



**"INNOVATION IS THE CRUCIAL
DIFFERENTIATING FACTOR"**
INTERVIEW WITH THE MANAGEMENT TEAM

AN INTERVIEW WITH JÖRN CLASEN AND CHRISTIAN REH.

As a technical materials specialist, Krempel is increasingly in demand when it comes to anything to do with energy and mobility, topics which are right at the top of the agenda all over the world. In this interview, managing directors Jörn Clasen and Christian Reh explain how the company is equipping itself for the three most important megatrends, how it succeeds in finding the right employees to achieve this objective in a highly competitive field and why it is very open to acquisitions.

Krempel is one of the companies often referred to as “Hidden Champions” – companies at the top of their game on a global basis in their respective segment, but which are otherwise somewhat incognito. Does it bother you that people only see Krempel for what it really is when they take a closer look?

Jörn Clasen: No, not at all. We are delighted that people view us – and justifiably – as part of this-renowned category. But I must say, very clearly: To our customers, we are anything but “incognito”. Companies all over the world value us as a very important development partner – and some have done so for decades already.

If you had to sum it up: What does Krempel do?



Jörn Clasen: We are a technical materials specialist and we focus on electrical insulation materials, special films and fibre composite materials.

Christian Reh: There is no single product in the world that only we could manufacture. But there is probably no other company in the world with such an extensive electrical insulation portfolio as ours. We insulate using special papers, plastics and fibre composite materials. Only Krempel is able to offer such an extensive range of applications.

Initially, that doesn’t sound particularly spectacular...

Reh: It’s massively deceptive. Based on their value, our products may be a C product in our customers’ eyes, but based on their functionality, they are actually an A product. Product failure is out of the question. If the insulation does not function, an electrical motor will simply go up in flames. Or a large transformer will explode.

Clasen: Our customers’ applications are so challenging or of such systemic importance that their functions must be safeguarded to the greatest extent possible. Everything we do is all about protecting life and technology. Our claim sums it up succinctly: “Engineering Confidence”.

Your products are often energy-related. Is it noticeable within your company that this topic is right at the top of the agenda, practically everywhere in the world, for environmental reasons if nothing else?

Clasen: In fact, huge opportunities are presenting themselves here – and we are right at the centre of them. For us, three fields hold a particular fascination: energy transfer with respect to electric power, e-mobility and the topic of weight-optimised materials, in particular, but not exclusively with regard to energy-saving construction methods.

Let’s talk about the first point initially: How is the market for the transfer of electrical power changing?

Clasen: On the one hand, the sheer quantity of electricity required is growing. Overall, the need for electrical power – globally – is increasing significantly, causing a commensurate rise in the demand for large transformers and relevant insulation solutions. Many people are still not yet connected to the electricity grid. On the other hand, it is also about the type of energy production, which is increasingly decentralised.

Let's take wind energy as an example. Materials produced by Krempel are already today used as an insulating material in wind turbine rotors to offset the thermal strain. Wind energy alone – on a global basis – still has enormous growth potential. This energy is seldom created where it is required. Small transformer stations are used for distribution to users; these are located in residential areas or industrial areas and are insulated using our materials.

From Krempel's perspective, what are the particular challenges when it comes to e-mobility?

Reh: Fundamentally, the electric motor in a car is no different from an electric motor in a larger piece of construction machinery, of a type which has been in existence for a long time now. However, unlike in construction machinery, the insulating material should weigh nothing in a car, because every gram is at the expense of the vehicle's range and the technical specifications must nonetheless be fulfilled. That is a very difficult challenge.

It's also a challenge that needs to be resolved very quickly...

Reh: We are creating the best conditions for this to happen. Ten years ago, Krempel was already getting involved in e-mobility for vehicles. We were pioneers, both with our timing and our relationship with the automotive and supply industry. We are always one step ahead of the other market players in this field. It's a wonderful starting position for us, as e-mobility is clearly gaining traction now.



Do you see Krempel becoming a kind of automotive supplier?

Clasen: No, for the foreseeable future we are definitely not going to become a classic automotive supplier, quite simply because the quantity of insulation material used in the construction of a car is much

smaller than that required for a large electricity generator. Nonetheless, we must of course also fulfil the strict certification requirements of the automotive industry and be in a position to implement very challenging logistical concepts. Other product areas also benefit from expertise gleaned in this way.

You have previously said that saving energy by reducing weight is an interesting growth area. Does this exclusively concern e-mobility with cars?

Reh: No, in general, weight is a very important element in transporting people and goods. Both a significant amount of energy can be saved and CO2 emissions can be reduced using weight optimisation in one fell swoop. Previously, a lot of steel was used in construction, then the trend changed to aluminium. Now, fibre composites are the buzzword. This material can still generate enormous potential savings as it is so light and also so flexible. Currently, metallic metals still dominate aircraft construction – this will change however, particularly as composite materials also offer a lot of other options when it comes to tensile strength.

How significant are these composite materials for Krempel today?

Reh: We are still a relatively small player when it comes to fibre composites, but we have a strong specialisation in products which offer a certain level of ballistic protection. For example, this is of interest for aircraft construction, particularly for bulletproof cockpit doors. We have been developing our expertise in this area over the past few years in a very targeted manner. At our factory at Kuppenheim, Germany, we are currently making very large investments in additional production plants. Once again, it will therefore be possible for us to make a quantum leap in production quality and extending the product portfolio.

Clasen: You can see that the markets are moving in our direction in certain respects. But we must of course use these opportunities very wisely. I won't make a secret of it: it's ambitious. No other company has the exact same set-up as ours. But for many of our products, there are six to ten competitors. Competition is very intense. Sitting around waiting is simply not an option for us. That's why it is so important to be in close proximity to the customer, not only at the point of purchase, but also at the start with our customers' development teams – wherever they are in the world.

How can you be sure of this?

Clasen: I'd like to take it a little further: we have defined the three principles which we consider to be essential, both for our business and for the opportunities they afford us. These are innovation, globality and competence. Everything we do is based on these three principles. Let's take innovation. We are a family company with a global operation but with strong roots in Germany in the form of significant production locations in a high-wage country. We will never be in a position to be the cost leader. Innovation is therefore the crucial differentiating factor. Against this backdrop, we are therefore currently seeking highly-qualified engineers who wish to conquer new territories with Krempel with energy, foresight and vigour, and who can operate on an equal footing with our customers' development teams.

Reh: But of course, innovation is not only about people, it's also about the organisation itself. We were previously structured based on business division with regard to development. The result was that the business divisions concentrated on further developing products with existing customers. That's great, but it can only ever be one aspect of innovation management. Previously, each business division or subsidiary more or less looked after itself, but we have developed our company into a matrix organisation which can and must act on a global basis. This involves a considerable change process.

What does that mean in concrete terms?

Reh: We have done two things in particular: on the one hand, we have developed an independent, cross-functional innovation department which has the explicit remit, as well as the necessary capacities and resources, to think outside the box and with great foresight, independently of specific customer enquiries. We are talking about time periods of ten to fifteen years here.

Clasen: On the other hand, we have set up six Competence Centers which are in effect companies in themselves and which have a heavy focus on specific core competences, for example on paper technology or composite materials. The USPs differ significantly from one another. Sales activity, however, is systematically customer-oriented and aligned according to different industry segments. We focus on a higher level of specialisation:

the sales function may demonstrate its strengths when creating and maintaining customer contact or in commercial development. Developers and technicians are able to concentrate on their respective technological expertise. However, we don't want the sales and development functions to work in separate silos, but rather we wish to give them the opportunity to work together as a strong team in front of the customer. We therefore have the best possible opportunity to be part of customer developments at a very early stage.

So is Krempel predominantly reliant on organic growth?

Clasen: Our ability to generate larger spurts of growth under our own steam is subject to many constraints. Simply because we have developed a new insulation material doesn't mean that the market for transformers will grow dramatically. This will not change a great deal in the future. However, we are very interested in company acquisitions to broaden our portfolio and our competences. We are not a private equity company. But a buy-and-build strategy is the cornerstone of future growth for us. We are very active in this area and we are looking at a wide range of companies. But it must always be a good fit for us and the price must be right. At the moment, the market is rather overheated due to the high level of private equity activity.



Reh: For Krempel, this is not a new strategy; we do have a certain level of expertise in this area. With the exception of our location in China, all of our subsidiaries, including those that are abroad, were acquisitions which we have then very successfully integrated into Krempel. This particularly applies to our Brazilian subsidiary, in which we previously only owned 60 percent of the shares. In the summer of 2019, we took the opportunity to purchase the remaining shares. The subsidiary was then renamed from DMI to Krempel Brasil Ltda.

What view do the shareholders take on such fundamental questions as company acquisitions?

Clasen: Across the entire company, including the new organisation we have previously described, we enjoy a very coordinated stance – from the shareholders through to the works council to the Management Board. Everyone is pulling in the same direction. This was the case recently when we introduced our new Corporate Design.

When it came to its logo, Krempel has not found an evolutionary approach – rather, it's found a revolutionary one...

Clasen: That was clear cut. However, it expresses our ambition and core competence. Together with the "Engineering Confidence" claim, it creates a very consistent and globally comprehensible standard message. Of course, the new Corporate Design will not immediately ensure that we will sell more products. But there is no point in hiding our light under a bushel. We are due a little self-confidence, with our structure and achievements. The old logo didn't do justice to this.

How has Krempel's financial development been over the past few years?

Reh: If we remove certain special influences from the equation – particularly the short-lived boom in solar energy, then Krempel's growth can be seen to be consistent and solid. Our balance sheet is extremely solid. As a result, we always have the opportunity to react and to invest as soon as opportunities present themselves.

Clasen: Although our business is not particularly cyclical, we cannot disconnect ourselves from the wider economy. For this reason, our turnover will probably end up more or less at the same level as the previous year when it comes to sales. But for us, this is perfectly acceptable, considering the economic environment. Our shareholders, i.e. the successors of the founder August Krempel, are interested in very sustainable growth, not in short-term results that would enable liquidity to be taken out of the company. Krempel takes a long-term approach. And if a company has had the ability to build on almost 150 years of market experience as Krempel has, it can safely be assumed that it has probably done something right in the past.

Sustainable growth is largely dependent on finding the right employees and creating loyalty. What does Krempel do in order to achieve this?

Clasen: If we wish to benefit from significant participation in the three megatrends I outlined at the beginning, we will need even more well-trained employees than we have today. An important asset: Krempel has always placed particular value on in-house training, particularly in the specialist fields in which our core competences lie. For example, every year we train up process mechanics, paper technologists and plastic technicians at our locations, who we then employ to meet our own requirements. The chances of being taken on by the company are therefore very high. Krempel has a very good reputation at our own locations as a company that provides training. It is not so simple in the highly-qualified field of engineering, particularly when it comes to our headquarters in Vaihingen an der Enz. Here, we come up against Porsche, Bosch, Mahle and other well-known companies.



Does that mean you have to work harder to convince people?

Reh: We do well at this. That's because we have a very cogent argument on our side: Because our company – compared with the others we mentioned – is very manageable and lean, with around 1,200 employees, committed staff members are quickly given relatively high levels of responsibility – which comes with a corresponding freedom to make decisions. In a large company, there are surely development themes that are just as interesting. But employees are still just a small cog in the works. With us, after a short period of time we will often tell an employee: you're now responsible for this project, or this future project. This creates high levels of job satisfaction and fulfilment at work. It means that when we get our employees on board, they are very keen to be there and they stay with us for a very long time. That's a good sign.



KREMPEL – A BRIEF OVERVIEW

As a leading technical materials specialist with a market presence dating back almost 150 years, Krempel is increasingly in demand when it comes to the energy and mobility topics which are of top priority worldwide and within the industry. The company focuses on electrical insulation materials, fibre composite materials and special films. These products are used in energy production and distribution, for pioneering solutions for e-mobility, aerospace, railway travel and medicine and electrical technology. Effective protection of life and technology always play a central role. In the financial year 2018, the company achieved turnover of approx. 170 million euros. With approximately 1,200 employees, 8 production locations and more than 60 agents, Krempel has an international presence. The export quota is just under 70 percent.

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