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focus



Skellerup— More than just gumboots

An interview with
David Mair, CEO

For most people if they know anything about Skellerup at all it's that they make the iconic Red Band gumboots. There is, however, a lot more to the company. Skellerup designs and manufactures components and products that are used in a huge array of industries including water, construction, marine, sports fields, healthcare, automotive, dairy, and forestry, just to name a few. The company has operations around the world including New Zealand, the United States, China, Vietnam, and Europe.

Over the past few years Skellerup's share price has been one of the strongest performers on the NZX. **We talk to CEO David Mair.**

“...when many people think of Skellerup they think of Red Band gumboots...”



I suspect when many people think of Skellerup they think of Red Band gumboots and maybe milking liners. Can you explain what Skellerup does and what the company’s core strengths and capabilities are?

That’s an interesting question. Over the last seven years we’ve spent a lot of time educating people, both internally and externally, about why Skellerup exists. Why it’s hard to explain is we don’t have a kitbag of products that we’re trying to sell. What we do have is a deep understanding of the materials we use – polymers, i.e. black rubber, silicone, plastic, and how you combine those to create products. We then use this knowledge to address specific problems, or provide key components in someone’s system.

We provide solutions to a lot of OEMs – the term means Original Equipment Manufacturers. OEMs are large system builders – that could be a car for example, or a washing machine. Take a washing machine. To stop them overflowing you need pressure switches. A pressure switch uses a combination of rubber, non-ferrous metal, fabric and plastic. And it needs to perform tens of thousands of times without failing. In terms of the whole washing machine, it might only cost 80 cents but if it goes wrong it’s massive. We use our deep material science to solve our OEM customers’ problems, for example, to reduce the failure rate in washing machines.

We also take complexity away from our customers. For example, we supply the cartridge to Moen tapware. I think we’re the sole supplier now. In the United States pretty much every house uses a Moen tap. Inside each tap is a cartridge. That cartridge uses a combination of rubber and several plastic components. It’s quite tricky to combine it into a single product. Moen used to have a plastic supplier, a rubber supplier, and a brass supplier, and they assembled it themselves.

What we now do is we supply the whole cartridge preassembled, already having been tested and passed the required potable (drinking water) water standards. Moen is growing strongly in China and parts of Europe, which can have different standards. There’s not one standard for potable water worldwide. We design products to meet the required standards in each market.

So our capability is the combination of a deep material knowledge, coupled with an ability to innovate, solve problems, and create essential parts in ways that individual suppliers can’t. We typically do this with a low capital model where we effectively ask the customers to pay to develop the solution. Sometimes it’s over US\$1 million of tooling they pay for. We don’t have a written contract, but it’s just as good.

You joined Skellerup in 2011. How different is the organisation and business model today versus when you joined the business?

I became CEO in 2011, but I had joined Skellerup's board earlier in 2006. Back then Skellerup didn't really have a clear business model. It was treated by many customers as a contract manufacturer, and internally it had contract manufacturing thinking. It opened up its manufacturing processes and gave away a lot of value. There were some very clever things being done, but we just showed people how to do it. That was the old model back in 2006.

The biggest change has been in the attitude of the people. Our staff started to understand the value equation – “we can do things that our customers and competitors can't.” That's made people more commercially astute. They understand we don't necessarily compete; we can eliminate existing suppliers.

We've brought a structured approach. We've invested in a real product development team. In the past we just made another milking liner or another bit of tube because some customer asked for it. We didn't really check if we were going to make money out of it or not. It was just the bigger the better, the more the merrier.

Another focus has been pricing. Kiwis, for whatever reason, often don't study pricing or understand pricing. In other words we talk about price but not value. To me pricing is the CEO's role. It's not delegated to the marketing or sales teams. It's one of the most important things to help people express the value of the solutions we provide. Of course, we talk about value with customers.

How do you go about changing the attitude of staff?

It comes back to creating a purpose. There are five parts to that – customers, employees, suppliers, the community we influence – all the people involved in the first three, and shareholders.

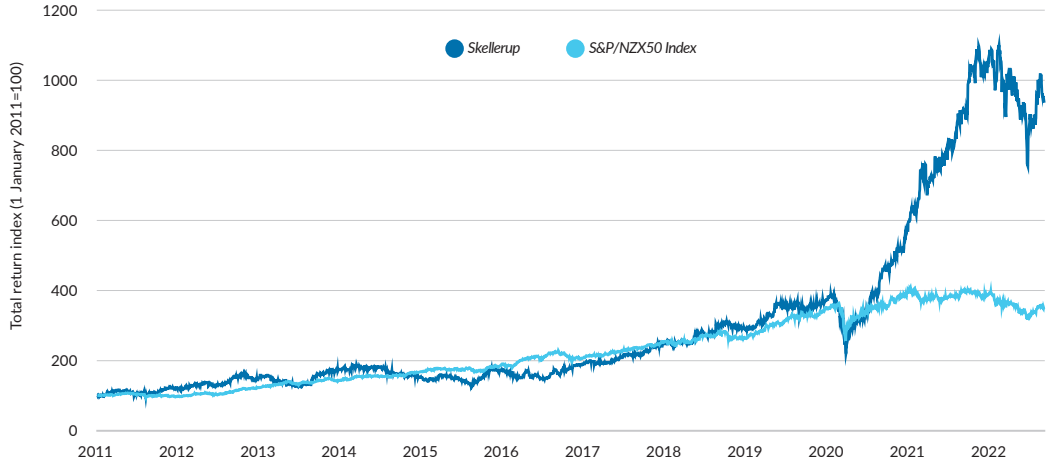
To start you need a true customer focus. People often get confused. They say, 'the customer asked for airfreight, we have to airfreight it', but everything needs to be a balance. Agreeing to airfreight might be good for the customer but may be bad for us. True customer focus is very good for the customer and also very good for Skellerup. We want to be the best suppliers to our customers, we want to be unique, we want to eliminate all the other suppliers.

Then you have employees. When I think of our employees, I think of our augmented staff, in other words their families, because we have a direct influence on their families. But it's also a seesaw – good for Skellerup and good for the staff.

One thing we haven't shouted about in Skellerup, but are proud of, is that we've moved a lot over the last three years in wages particularly at the bottom end. If you're a family of four, with one person earning, how could you live on the minimum wage? Across all our locations we've moved pay so we're well clear of the minimum wage, and well clear of the so-called living wage (both less than \$50,000). For example, the median wage in Christchurch is around \$53,000 per year. We want to see the minimum anyone is paid in our Christchurch operations at \$60,000. It applies around the world relatively the same.

For suppliers we want to be a demanding but fair customer. We want to be the best customer to our

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Source: Refinitiv, Forsyth Barr analysis

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suppliers. We want our suppliers to make money; we want to understand how they make money, where they add value, and pay appropriately.

Within all that you have people. When we talk about customers, we don't talk about Moen, we talk about Joe Blogs at Moen, or about Chad or Monica or whoever. We're talking about a collection of people, including our staff's families. Those are the people we influence, our community. This is why most people get out of bed each day. They love to be part of the community, work is fun, they feel part of a winning team. I'm not saying everyone is like that, but more and more are. Also, as part of our place in the community we support organisations like I Am Hope (Mike King), and Pink Band Gumboots.

And the last one, we can never forget them, is shareholders. Shareholders are putting their valuable capital at risk, they're there to help the company when/if it gets seriously in trouble, and they deserve a good return on that. I'm a shareholder. I think about shareholders in every action.

Purpose drives good decisions. I'll give you an example. When supply chains were tight we were struggling to supply a key customer. They decided they were going to airfreight. It was going to cost them over US\$100,000 but they couldn't get supplies from the Philadelphia port on the trains and to their warehouse in Wisconsin. Jane, who's in charge of marketing/customer service, called the freight forwarder and told them they were about to lose the business because the customer

was going to begin organising it themselves. She put the acid on them and within days our containers started moving to the customer. I asked Jane why she did that and she said, 'you're always talking about purpose, and say we need to be demanding but fair with our suppliers. I wanted them to understand they had a really big chunk of business at risk. And they needed to know, in case there was some way to solve it'. And they did and the business continues.

When you talk about purpose and culture, how difficult is that to implement across a global organisation within different countries and societies?

I'd love to be able to have a really deep answer to that. The reality is we talk about it with our staff. Of course I can't speak Chinese, so when I go through this with Martin Lee he calls his team together and goes through the same thing. Interestingly, we have made a lot of progress in China with our suppliers, in terms of the improving requirements for environment and things like that. I think the principles can be translated to different locations around the world.

One thing is simple repetition until people live and breathe it. You can get them to parrot, 'true customer focus is good for the customer and good for Skellerup', but then you'll catch a situation which is clearly not good for Skellerup. They haven't internalised it. Edicts are not a way to run a large business. You need people to internalise it, like Jane and Martin; they live and breathe it.

You have done a number of successful international acquisitions. If we look back over New Zealand's corporate history there's been many disappointing acquisitions. How has Skellerup bucked this trend? How do you go about deciding on what is a good acquisition and integrating it effectively?

We know a lot of these businesses. Talbot I've known for more than ten years. We knew their capability extremely well.

A more interesting example is Silclear. Our Agri division makes black rubber tubing. Arguably silicone tubing is better but we didn't really make it at all. We thought we could start from scratch or make an acquisition. We understood a bit about the science; it's not too different to black rubber. We analysed 13 companies worldwide and we concluded three were high quality. Silclear came out on top.

Then we got to know the owners. You've got to have willing sellers. They'd spent an awful lot of time fixing the company. It'd been hard work, and they'd identified another opportunity so they wanted to sell. We happened to turn up at the right time and knock on the door. We get the fundamental analysis done quickly, but the key thing is the fit. We're sticking very close to our knitting.

Looking forward, our focus for acquisitions is really in the United States where there are more opportunities. That's one of the reasons why I'm now excited to start travelling.

How optimistic are you on the outlook for Skellerup? What does success look like on a five year view?

I'm very excited about Skellerup's future. The earthquakes probably added five years to our journey. That said, our old Woolston site was a huge constraint to the growth of our agri business. In some ways the earthquakes were a very good thing for the agri division's future. Now, and over the past two or three years, we've really started to attract more and more good people. It's probably been helped by Skellerup's success. We do now have collectively a much stronger will to succeed.

There are a number of ways you can think about future success. Today we're roughly a \$1 billion market cap company. In my view, it's harder to build the first billion than the second billion once you have a proven, working strategy. Scale and size helps. From my perspective I'd love to see a \$2 billion business and a share price well over \$12.

But those are just numbers. For Skellerup to reach its potential we need to get bigger in the US because of the size of the opportunity. That's where a lot of our focus has been. We want to see people reaching their potential. You can't necessarily measure that in a share price, but I can see it inside the business.

Why am I positive about the next three years?

Since I've been here we've had earthquakes in New Zealand, floods, COVID, ongoing shutdowns in China, freight issues and more. You start to wonder what else is going to come along.



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“... there is a lot of focus on climate change and environment. We take that very seriously....”



But it almost doesn't matter. I'm confident we have a team that will solve any issues.

We now have consistency in our earnings. We may have a bad year, things can happen in six months or a year that you can't control, but there's a momentum now in the business. That's reflected in the attitude of the people in the organisation. There's a lot more positivity about what we're doing, so that's great.

Are there any last thoughts or comments you'd like to share with our investors?

One is, there is a lot of focus on climate change and environment. We take that very seriously. We've now appointed a special committee at the board level to review what we're doing. It has to be genuine to the company and to the employees, and consider the community in which we operate. Decarbonisation seems to be the main focus, but we also think it's important to consider some of the materials we use, which may not be good for people. We're working very hard to eliminate VOCs (volatile organic compounds). We're having a good look at lead. Lead on roofs that oxidises isn't good for potable water. We are seriously considering going lead free. I want to be proud of the company's contribution to society.



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