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After acquisition by Koch, Invista stays the course

It's hard to imagine the carpet industry without DuPont, but that venerable company essentially exited the business last year when it sold Invista Interiors, formerly DuPont Flooring Systems, to Koch Industries for around $4.4 billion. Koch, widely known as a commodities chemical giant, ended up with one of the best-known brands in the industry: Stainmaster.

The industry was speculating as to what impact Koch would have on the brand long before the deal was completed. Now that Invista and Koch have gotten a chance to know each other better, *FCW* editor Kim Gavin recently spoke with Invista Interiors' president, Alan Wolk, and Steve Griffith, vice president of residential flooring, to get the lay of the new land.

Sales in '04 vs. '03 — what have you seen?
Wolk: We're up significantly vs. '03. We've seen the market increase in virtually all segments, except for transportation. We are up against the market, and that's on the strength of our brands and aggressive marketing. Things are going well from a market standpoint.

Costs are out of bounds, which has been very difficult for us and for the whole value chain. Different places in the chain have passed them to the ultimate end users, but different places haven't been able to pass them.

Have you seen any impact on demand?
Wolk: There's been no demand destruction at this point. The composite market is up 6 percent year to date. Could it have been up 8 percent? I don't know.

Griffith: Carpet is undervalued because there's not enough differentiation in carpet. The run-up in raws and subsequent run-up in carpet hasn't destroyed the value because the consumer is willing to pay more for flooring; they do it every day with hard surface. That's part of the reason you haven't seen any loss in demand.

What do you see for raw material costs down the road? Does oil go back down to what we are used to as normal levels, or have we shifted that paradigm?
Wolk: In 1973 oil went from $12 to $25 per barrel, gas went from $0.25 to $1 a gallon — a fundamental sea change. I don't think this is another sea change. This isn't the natural gas spike of 2001, where it went from $2 to $9, then back to $4. If you look at natural gas prior to 2001, it averaged $2.40 per million BTUs for the prior 10 years. It will not average $2.40 for the next 10 years. With the desire by utilities and manufacturing plants to run cleaner, natural gas has taken the place of coal. The demand is higher but the supply hasn't changed because the pricing had been so depressed. We're not in an environment that we're months from going back to a more normal number, but we aren't forever where we are, either.

If I had a crystal ball: We'll see $25 oil again, but it won't be next year. It's going to be expensive for the next year or two.

What has the acquisition by Koch meant for Invista and for the industry as a whole?
Wolk: It means a lot of good for Invista. We have owners who are committed to this business. Our prior owners obviously weren't as committed. We compete for capital, growth and funding in our business against a paradigm of making money as opposed to always looking over our shoulder to see if the electronics business was going to get funded and we weren't.

Griffith: We were the history of DuPont as opposed to the future of Koch.

Wolk: That's a good way to say it. Koch bought these businesses to grow and diversify its company. It also believes its management capability and operating capability could add value to the company. What has it meant to my management team? I think we've learned a lot about running a business with an entrepreneurial spirit. We're making better decisions, faster decisions, and we're making them completely focused on profit and adding value.

Griffith: When you're bought by someone, you worry about being redundant because it's a personal risk issue. What I have found is we're absolutely complementary. We have learned so much from Koch about entrepreneurialism. On the other side, [Koch] is a sponge, learning the whole marketing side of the business.

Wolk: Is it only good for us, or is it good for the value chain? What's good for us that isn't good for the value chain ultimately isn't good for us. I spent the six months prior to the acquisition convincing customers that Koch wasn't buying us to commoditize us — and that the brand wouldn't be dead in three years as some executives from certain mills talked about. There was an analyst who said the fiber producers are dead now with the demise of DuPont and that the brands would go away. I'm here to tell you that our brand is stronger today than it was six months ago.

Griffith: Early on we had a discussion with [Koch] about brand vs. commodity business. Our new CEO said that it's the best in the world at running commodity businesses, but it doesn't mean it likes it. It's hard work to be successful running a commodity business. Koch is very interested in how to add value and to look at the kind of returns you get other than consolidation and taking cost out.

Wolk: We have taken a lot of costs out, but the commitment to the brand is stronger today than it's ever been.

We've seen mills go deeper into mill extrusion. How has that impacted Invista and the industry at large?
Wolk: This is a most interesting industry, strategically speaking. There aren't many industries where your most important customers are also your most important competitors. The reality is, this is a three-billion-pound business or more. If that business grows at 3 percent per annum then someone has to put in 100 million pounds of capacity every year. The growth requirements and the capital requirements are so high that it's going to take more than Invista to invest in extrusion; we can't keep up with it. So, there is a role for the mills to play. We believe our fiber is best; in fact we

know it’s best. There is a role for us to play in continuing to grow because there’s value added in every pound we make, whether branded or commodity.

Griffith: It makes us sharper in our game. For us to have an advantage that [Koch] wanted to buy, we have to be better. That means we’re motivated and putting the resources and energy into sustaining that leadership, which is a whole different mentality than when we were in DuPont.

Will marketing and merchandising strategies stay the same?
Wolk: We will stay the course. The residential carpet strategy won’t change a whole lot. We’re still looking at Stainmaster Flooring Centers being the keystone to that strategy and Stainmaster’s performance and beauty attributes being the keystone to the brand. But we’re now launching Stainmaster area rugs and Stainmaster bath rugs. You’ll see us take Stainmaster into bedding. We have test-marketed Stainmaster furniture and fabrics. Steve [Griffith] has done a licensing deal with Mannington on Stainmaster resilient. There’s Stainmaster cushion with Carpenter. We’re going to grow the brand inside the box.

The same holds true on the Antron commercial side. We’ll be looking at strengthening the brand in soft floor coverings, then find what enhancements can we bring as we leverage the brand to the rest of the interior.

Griffith: The energy with which we defend our position in the marketplace is going to be a lot higher because our new owners want to defend our position. With owners that are interested in growing our position, we’re looking at things much broader and much more aggressively.

Wolk: Fact is, [Koch] bought a branded house. It liked the price premiums that we derive on our branded and differentiated goods. If it wanted a commodity business there were those that could be had. There would be no logic in getting commoditized.

Certain mills wouldn’t be unhappy if brand went away.
Wolk: Certain mills would be very unhappy; other mills would be not unhappy. On the other hand, they make more money selling our goods. If there were no brands the world would be carpeted in beige, cut pile, 35-ounce product. We bring Tactesse. We bring all the neat stuff that enables fiber engineering. We drive the fashion and then get knocked off, but that’s a life process.

When you look at the whole industry, how healthy is the fiber segment?
Wolk: I’ll let you make your own judgment; we’re healthy. And the retailers seem healthy. [And that’s 75 percent of it.] I’m glad to see the economy has picked up. The recession started in May 2000; 2001 was brutally ugly. We had a great first half in 2002 — almost vertical. Then the saber rattling started with Iraq. The second half of 2002 fell like a rock; 2003 we grew a little bit, but all the inflation in raw materials has been pretty ugly. This industry has been difficult since 2000. It’s not easy when raw materials have gone up 100 percent in one year.

What are the key issues affecting us today and in the future?
Wolk: Fashion and style. I hearken back to the Oldsmobile commercial: “It’s not your father’s Oldsmobile.” Carpet is my mother’s carpet unless there’s fashion in it. The fact that this industry gives up a percent a year of square feet to the hard surface industry is something the industry shouldn’t stand for. When I look at the hardwood floors in my house, they’re pretty boring, too: a

repetitive plank of wood that gets scratched up every time something gets dragged across it. This industry should be driving the heck out of fashion instead of 32- or 35-ounce carpet.

Griffith: This industry has a history of not informing consumers of what they are buying. When you buy a computer you know what kind of chip is inside. In our industry the warranties don't reflect the performance of the carpet. That's the other reason they are buying hard surface. We treat carpet like a construction element. We have to pick up our game around consumers' expectations of fashion and performance or it's all going to be hard surface.