

# Mid-cap companies: small but global

by

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## Overview

Mid-cap companies are implicated to a very large degree in the process of globalisation, and regard it as a major factor in their strategic development. However, when they choose a niche market which allows them to be among the leaders in that market, their nationwide activity quickly becomes limited. Therefore, they must set up their businesses outside France and Europe in order to take on the world market. This is especially necessary because their global clients need their suppliers to be close to their production sites. Globalisation, however, is expensive and may be dangerous. One needs to know what sort of internal and external resources and skills are necessary when setting up a business far from company headquarters, how to establish business relationships which conform with local traditions, and how to finance development. Bruno Bouygues and Joseph Puzo discuss how they set out to conquer the world by using their resources sparingly, and Anne Guérin explains how Bpifrance provides financial support to companies which wish to export.

Report by Élisabeth Bourguinat • Translation by Rachel Marlin

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My father and I run GYS, a company in Laval (*département* of Mayenne) which manufactures machine tools for three sectors: welding, battery recharging, and car repair materials. The company has experienced three major changes in ownership: it was created in 1964 by Guillaume and Yves Stéphanie; it was sold at the end of the 1970s; and it changed hands a number of times before my father bought it in 1997. At that time, there were about thirty employees; today, there are just over five hundred.

### From the electro-technical industry to mechatronics

The world of machine tools changed enormously with the arrival of electronics and mechatronics. The electro-technical industry and transformers were replaced by power inverters. When we bought GYS, the main product of the company was a welding station which weighed almost the same as a motorcycle, and was worth the same price. Today, our leading product weighs less than 4 kilograms and costs less than 100 Euros. We were lucky to acquire the company when this change was starting to take place, and we anticipated the disappearance of transformers, and instead we invested in electronics. Because we were the first to do this in Europe, our sales increased greatly, and we were able to follow a strategy of vertical integration (ie. complete in-house production because of the purchase of upstream and downstream suppliers). In 1997, the main factory covered 2,800 m<sup>2</sup> compared to 42,000 m<sup>2</sup> today. In 1997, we manufactured one thousand machines each year; today we produce two thousand every day.

### Growth of the domestic market

This change was not without its problems. When the machines were heavy and took up a lot of space, transportation was more difficult, and this protected our domestic market. As products became increasingly technological and lighter, they became easier to transport, and we realised that we had to expand our domestic market if we wanted to compete with our rivals. Because of the creation of two subsidiaries in Germany and England, our domestic market increased from 60 million to 200 million consumers.

### A factory in China

After 2008, we were faced with the 'Chinese tsunami'. Based on his international experience, my father felt that China was going to become an even greater economic force, and so we decided to construct a factory there. Our intent was not to transfer European products there, but to develop specific product ranges and to understand the local industrial cost price. Today this factory is an asset because it is very important for us to understand our competitors' prices and how they evolve.

Incidentally, I have some good news about this: as a result of the reversal of the rates of the Euro compared to the dollar, the hyperinflation of Chinese salaries, the difficulty in keeping home-grown talent, and accumulating skills in middle management, products currently manufactured in China would scarcely be more expensive if they were manufactured in France. This is a real paradigm shift.

### Drastic reduction in costs

This change is also the result of substantial efforts which we have made to reduce costs in France. With the arrival of Chinese products, we have been faced with significant price reductions of approximately 15% every year for the past six years.

To remain or to become competitive, we have chosen to use very innovative technologies and have decided to buy our suppliers. This has resulted in lower transport costs and in savings made on suppliers' margins. Furthermore, we have profited from the French government's policy of research tax credit and tax credit for competitiveness and employment which play a very important role in our competitiveness.

### GYS today

Today, GYS's turnover is just over 60 million Euros. The French factory employs nearly 350 people whereas the Chinese factory employs 100, the German commercial unit 48, and the English commercial unit 18. We have just created a subsidiary in India with the purpose of advising our importers and car manufacturers. The Indian markets are not yet quite ready to commercialise our products, but we hope that we can contribute towards the development of standards (which is currently underway) in order to create a market there for ourselves in the next five to ten years. Our growth areas for the coming years are the entire African continent as well as the United States, and all the countries which use the US dollar (cf. the Euro). In the Middle East, for example, we have regained nearly 15% of our competitiveness in a six-month period.

## ■ Talk: Joseph Puzo

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In 1980, I was in charge of a company employing one hundred people which manufactured standard cables. With the arrival of President Giscard d'Estaing's telecommunications plan and the development of nuclear power plants, the number of companies manufacturing cables greatly increased. This led to over-production which was made worse by the economic crisis which took place between 1981 and 1984.

### Going upmarket

Faced with the risk of bankruptcy, the only solution I could find was to go upmarket and copy Goretex, the company which produced the most sophisticated cables in the world using porous Teflon to manufacture coaxial microwave cables. As Goretex's product was patented, I started looking for French university researchers in fluorine chemistry to try to develop a different process. I found fourteen researchers and I chose the most pleasant one who worked at the Montpellier *École de chimie*. We signed a partnership agreement. Students who came to the company for work experience quickly perfected a new process which allowed us to manufacture microwave assemblies without infringing Goretex's patent.

On a number of occasions we imitated our rivals' best methods. We also had numerous discussions with our clients in order to understand which products they needed. In 1990, the company only made highly technical cables, and employed two hundred people.

### Developing exports in a rational way

I realised that it would be hard for us to develop the company if we did not expand our market outside France.

Until then, we had only 'dabbled' in export. We had exhibited at a few trade fairs abroad, and our sales staff had gone to Turkey, Argentina and Algeria in order to learn more about projects that they had heard about. I decided to progress in a more rational way by adapting our strategy to the prospects offered by different markets.

Assessing their size was difficult. Even though Sycabel (the French cable federation) provided statistics about sales of energy or telecom cables, it was nevertheless difficult to get figures for the cables which we manufactured