynard Keynes said when criticized for changing his mind: "When the facts change, I change my mind. What **do you do**, sir?"

Of course, not every company has adjusted to the new market. In fact, a few nonstick coating companies in recent years have been acquired or have simply disappeared. Are we surprised by this? Absolutely not, especially when you consider GMM Value #5:

GMM believes that staying in business is very hard, and the only way to survive in the long run is to be obsessively focused on our clients' satisfaction.

How does this core principle help us every day? First of all, it reminds us that natural selection exists in business just as much as it does in nature, and that capitalism predicts an inexorable march from higher prices to lower prices, from monopoly to commodity. It's slightly comforting to know that what has happened in our industry has happened in many other industries (again, stop whining!) But what's really important about Value #5 isn't the acknowledgment about the difficulty of business, but the



wisdom of the solution that is offered: To survive, one must be obsessively focused on our clients' satisfaction. Though this sounds obvious, or even trite, it really is not. To further this point, displayed below is a (future) conversation between our persistent GMM salesperson and Customer X, who has been a loyal client for over a year at this stage:

GMM: How is everything going?

Customer X: Great. I just called to say that one of those local nonstick competitors came in with a price that is 8% cheaper than GMM...but we told them we're not interested.

GMM: Really? Why?

Customer X: There's a few reasons. Whenever we ask you for a new color or a new sample, you guys beat your competitors by weeks in getting it to us...When we have a technical problem in production your team is here within hours, and stays until the problem is solved—

GMM: Wow, that's nice to hear, and--

Customer X: --Hold on, there's more. You guys are our trusted "eyes and ears" in our foreign factories, making sure that our sourced product looks great....We love all of the new innovations you proactively give us...you provide fantastic product training and, and you guys actually understand what's important to us.

GMM: Great! Can we increase prices now?

Customer X: Not a chance.

GMM: Just kidding. But thanks.

Jokes aside, Value #5 makes sure that we never feel satisfied, that we always seek to improve, and (most importantly) that we never feel entitled to anything. And though the dialogue above is fictional, in the real world our team hears compliments like this quite often (if we didn't, we might not be around anymore...) The fact of the matter is that it's really hard to execute consistently, and we are grateful for that because *great service can never be commoditized. Hiring the right people can never be commoditized, nor can working fast, innovating, operating lean, having integrity, and being environmentally responsible.* All of these ideas are rather simple on their own, but being able to juggle all of those balls is made possible by a firm anchor to the values that define the way we run our company.

We hope that clients now have a better understanding of the way that we see things, and are interested in our values just as much as they are interested in our new products. We think they're important. Also, in this paper we've only discussed 2 of our 7 key company values, so if you're interested to see the others please go to www.gmmdl.com, click "Learn More" and then select from the list on the left.

Respectfully,

GMM NONSTICK COATINGS RESEARCH TEAM