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THE CHANGE AGENTS

FOUR LEADERS REINVIGORATE THE REGION'S POWER AND WATER SECTORS

CPI MEDIA GROUP

Pipes of the future

Fouad Makhzoumi, the Chairman of Future Pipe Industries (FPI), one of the leading global players in fibre glass pipe engineering and manufacturing, built a global empire on hard work, vision and determination. FPI pioneered the conversion of traditional pipes to fibreglass pipes in the region's water, wastewater, industrial and oil and gas sectors. Makhzoumi started his career in Saudi Arabia in 1975 with Amiantit, now a publically traded pipe manufacturing company. In 1984 and after raising Amiantit sales by 10 fold, he put together enough cash to acquire the operations of Amiantit's sister companies in the Gulf (excluding Saudi Arabia) and started Future Pipe Group (FPI). Twenty nine years later, FPI is a billion dollar company with the largest testing laboratories in the region and factories across the globe from Houston, to Europe to Africa and Asia, employing over 3,000 people and producing over 5,000 kilometres of pipes a year. The company is one of the top three manufacturers and suppliers of fibreglass pipes in the world. FPI is now pursuing an aggressive global expansion plan to grow organically and inorganically and is currently reviewing or in the process of making acquisitions with plans for an IPO in three to five years. In a freewheeling conversation with Anoop K Menon, Makhzoumi spoke on how FPI is 'leading the market and changing perceptions,' his management philosophy, innovation priorities and the Group's commitment to governance and Corporate Social Responsibility (CSR).

When you started innings as a pipe industry entrepreneur in 1984, did you envisage Future Pipe Industries (FPI) attaining the level of success and global leadership the company enjoys today?

Historically, my family used to be part of the government from the days of the Ottoman Empire. My generation was the first that elected to go private. When I graduated in 1975 from the US, Lebanon was embroiled in a civil war, so I went to Saudi Arabia. Being a chemical engineer, I thought I would be working in desalination or power plant or a refinery. Then I met someone from Amiantit, the leading pipe manufacturer in the Kingdom, who invited me to join the company as a quality control engineer.

Being a chemical engineer, I wasn't sure what I would do in piping. But we agreed to one month training in September 1975 and that's how I entered the piping industry.

I could see that while the region is a desert, it is oil-rich, needs water and is experiencing high population growth. Ultimately, infrastructure is the key because if you don't have infrastructure, you cannot attract investment. The desalination sector was picking up in 1975, and it was easy to figure out that if the plant is in Jubail and there is a need for water in Riyadh, you had to move the water to Riyadh. Once the water reaches Riyadh, it had to be distributed. Piping infrastructure is a USD 120 billion business today. Roughly, you need two pipes for every new born and with a population of seven billion people and growing, you definitely need a lot of pipes. Moreover, most of the urban areas are dispersed, so pipelines are an important integration link.

The oil and gas industries have also become a rapidly growing market for us. To tap into the opportunities for offshore and onshore pipe systems, we acquired two companies in the US - one, specialising in line pipes and downhole tubing with the second, more recent acquisition, being a leader in fibreglass pipes and systems for offshore platforms and marine vessels.

Historically, the group derived 75% of its income from the Gulf; now we are expanding globally to tap into the new markets coming up in Asia, Africa and Latin America. By 2015, we hope to derive 50% of our income from the rest of the world excluding GCC which will account for the rest.

We will capitalise on our low cost production in the GCC to export to these markets. We have a building capacity of USD1.3- 1.4 billion which means we can supply any project in the shortest possible time. We have enough machinery which means we can relocate and start production under eight months.

Could you elaborate on your manufacturing strategy?

Currently, we are operating eight factories in the UAE, Oman, Qatar, Egypt, Saudi Arabia and the US. Initially, our manufacturing activity was largely concentrated in the Gulf, but we are diversifying. We now have a plant in Holland. We are in the process of acquiring a company in Spain, which also has a manufacturing facility in India.

Additionally, this company has a contract in Morocco so we will establish a unit there as well. We bought a factory in Indonesia that will be converted into fibre glass. Our next move will be in West Africa, most probably Nigeria, which will give us a network to service the markets from North Africa to Sub-Sahara.

From our manufacturing facilities in the Gulf, we can service nearly 50 countries including Australia. But ultimately, we might need to get closer to Australia because it is a huge market. But the million dollar question is should we produce in Australia or in Indonesia or Malaysia where the labour costs are cheaper. Again, we have licensees in China and Korea. Whether we would like to start manufacturing in both countries depends on the products per se because both countries are expensive. In fact, we are seeing a lot of Chinese manufacturing shifting to Myanmar and Vietnam.

In the Gulf, labour costs are relatively low which means it is profitable to export from here to most parts of the world. But in Holland, for example, cost is always the deciding factor. Unless you have speciality products that you can afford to sell at a premium, it doesn't make sense to produce in high-cost countries.

However, we don't intend to shut down any of our plants. We are looking to complement our existing production with low cost labour and same quality of work so that the combined project is very competitive.

We are looking to expand in India because we believe that for the next 10 years, India will continue to be a competitive labour market until the middle class expands beyond 400 million.

However, even today, China is very expensive as a manufacturing location and unless you manufacture for China, whereby you get subsidies for exports, it is difficult to make money.

You can try to reduce costs by making your machines more efficient but industry is always based on the human element.

You can try to move your know how and expertise around but you need the majority of your technical support and labour to be in countries that can produce for you more competitively.

Also, we manufacture huge structures that are competitive only if they are made close to the market. When it comes to oil and gas and marine piping systems, you can package them in containers and ship them. However, if it is a 4-metre diameter pipe, there is very little you can do.

What are the guiding factors behind your acquisitions?

We are into the pipe business, so anything related to pipes whereby we can rebrand our products, improve efficiency and open more sectors excite us. I have products for oil and gas onshore, and the same product can be used offshore as well but the big engineering and EPC companies are reluctant to try something new. But if they understand a product and you can prove it is the same technology by rebranding your products, they are willing to take risks with you. Normally, when it comes to oil and gas and offshore marine, the accreditation process takes two to three years. But if you go for a brand which is approved and move the technology to your existing plant, within six months they can come and test the product. This means you can shorten the prequalification from two years to six months, which will give you an edge over competitors in terms of years.

Are you worried about competition?

Competition is always a part of life. The reason why people come to me instead of going to competitors is that we have had no failures. Also, irrespective of how big we are, we still look at every client in terms of one-to-one-relationships. I personally know most of our clients and so do my managers. They feel comfortable in picking up the phone and calling us if there is a problem and we are quick to respond.

In most cases, because of our worldwide presence, we can supply them locally so they don't have to be worried about big commitments. Our engineering partnership with Enoia means if they have a problem, we can even despatch people to solve it for them.

Currently, our sales are around USD 1.4 billion. In 2008, we were valued at USD1.6 billion. However, we don't discriminate between a USD 10,000 client and a USD 100 million client.

What is your advice to companies from the region nursing multinational ambitions themselves? How do they overcome negative perceptions and stereotyping about the Middle East?

In the Middle East, in general, we tend to mix business and personal interests. You need to separate the two to ensure that the business is on solid grounds and inspire confidence among the banks.

Moreover, even if your company is privately owned, you should never look at it as your own business. When we were planning to go public, the banks valued us generously and were willing to support us because they understood that we practiced corporate governance. In the long run, transparency and governance are very important. Ninety five per cent of the Middle East economy is based on privately owned companies but even in the Middle East, we are running short of funds for growth and expansion. Capital is not going to come to you unless investors feel you are trustworthy enough to give their money to you. At the end of the day, they are buying into your management skills and experience and will not invest with you if they don't feel comfortable.

The same thing applies to banks as well because they have burned their hands on several occasions in this part of the world.

Unless they feel you can deliver and be consistent with your budgets and they have access to your information, they are not going to be extending you money.

From our point of view, we believe that you need to shield your business from your personal lives. In most of our businesses, we have boards and the majority are non-executive board members. And if you have proven it and been practising a public style management for 10 years, anytime you want to go public, the market will feel very comfortable.

As a multinational company, what is FPI's approach towards managing the different cultures?

We have close to 40 nationalities in our group. Being Lebanese, I come from a country which has 18 religious groups. Co-existence is part of our life otherwise the country would have collapsed. If you can practice that within your own family, it is very easy to project it outside the house as well.

In Lebanon, everybody is a minority – irrespective of whether you are 30% of the population or five per cent, you are a minority. When you start regarding this multi-ethnic, multi-national and multi-religious groups as strengths rather than weaknesses, you are better prepared to deal with such environments, wherever and whenever you encounter them.

As a company, we sit in multi-national think tanks like Council of Foreign Relations, The Atlantic Council. When you sit on these groups, you get a different perspective on how the world is functioning and a visibility of where it is headed making it much easier for you to redirect your business.

When we bought this business in 1984, the price of oil was USD8/barrel and there was no liquidity but we could see the future. We invested 30 years ago and today, we have new set of opportunities to reposition the group. This doesn't happen in a lifetime.

Was the financial crisis a learning experience for FPI too?

I have been through the cycle of financial crisis three times in my life since 1975. During the recent crisis, our turnover went down from USD1billion to USD500 million but we were able to reposition the company in two years and stay in the black. It is not an easy task for a multinational company with many nationalities and thousands of employees to restructure in a short period of time. In fact, the changes came too fast even for the most intelligent of investors. Because we have been in the market for so long, we have the resilience and the mass to survive. But businesses that confused lifestyle and business realised they could continue with life style only at the cost of profit of the company. We never mixed the two at FPI so we were confident the business will survive no matter what.

The average age of our managers is 38-40 years old, so we are still a young group. Until 2008, the turnover of staff was under one and under half per cent. In 2008, everybody who worked for FPI was offered twice the salary because there was a need for this managerial style. Those who left us are now without a job as the packages they got are unaffordable these days.

We plan for three years to build a plant, another two years to operate it so it takes 5-6 years to start recovering your investment. Unless you have patience and forward planning, you should definitely not be in this business.

How does FPI approach innovation and R&D priorities?

We could not have achieved so much without understanding the market requirement. Sometimes, you can improve the technology in-house because it is about efficiency not product improvement. Very few companies here are serious about R&D. Mostly, they try to improve the efficiency of production and call it a new product which is not correct.

In fact, sooner or later, you reach a dead-end because production is always about machines and human beings. You need to have an open mind to try and look where the technology is available and then try to buy it.

You don't start everything as Greenfield project because then, you will surely run short of management skills. By acquiring companies with a history of knowledge and knowhow, you are buying product and market share, and most important, human expertise. Every product has a special niche and unless you try to bring in those experts to add experience to your existing people, you will simply wither away. You need to have new blood and ideas, so that you can keep the process going.

You don't find too many chemical engineers at the helm of a billion dollar pipe company and a global leader at that?

My philosophy is simple - you have to recognise that your knowledge is limited. The only knowledge that you have is to be a business manager with the technical background to understand what your managers tell you so that you aren't overwhelmed by their technical terms. You have to do your research and read to understand what they are telling you. In the end, you also need a captain to take decisions. Before that you have to do consultation with managers because everybody has to be aware of all the details. Their inputs on specific issues might be seen from a different perspective that will give you a solution. You need to work on your management team. You can buy products and technology but you need to have the skills to understand what you need, look for it and bring it into the package. I have taken business courses so that when somebody brings me a balance sheet, I know what to look for. I don't need to create a balance sheet from scratch. I am sure that my CFO, who is my school mate from Lebanon and went to Wharton, understands the balance sheet 10 times better than me.

With my background, I can understand when you talk to me about specific applications. So we tend to find the best in their fields and most of the time, they know better than me.

Are there areas where you believe the Group needs to focus more?

My son who passed away two years ago believed in Corporate Social Responsibility (CSR). In fact, wherever we go, we tend to work with the local community. Making money is fine but the community should not feel that your company is only interested in taking their money. Rather, you must re-invest part of it into social activity which benefits them. I believe that industry is an inalienable part of society, not a project where you walk in and walk out. For example, in Baton Rouge, we are working with the Mayor's office to support e-learning for underprivileged students. I believe that we can do a lot more with the Makhzoumi foundation, w t up 15 years ago. In Lebanon alone, we have 250,000 beneficiaries. Unless you re-invest into the society, you will not last for long.