

## In discussion - Vladimir Markov, TechnoNICOL

When TechnoNICOL was founded in November 1992 it was purely a roll-roofing producer. Now it has 14 different production divisions and a wide variety of products. The company has more than 20 years of experience on the insulation market and a turnover of US\$1.16bn/yr. *Global Insulation* visited the TechnoNICOL headquarters in Moscow to discuss Russia's thermal insulation market with Vladimir Markov, TechnoNICOL's production division CEO.

**Global Insulation (GI): What is your history with TechnoNICOL?**

**Vladimir Markov (VM):** I joined TechnoNICOL in April 1993 as a salesman and held the position for one year: I've been in sales for most of my time with the company, although my role has changed over the years. I opened the first sales office in St Petersburg in 1995, where I stayed for around four years. After that I returned to Moscow as head of the sales division, with the task of expansion and growth.

In 2000 TechnoNICOL was divided into the sales and production divisions. The split happened due to a change in customer preferences. In addition to roofing, customers wanted to buy their thermal insulation and accessories at the same time, purchasing a complete system instead of parts from several different producers. Many independent distributors offer these systems, which gave them advantages over us and threatened our growth. Since the split, the production division has been able to trade on the TechnoNICOL network as well as via independent distributors. We don't differentiate between TechnoNICOL's network and the independent distributors in terms of price. This is one of our main market principles, which I think is one of the major factors that has allowed us to succeed.



In 2000-2005 I joined the sales division to increase our business with independent distributors. After that I returned to the production division, where I've been the CEO since November 2012.

**GI: What materials does TechnoNICOL produce and how has the range developed over the years?**

**VM:** TechnoNICOL produces many construction materials. With regards to thermal insulation, we produce stone wool and XPS. We are also due to commence production of polyurethane at the start of 2015. In addition to thermal insulation, we manufacture PVC membranes, shingles, bitumen roofing, roll-roofing, fibreglass mats and slates. All of our products are complementary and within the same field. For example, our roll-roofing goes on top of the thermal insulation, producing a complete system. That's why we'll never produce bricks or cement, or other general construction materials.

Originally TechnoNICOL only produced roll-roofing, but when we tried to find suppliers of complementary materials like thermal insulation for the TechnoNICOL sales network, we couldn't source enough. ROCKWOOL refused to supply us with an adequate quantity of stone wool. This led to the decision to diversify our product range.

We acquired our first stone wool plant, a former Soviet Union plant, in 2004. Since then we've built and acquired several others. In 2006 we began XPS production. We added polyurethane to our portfolio in 2014, our third type of thermal insulation. Production is set to start at the first plant at the start of 2015.

**GI: Which one product has had the greatest impact on TechnoNICOL's business?**

**VM:** Stone wool is our main thermal insulation product; the market is larger than for XPS. We have 500,000t/yr capacity of stone wool and each year we install at least one new line. In 2014 two new lines were commissioned and we're looking to open one in 2015 and one in 2016. In 2014, roll-roofing was still our main product in terms of sales. However, I think that in 2015 stone wool will overtake roll-roofing, since sales are growing at a much faster rate.

**Left:** Vladimir Markov has been the CEO of TechnoNICOL's production division since 2012.



**GI: Has TechnoNICOL considered producing other types of thermal insulation products or other 'non-general construction materials'?**

**VM:** We don't currently produce EPS, although we haven't ruled out acquiring EPS plants in Russia. The problem is that the plants are relatively cheap to establish. This increases market competition, as anyone can enter.

Before the 2008 financial crisis, we had also thought about gypsum wallboard. There are fewer competitors and consequentially a higher barrier to entry because good plants are so expensive, costing around US\$100m. There is also good domestic demand for wallboard, making this an interesting market to consider.

Another potential product for our portfolio, before the 2008 crisis, was oriented strand board (OSB), which is used as a base for shingles and would be complimentary to our roofing products. Russia is very rich in wood: There are plenty of forests, but no high-quality construction wood is available at reasonable prices. Typically, prices are around two times higher in Russia than in the US. The OSB market is equally undeveloped: 2014 saw the opening of Russia's first OSB plant. The potential for the market is very high. Before the 2008 financial crisis we had planned to enter the OSB market. The OSB and gypsum wallboard projects were postponed and are only now being reevaluated. However, Russia's economy is again not ideal for starting large new projects.

New market entry depends entirely on demand. In order to be worthwhile, a new project needs to generate at least US\$100m in sales within three years. We'd want to be at least the second-largest producer on the market and ultimately be able to generate US\$100m/yr in sales from each project.

**GI: What are TechnoNICOL's current projects?**

**VM:** In 2014 we opened our first sales office in China. We're seriously looking for production plants to acquire there. We've investigated constructing a stone wool plant in China but it would cost less for us to buy an existing one. In contrast, a greenfield roll-roofing plant would be the most financially-viable way to start production. We're also preparing to open a legal entity in India and expect to open a sales office there in 2015.

**GI: What is the state of the thermal insulation market in Russia and has it changed in recent years?**

**VM:** There's a lot of potential in the insulation market in Russia. It's been growing steadily for years. We've been trying to overproduce stone wool each year for the last five years but it's not been possible as demand always surpasses supply. In 2014 customers sometimes waited two weeks to receive stone wool.

While domestic demand for thermal insulation is growing, some of the small companies are going out of business: It's just not profitable to produce small quantities of insulation. Large plants with multiple lines are so much more cost-efficient, with lower costs per tonne of material produced. While this is true for both XPS and stone wool, profit margins are even lower for small XPS lines. If your costs are 80% of your total sales price, a price fall of 7-10%, as was seen for XPS in 2014, has a huge impact. So the Russian insulation market has fewer producers.

In Russia, the XPS and stone wool markets are quite stable in terms of the proportional market share of each. However, the market division between XPS and EPS has changed significantly in recent years. As the country's largest thermal insulation producers only produce XPS and stone wool, EPS has lost a lot of ground to XPS. When we start polyurethane production in 2015, we anticipate that the thermal insulation market will see further change.

**GI: Where is TechnoNICOL's place on the market?**

**VM:** TechnoNICOL is the leading producer and supplier for roofing, water and heat insulation in Russia and Europe. Denmark's ROCKWOOL and TechnoNICOL are the major producers for stone wool insulation in Russia. We estimate that we each have an equal share of the stone wool market. Similarly, Russia's PENOPLEX and TechnoNICOL are the main producers of XPS insulation in Russia, again with a combined market share of around 80%.

**GI: Do you think that lightweight construction materials have any place on the Russian market?**

**VM:** I do not think that there is a trend for lightweight materials, rather, there is a trend towards faster construction. Typically though, weight and construction speed are connected. As the pace of construction in Russia grows, construction methods are changing to keep up. The ever-growing demand for commercial buildings has boosted sales of PVC roofing, which is now growing at a rate three times faster than bitumen roofs. This is because the PVC is lightweight and much faster to apply.

**GI: How important is branding to TechnoNICOL?**

**VM:** Very important. For example, for bitumen roofing we have a very strong brand, which means that we can sell our product for 15-20% more than our competitors. In thermal insulation we are not as well-placed; our brand of stone wool is less well-developed than ROCKWOOL's. We are continuing to invest in advertising to increase our brand presence for stone wool. For XPS, TechnoNICOL and PENOPLEX have similar brand presences, although there is some disparity between the markets. When it comes to

business-to-business sales, TechnoNICOL and PENOPLEX are around equal, but for business-to-consumer sales, PENOPLEX has the upper hand.

**GI: What is TechnoNICOL's stance on social and environmental responsibilities?**

**VM:** We want to preserve the environment and take steps to achieve that. In our stone wool plants, up to 15% of the price is for environmental equipment, like dust filters and emission reduction technologies. Russian environmental laws are very strict, with very low emissions limits.

Each plant director also has a discretionary fund to use for social projects. We plant trees, repair local facilities etc. For example, we might repair a school roof or provide materials to upgrade the homes for those living in poverty.

In November 2012, we planted 6521 trees near every one of our Russian production facilities in honour of TechnoNICOL's 20th anniversary celebrations. This was particularly tricky in northern regions, where the ground was hard and blighted by permafrost - it turned out to be a very expensive project!

**GI: Can you provide an overview of thermal insulation regulations in Russia? How do they compare with the rest of Europe?**

**VM:** Thermal insulation must comply with much higher fire-resistance standards than the rest of Europe. In contrast, thermal resistance specifications are much higher in Europe, which leads to thicker insulation boards as the norm.

This is because of our differing philosophies. In Europe and the US the top priority is human safety, which means that in the event of a fire, evacuation should be complete within five minutes. However, in Russia we focus on compliance with fire safety regulations. We typically spend 2-3 times more on insulation, as our buildings must effectively be non-flammable to comply with fire regulations. Unfortunately, despite the strict regulations, our buildings are not as safe as they should be.

In Europe the regulations on fire-resistance are becoming stronger, largely due to lobbying from stone wool producers. It is good to increase the safety of buildings, although it would also increase building insulation costs in Europe by 20-30%.


**GI: Have there been any changes to the regulations in recent years, or do you expect any soon?**

**VM:** The legal standards for thermal insulation in Russia that were set by the government and are known as 'Ghosts' were cancelled in 2012. Now we have a group of associations working towards setting new standards, which will be set by industry experts and should align us with European norms. The XPS, stone wool and roofing associations are all contributing, but it's a big undertaking and the insulation associations are new and still finding their feet.

Some of the associations are lobbying the government to increase the required thermal resistance properties for Russian insulation. Our households consume vast amounts of energy in the winter for heating and in the summer for air conditioning, around double that consumed in Europe. Increasing the energy-efficiency of homes needs to be a top priority. While the standards don't need to meet those in Denmark, we really do need to increase them from where they are now. We anticipate that the new regulations will require thermal resistance values 1.5 times higher than current levels and hope to see it happen in 2016-2017.

**GI: How do you think that the market will perform in 2015?**

**VM:** We are not hopeful for the very near future as the economy is extremely unstable due to the current sanctions. Russian investments in foreign projects have sky-rocketed in 2014, while infrastructure investments inside Russia have plummeted. However, all things end in time. I expect there will be two or three years of economic stagnation, after which recovery will begin. Then people will begin to invest again and the markets will pick up.

In the meantime, Chinese philosophy (wēi/jī/wēiji) teaches that from the biggest crises come the greatest opportunities. All companies going through crises should consider their options. In 2008 the global financial crisis hit, which was TechnoNICOL's second major crisis (the first being the Ruble crisis in 1998). Sales fell by 20% and we had to reduce our employee numbers by 30%. It was a hard decision. However, the crisis enabled us to streamline our operations. In the end, the only year in which our turnover fell was in 2009 (by 20% year-on-year). By 2010 our sales had returned to 2008 levels and in 2011 sales grew by 17%. The experience showed us that it was possible to operate far more efficiently, so ultimately it was good for us. 



**Left:** There is a widespread belief that the Chinese word for crisis (wēiji) is composed of elements from the words danger (wēi) and opportunity (jī).