

DAIKIN anniversary interview with Frans Hoorelbeke, Chairman and Member of the Board of Directors

Interviewer: **ANITA DERJANECZ**, REHVA Managing Director

DAIKIN Europe celebrates its 45th anniversary in 2018, and the company has been a true REHVA supporter for a decade this very year. On the occasion of the double anniversary, REHVA President Stefano Corgnati offered a special award to Frans Hoorelbeke Chairman, and Member of the Board of Directors, who sat down with REHVA Managing Director Anita Derjanecz for an inspiring interview to discuss the history and future priorities of the company.

Anita Derjanecz: Congratulations to the 45th anniversary of DAIKIN Europe. How would you summarize the history of the company in Belgium? What do you see as the key factors of being successful and growing over the past 45 years?

Frans Hoorelbeke: The story of DAIKIN in Europe started with an interesting twist. In 1966, there was a British distributor based in Malta that sold Hitachi equipment and got in conflict with the company, so they split. And it was this gentleman who went to the competitor DAIKIN and convinced them to start selling their products in Europe. It was not DAIKIN who came to Europe, back then it was a very domestic company, they only had a small affiliated company in Singapore. So, this was the first time ever they started to sell beyond Asia. But soon they saw that things go very well in Europe, so DAIKIN was surprised and started to analyse the market situation and decided to create a subsidy on the continent. They didn't find Malta as the best location. They choose Belgium, because 25% of the turnover back then was sales in the UK, but they made a very wise decision to stay on the continent. Belgium was selected because of the very good infrastructure, airports, seaport and highways. Besides that, the skilled



Frans Hoorelbeke

- Born in 1946, Belgium
- Master's in Business Administration
- Whole career has been in DAIKIN, starting in financial administration in 1976
- In 1988 he became the Director in Finance and Administration and in 1998 he progresses to Executive Vice-President of DAIKIN Europe
- Between 2011-2016 he was a member of the Board of DAIKIN Industries Ltd. Japan
- Chairman, member of the Board of Directors of DAIKIN Europe NV, since 2005

and hardworking labour force, and some very attractive conditions for foreign investors, for instance 5-years exemption of paying real estate tax and very cheap land. DAIKIN Europe was established on 29 March 1972, and the factory in Oostende was inaugurated in 1973.

DAIKIN Europe had hard times at the beginning of its history. The first ten years from 1973 to 1983 were very difficult for two reasons. The Japanese have always long-term thinking and planning. They analysed the market in the 2nd half of the 1960's and saw that the market in Europe was mostly composed of water cooled monobloc systems. So, we started to produce these products. For the Japanese it was hard to understand that in Europe they don't have one single market, and that they can't simply copy the product sold in Japan. They had to realise that the European market is not at all united, they must cope and comply with 20 different national markets and regulations. Also, from the beginning of 1970's the market started to change to air-cooled monobloc and split systems became more and more popular. These two points from changing the product range and not having the experience to adjust yourself to the market requirements made the first ten years very difficult. We were making losses, had overstock, and had to let go employees.

In the second period, 1985-1995 two important developments happened. First, DAIKIN introduced VRF systems in Europe, which was a market revolution. DAIKIN organised a lot of trainings, seminars and promotion actions, sent consultants to Japan where the technology was used already since the early 1980's, to show the system its flexibility and easy installation to Europeans specialists. This was an extremely successful product and DAIKIN could provide it without competitors and had for years 100% market share in Europe. The second important development was the increase of the manufacturing capacity of the company. We expanded drastically, from 5K m² to 25K m² production surface. It was very important for the later reaction to the fluctuation of the market demand. Now, 80% of the production in Europe is sold in the European market.

In the third period between 1995 and 2005 DAIKIN Europe started with the systematic acquisition of its distributors. This was very important, because it allowed us to know from first-hand information how the market is existing and developing, so we didn't have to rely on the information filtered by the distributors according their own interest. This allowed DAIKIN also to take more direct action towards market develop-

ment. We were able to capture the real market, which I think, is a key success factor in the history of DAIKIN.

And then we have the fourth period from 2005 till 2015 when we had expansion in both territory and technology, because DAIKIN Europe became responsible for Middle-East and Africa and we entered in other business domains, such as refrigeration and heating, and strengthened our position in the market of chillers.

This period also thought an important lesson to DAIKIN, after the Lehmann crisis. In this period DAIKIN was extremely successful, we achieved 15-20% annual growth factor. And DAIKIN became, let's say, arrogant, thinking that people may be happy that they can buy products from us. We were not listening to the market anymore, we didn't explain the advantages of our products. And when the Lehman crisis happened, the others who were working hard on competing with us and were doing efforts in gaining new customers, they were attacking us. This thought us to never be arrogant again, go back to basics, and do not forget our basic principles. It took us three years here to achieve change in the minds of people at the company. It was a very good lesson.

Finally, in our latest period from 2015, we see new rising becoming important, such as refrigerants, environment, renewable energy and health, IoT and digitalization. For us ventilation will become also more and more important. We work in 5-years plans, and our current plan 2015-2020 has the very ambitious target to increase our turnover from 2,1Bn to 3.4Bn. Now, after 3 nearly years, I can say, we are still on track. Regarding the technologies, for us the most important at the moment is definitely heating with renewable energy and also environmentally friendly R32 products. I think here we have excellent product already and it will be developed also for residential market.

AD: Would you share with us your personal history at DAIKIN? When did you join the company? What are the most important DAIKIN values for you?

FH: I have joined the company on the 11th February 1976 during my studies, before even graduating as economist. I am typical example of what a Japanese call a "freshman" who started and worked at one company for his whole life. The company was very small back then, we were only 68 people worked and the turnover was around 5M euros. And today we are 7500 people and the turnover for this year budgeted is 2.8Bn euros. I

was lucky to grow together with the company. I started as an accountant and administration supervisor for 1,5 years. This gave me the advantage of the small company that I had to deal with everything from budgeting to HR and customs. I have been able to grow through all the management steps up to Vice-President. At a certain moment I was asked to become member of the associated Board in Japan and until 2017 I've been also member of the DAIKIN Group's Board.

How is it, working in a Japanese company? We have 3 basic principles followed throughout the whole company. First: absolute credibility. If you make a promise, you have to do it whatever happens. This is very important in everything we do, suppliers' goods, quality, service, and so on. You must be credible. The second principle is cherishing entrepreneurial management spirit. This means that people have to work in the company, as if it would be their own. They should take real initiative and be creative, coming up with ideas. The third one is the harmonious personal relationship within the company. People are the most important in a company and it is crucial that they have a very good relationship, and the company provides them coaching and a long-term carrier development. It is important for DAIKIN that its employees believe in the company and we make sure that people can grow and are passionate about their work.

Many people ask me, are you a Japanese or a Belgian company? And I always say, we are a little bit of both sides. What we learned from the Japanese is the long-term vision, the sense for detail, and the thrive for consensus in the decision making involving every level. This decision-making model may take some time in the planning phase, but if everybody agrees in the decisions, then the execution is very quickly. This is a completely different to the Americans for instance, where the management decides, maybe many people don't agree, and when things don't work, they change.

What we have from Belgium is the hard working and skilled workforce, the language skills, as - unlike Japan - speaking many languages is a traditional value in our country. Then a sense of diplomacy, we know how to deal with other cultures. I think, the combination of these skills works very well and are key in the expansion of the company.

AD: What do you see as the most important market trends that influences DAIKIN and the HVAC manufacturing sector in the next decade?

FH: An important trend we will consider when planning our next 5-year strategy is the change in the service business. I think that a similar change we can see now in the mobility sector, that people are subscribing to car-sharing services and pay only when they use the service, will happen also in the air conditioning industry. In the future, we will sell energy and comfort, and the end user will pay a monthly fee for that. Our responsibility will be to create the enabling environment and the products that guarantee comfort and wellbeing in terms of indoor humidity, temperature and ventilation. I think this will come with a lot of challenges and uncertain factors, and we have to see how we can manage that. This is one of the biggest challenges.

Safety of our products is well established, although it was not always considered when making choices. The recent fires in buildings are an example of it. Today there are relaxations proposed for the safety requirements in view of better balancing with climate impact. We need to balance these contradictory aspects.

Health is another key aspect. Our know-how about the parameters related to health, comfort and well-being and the relation with indoor and outdoor air quality is constantly increasing. This will push the market to new solutions, driving towards air-pollution free and CO₂ emission free technologies, and I think heat pumps are the key in this field. Another important requirement is to reduce the noise pollution related to HVAC equipment. There are many studies on the negative impact of noise in urban environment. The building sector together with HVAC-sector will develop new technics to cover these needs.

Climate change and resource efficiency is the third important trend. I am convinced that the future is in renewable energy HVAC products. We should further improve demand management and the related technologies, like storage, to ensure the comfort of the end-user. Resource efficiency requirement influence all materials that we use in our products, together with the production process. We aim to integrate the circular economy approach in our production process by recycling our equipment as much as possible.

Digitalisation and automatization will also reshape our industry. We expect that future users will tell manufacturers directly that they want using interactive applications and smart devices. Daikin already has service related software for customers that permanently monitor the systems and enable preventive

maintenance. In the future, we expect increasing direct contact with our customers, which will take over more and more the direct contact with installers. Automatization is also an important technology in the production facilities. DAIKIN Europe's factory in Oostende won the Belgian Factory of the Future Award in 2017 for its ability to incorporate world-class technologies to developing smart and sustainable production with a focus on technology, and for upholding a human-centric approach, viewing employees as a significant asset for the future development of a company.

AD: At the anniversary festivities in Oostende in September, both President Masatsugu Minaka and Flemish energy minister Bart Tommelein talked about DAIKIN's increased investment in research facilities and activities in Belgium in the past 5 years. How big is this research capacity and what are DAIKIN's research and development priorities in Belgium and Europe?

FH: The basic research is done in Japan. We have there a big research centre, the Technical Innovation Center (TIC) in Japan, where more than thousands of researchers from around the world are working. This basic research is linked to our research activities in Belgium also with a help of the 48 Japanese colleagues who work in Oostende and fulfil also a bridge function. The TIC brings together all relevant disciplines: mechanical, chemical and electrical engineering.

In Belgium, 250 engineers are currently working and 25% of them are non-Belgian. The aim of the research centre is to promote out of the box thinking as well as interdisciplinary and intercultural cooperation. The number of test facilities in Europe increased from 25 to 40 in the past decade. We can test now our equipment in all possible climate and operation conditions. We are proud to say that the development of all heating and commercial refrigeration products, also for the whole global group, is concentrated in Europe. Also, the design of products sold on the continent is made more and more in Europe for Europe, beside manufacturing.

AD: REHVA is proud that DAIKIN is a Diamond Sponsor of CLIMA2019 with a special DAIKIN AWARD competition. Can you tell us more about the initiative? Who are your target group and what do you expect from the applicants?

We decided to become a Diamond Sponsor, because we are convinced of the importance of the CLIMA2019

congress. It is an important event where you bring together participants from industry, and academic sector, including university professors and PhD students. So, we see this as a good opportunity to make students aware of DAIKIN as a possible partner or even a career possibility by launching our DAIKIN AWARD competition for students. The competition will target PhD students who can apply with research and development projects.

During the recent months the abstracts could be submitted to the CLIMA2019 review committee. When submitting, the author(s) could apply for the Daikin Award as well.

During the CLIMA2019, the nominated poster presentations will be able to present their contribution to an international jury who will finally decide on the winner. The winner will receive a full Daikin Academy course which will be free of charge including travelling cost to Belgium.

AD: DAIKIN has been a true supporter of REHVA for 10 years and is pro-actively participating in our activities. What values do you see in being part of the REHVA "family"? What do you expect from REHVA in the future?

FH: Being a REHVA supporter was a well-considered choice for DAIKIN, because REHVA is advocating the importance of IAQ and our sector. We see as added value that REHVA represents academics EU wide, and disseminates knowledge, which is helpful for our business analysis. REHVA should keep up this work and take leadership in unifying European engineers and convince policy makers about the importance of our sector. The key mission of REHVA should remain to focus on how to keep high IEQ while being energy efficient at the same time. I think that REHVA shall develop a harmonised energy performance calculation methodology and support harmonization in all relevant regulatory fields for our sector. Regarding the technical issues, I think REHVA should have more articles about the conversion of heating, cooling and air-conditioning technologies, which is already happening and will be more important in the future. One suggestion to REHVA in political advocacy is to be aware that when you talk to EU politicians you can't talk too much scientific language. Finally, I think that we need better cooperation among the different HVAC related associations. It is very important to work together with other industry associations and convey the same message to policy makers. ■