

# The Counter Revolutionaries

by Anthony Stock

In 2003 SAI Global reported that the value of the Australian kitchen industry exceeded \$5 billion annually. SAI Global stated 'the kitchen industry is a component of both the new and renovation segments of the Australian building industry.'

Currently over 6,000 kitchen companies, that range in size from single operators to large corporate manufacturers and retailers, are engaged in the production, sale or installation of fitted kitchens.

A paper published by HIA Kitchens & Bathrooms, Past Growth & Future Prospects in 2003 quoted Australian Bureau of Statistics (ABS) figures, which confirmed that during 2002-03 more than 1.3 million dwellings (27 per cent) had undergone some kind of renovation. The ABS reported that the most common types of renovations carried out over the last ten years were kitchen and bathroom renovations.

Expenditure on kitchens and bathrooms amounts to 14 per cent of total expenditure on dwellings.

The HIA confirmed that the following numbers of kitchens have been installed in Australia:

**2001-02 - 434,000**

**2002-03 - 440,600**

The HIA estimate that the number installed in 2003-04 rose to 468,300 - a 6.3 per cent increase.

In issue no. 106 of Trade Link Connection, December-January 2004, Garry Lally the state manager for Queensland said, "If your business is already supplying products and/or services to the renovating sector, it seems you may be somewhat cushioned from the impact of a

slowing new homes market. If, however, this is not a segment that you have focused on historically, it may be time to see what trends are within this area."

With around 500,000 kitchens installed annually in Australia and even more bathrooms, the stone industry has been one of the key beneficiaries of the trend to spend heavily in these locations.

The kitchen bench top segment of the industry is one area where everything is up for grabs and some major players are making bold moves.

**"We are seeing a number of mass market builders now offering engineered stone as a standard inclusion – in lieu of laminate finishes. The quartz bench top lifts the perceived quality and value of their product, but at the same time they are paying less for that stone bench top than they were a couple of years ago."**

In the National News department we report that Harvey Norman Holdings are 'studying the feasibility of spending up to AU\$50 million on a manufacturing plant in Australia to underpin its investment in a kitchen bench top company.'

The media release confirms that 'Harvey

Norman wholly owns Tessera Stone & Tiles, which imports about AU\$40 million of composite stone bench tops each year from Caesar Stone International.'

Mr Kon Kalpou, Harvey Norman's Caesar Stone franchisee said local manufacture would remove exchange rate risks and freight and duty costs, which account for between 20 and 25 per cent of the imported products cost.

"We're seriously looking at it in the next two years, to have a plant here," said Mr Kalpou.

Mr John Skippen, Harvey Norman's finance director said sales were expected to reach AU\$100 million in the next two years.

## How Large Is The Pie?

Clearly, the vast majority of kitchens installed in Australia each year are furnished with bench tops covered in one material or another.

Granite is the material par excellence. Roger Metcalf of Gosford Quarries, Victoria explained, "Before 1980 granite was primarily used on commercial projects like reception desks in hotels and offices. The popularity of stone as kitchen bench top material opened a new window of opportunity for local processors, but imported granites were used mostly in preference to the reasonably limited range of local granites."

Secondary processors flourished with the popularity of granite bench tops. They had access to an enormous range of different colours and patterns - either importing themselves, or dealing with local wholesale suppliers.

Local primary producers only ever secured a small part of that market. Whether by design or default it appears they mostly concentrated on traditional stone applications, such as monumental, and commercial cladding and paving. It remains to be seen whether new directions in the bench top market will effect the local primary producers at all - other than the fact that stone purists are not the greatest fans of the engineered quartz materials.

CDK Stone, as one of the major suppliers of machinery to the trade in Australia, has experienced significant changes in the number and type of machine enquiries they receive, particularly in the last twelve months, and particularly in relation to bench top production.

Managing Director Russell Santon said, "We're busy with new machine enquiries of course, but in addition we have clients asking us for more sophisticated production lines and systems. Many of our clients have grown with us over the years and added new machines, and updated their equipment as the market and their own finances permitted. But now we have enquiries for "turn key" installations - where we start with a blank canvas and design and offer high output production lines with optimized loading and unloading, automated processing, and low rates of operator attendance for high rates of production. This new approach to how the industry produces bench tops has the potential to re-shape large sections of our trade, and we expect a lot of change in the next couple of years."

The reality is that the engineered quartz stones are the driving force behind these changes.

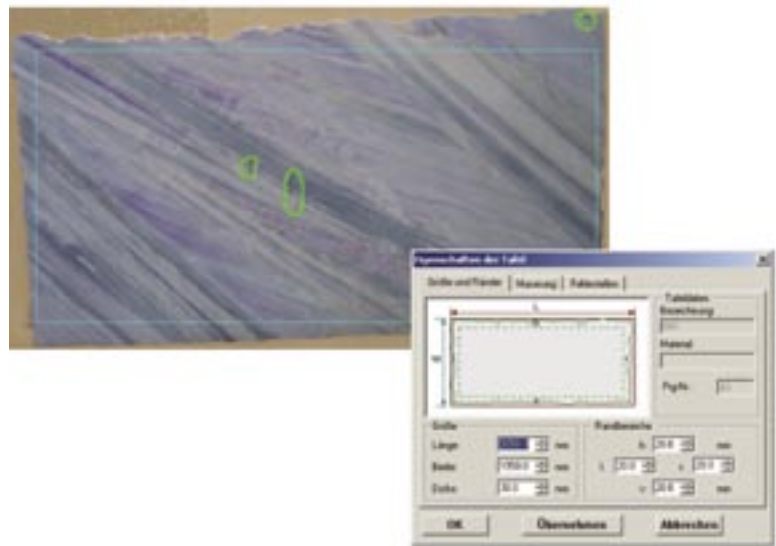
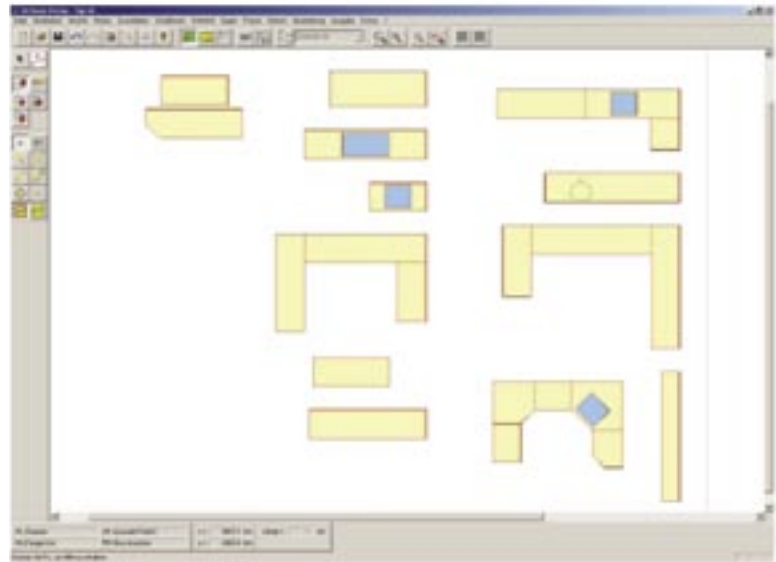
In the absence of absolute hard data we can "guesstimate" that granite bench tops made up perhaps twenty (20) per cent of the total bench top market at the peak of their popularity only a few years back. Indications we have today are that stone (granite and quartz) bench tops have something like a thirty-five (35) per cent market share now.

For sure, engineered quartz stone has taken over a large chunk of the granite market in the process of this market expansion, but credit where credit is due, the increase in the overall market share for stone bench tops, in such a short period of time, has been impressive to observe.

So why has engineered stone become so popular?

The availability, reasonable cost and uniform appearance of engineered stone are factors.

Consistency is a strong selling point. Builders and specifiers can rely on quartz stone products not to vary in colour and / or pattern, and there is no denying the attraction of colour ranges actually developed



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to match design and decorating trends.

But perhaps, marketing and brand-name awareness are the biggest factors.

Russell Santon observes, "We have seen the main quartz suppliers bring to bear a specific marketing focus never before seen in our trade. More funding, more expertise, and more purpose - and no one can deny just how successful these marketing strategies have been."

The question is: Where to next? We don't expect the serious quartz suppliers to rest on their laurels - not when sixty-five (65) per cent of the bench top market is still "non-stone". It's fascinating to consider and those in the trade have been impressed by the market share gained and the speed with which it was secured.

For sure price is going to be one factor in securing more market share. Traditional bench tops made from laminates are considerably less expensive than stone finishes. While the benefits of a stone bench top



Above: Envisage engineered stone by Caesar Stone

are imminently marketable, price is still a factor in many situations. Caesar Stone's proposed Australian manufacturing plant should result in reduced supply prices. On the other side of the equation production costs will certainly come down.

According to Russell Santon, the situation has developed rapidly over the last twelve months.

"We are seeing a number of mass market builders now offering engineered stone as a standard inclusion – in lieu of laminate finishes. The quartz bench top lifts the perceived quality and value of their product, but at the same time they are paying less for that stone bench top than they were a couple of years ago."

For this trend to continue – resulting in increased sales of quartz – several factors come into play. A new approach to stone bench top manufacturing is becoming evident.

Traditional production methods are being questioned. Materials handling and specific loading and unloading functions are being studied. Automatic functions are more critical than ever, and more sophisticated machines with higher output are not just the focus of the very large stone factory – they are becoming integral components of an emerging type of specialized bench top processor.

Aggressive marketing on the part of the quartz suppliers is targeted at securing increased market share. The demand created must drive expanded production capacity in the trade, and the requirement for higher – and more economical - output can only be satisfied by sophisticated and highly automated machines and systems.

So, what will one of these new production facilities look like and how will they operate?

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Currently engineered stone, natural stone, timber and other materials account for 35 per cent of the bench top market. The key to continued growth lies in penetration of the 65 per cent share enjoyed by laminate suppliers. Featured Finelines by Caesar Stone

According to Russell Santon customised plants of this type already exist in Northern Europe. "The artisan mentality of the stone trade in countries like Italy and Spain doesn't support the type of manufacturing we have seen in Holland and Belgium. There we have visited factories that don't process cladding, or paving, or furniture generally, certainly no monumental or civic works – just stone bench tops, at five or six kitchen tops an hour."

"Working with our existing machine suppliers - GMM, Comandulli & Thibaut - and with these very same production engineers, we are developing automated plants with optimized sawing, edge polishing and CNC equipment – specifically for bench tops. High output, low labour content – designed for efficiency from the ground up."

The manufacturing process will be enhanced outside the factory by the use of electronic templating systems, and inside the factory by increased use of Cad/Cam and sophisticated software programs for scheduling production, and for tracking orders. We are just seeing the emergence of these systems in Australia now, but new systems will be simpler and have commonality with production software to provide more integrated production control systems.

Russell explains, "In the near future we will see mass production in our trade for the first time. We can't say that these factories will never process natural stone, but the reality is that all of these automated systems work more efficiently when only processing quartz materials."

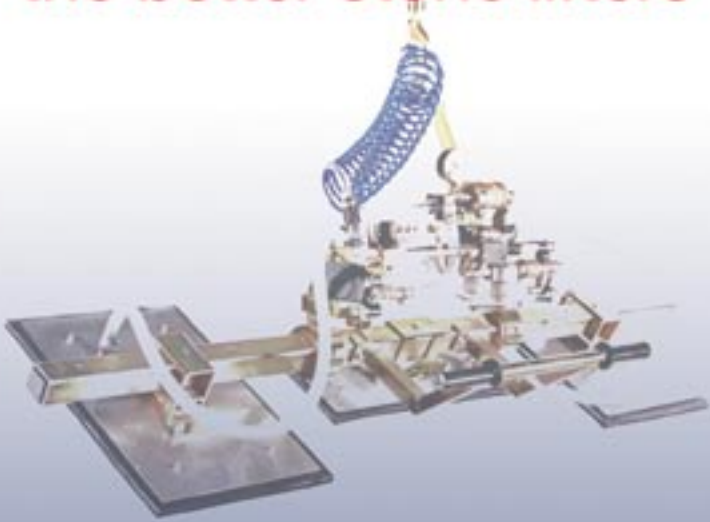
Russell Santon concludes, "There's a lot of change in the market at the moment. Local primary producers don't really feed the granite bench top industry, so the effect on local producers will not be so significant. For granite importers and wholesalers – including ourselves – there will always be a market for natural stone, but the reality is that the size of that market is now significantly less than it was, and we don't see that changing in the short term. Most secondary producers seem to be busy at the moment, and whether they process quartz or granite, most are content just to be busy. What will be most

# Manzelli

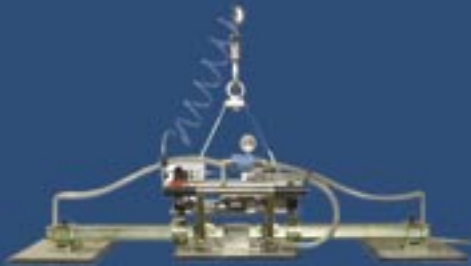


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interesting, is which companies emerge to take advantage of expansion of the quartz materials in the bench top market."

"I suppose if you ask again in twelve months time, we'll all know."

If Russell Santon and Kon Kalpou are right, it would appear that some kind of revolution is under way which will change elements of our industry significantly.

#### Key Drivers

Andrew Dixon, the sales and marketing manager of Caesar Stone, provided a glimpse of the future from Caesar Stone's perspective during a brief discussion.

When asked about the potential for engineered stone in Australia, Mr Dixon commented, "Our intention is to secure, over the next three years, a greater share of the laminate market. The emergence of more sophisticated processing of engineered stone, will produce reductions in labour costs that will reduce the cost of engineered stone and accelerate the decline in consumption of laminate materials."

Andrew Dixon is certain that flexibility in regard to colour and product branding are prime factors in favour of engineered stone.

"Once upon a time, consumers or builders turned to a stonemason for advice about bench and counter top material. Caesar Stone is a branded product, that is supported by a powerful marketing campaign that brands and endorses the products chief advantages."

"Significantly, we can change colours and adapt the product to match prevailing colour trends. Granites are predominantly dark; trends in Europe and other markets are tending to light colours. Homes are being built which are spacious and open plan, so the kitchen furniture is viewed as an integral part of the colour scheme."

"Consumers are obviously aware of colour trends and right now the trend is to lighter colours."


Engineered stone is a manufactured product, so Caesar Stone can produce colours that reflect prevailing colour trends.

Andrew Dixon continues, "We listen to our customers and we understand their needs. Therefore, we are developing some unique products. Our materials have received appropriate ISO accreditation and at Harvey Norman, Caesar Stone is sold with a ten year quality warranty."

"Our objective is to be the most differentiated product on the market."

Will Caesar Stone open a manufacturing plant in Australia? It certainly appears to be on the cards. The interest exhibited by so many of CDK's clients is a clear indication of prevailing market trends.

Local producers and importers, of granite can console themselves with the knowledge that there will always be a market for high quality natural materials. However, new engineered stone products, may in time threaten other segments of the market for natural stone.

Natural stone will always survive and endure, but it's time to market all the key attributes of stone as aggressively as the industry's competitors are promoting alternative materials. 

*Images courtesy of:*

*Sekon Software GmbH, Germany.*