

Dušan Kunovský, Central Group: We want to increase our market share even at the expense of profit

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Central Group celebrated its 15th anniversary this year. We will discuss where you are at present, but first - where were you fifteen years ago?

We started in 1994 as a more or less servicing company. We found the owners of land suitable for the construction of family houses and provided for the development of the locations in terms of formal requirements - I mean zoning decisions and so on - as well as practically - we split the land into plots and created the needed infrastructure. Since we did not enter the business transactions as such, except for sale brokerage - this involved the direct sale by the land owners to the builders - these operations did not bind any of our own financial resources. We used the revenues from these operations to gradually build our own equity, which allowed us to launch real property development activities several years ago, i.e. to buy land and build. During the initial years we focused almost exclusively on family houses.

And where is your company today?

I'll be brief - this is well-known. In 2008 Central Group reached a gross profit of CZK 808 million, and this was the company's record-high profit. In addition to building sites, right now we also offer about 600 flats in nine projects and 180 houses also in nine locations. For some time we've been trying to sell 90% of our projects before completion, and in principle we've been successful.

How did your products change in the past years, i.e. flats, apartment houses and family houses? At some time they were often criticized - as Smurf houses, business Baroque...

We started from scratch and therefore we had to watch the demand and the tastes and interests of our potential clients very carefully to ensure quick and smooth sales of our projects. And they preferred this type of architecture at that time. Decorative ornaments, many colours, false hip roofs were much in demand at that time, maybe in response to the prefabricated flood from the previous years. Now this style is already obsolete, we're building something else, more modern. But to tell you the truth, sometimes I feel that we would be able to sell it today as well - the standard offer in catalogues is not much better. But as I've said, our architecture is already somewhere else. To some extent it is caused by the fact that we started in the lower middle segment, while today we find ourselves in the middle and higher segments of residential construction.

So far we've talked about your company, but what about your customers? How have they changed over the last years?

I should mention that their interest in suburban satellite towns has subsided significantly; the boom is already gone and people are focusing on urban environment. Otherwise our clients are definitely much more demanding and qualified. But as I've hinted, from this point of view the market cultivation is very slow.

Let's get back to Central Group. An important point in its development was definitely the sale of a 10% share to the Swiss company GPC. Why and how did this happen?

At a certain point in time we needed money for expansion; we wanted to invest into the purchase of land. A loan was one of the possible solutions to this problem. However, I'm rather conservative in this regard, in my opinion the company should in principle finance its development from its own resources. Another possibility was to find a strong partner. We received several interesting offers in the course of time and a proposal from GPC arrived at the time I'm talking about. It was exactly the right moment and when we managed to round things up, 10% for 1 billion, I like things simplified in this way, it was done.

Does this partnership limit you in business management in any way?

We have certain disclosure obligations toward our partner and we have to consult him on strategic decisions. But it definitely doesn't mean that we keep calling Switzerland all the time. After all, I am and will remain the majority owner.

By the way - no bank loans at all?

We have loans in the hundreds of millions of crowns. And they are usually only prepared in the banks, and we do not use them too much.

Let's get back to history once more. How have you changed over the fifteen years yourself, what would you do differently?

I think there were no principal strategic mistakes. Our attempt to expand to the regions resulted in a certain loss of time. Even though we had some results there, if we had used the energy and finance in Prague, it would have been better. But on the other hand it was good experience that taught us that residential development is a local business - you have to know the environment, the clients' behaviour, the approval procedures. This experience saved us from a hot-headed expansion abroad. I think that those who did it have just been hit badly. Another thing I would have probably done differently if I had had my current experience is a faster or earlier presence in the field of residential construction. At the beginning we focused on family houses almost exclusively; for a long time our brand was only associated with this type of construction. We missed on something here.

Have your management methods, personnel policy, work with people changed over the fifteen years? Some time ago you had a reputation of a managerial „bad boy“ in the professional community.

You see, I've never heard about it. Sometimes I can be a bit unpleasant and raise my voice, but I think everyone can. The whole company has been stable for a long time in terms of personnel, especially its management. This may be supported by the very informal relations we have at work. Almost all of us at all positions are on first name terms. We also organize many team-building events for our people, with the management as well as ordinary employees as the participants. Our latest event was a bicycle ride across the Šumava Mountains, before that wine cellars, even before that skiing in Austria and so on. I am happy that many people in Central Group are linked not only by work, but also by friendship.

Ok, let's go on. What are we seeing on the market today?

I have no other word than a crisis.

There has been much talk about the causes, let's put that aside; but what about its signs in your company and your whole sector?

According to our analyses, the prices of residential facilities went down by about 10%. Demand is evidently poor. This year we expect to generate approximately the same sales as last year, taking into account the market situation. On the other hand: there is good land available after a long time. There are opportunities for interesting acquisitions. Some time ago there was nothing to buy, while today we once

again see some offer. You can negotiate with the owners even though the prices did not fall too much. As expected by everyone, the crisis will also purge the market. Some time ago everyone wanted to be a property developer, it seemed to be easy money. In this respect I believe in the curative effects of the crisis. And we would like to increase our market share from the current 20-25% to a third.

You mentioned a price decrease. Will it continue?

We don't think so. And based on our projected scenario, the residential market could revive next spring. There is still demand for new flats, right now it is only suppressed by fears of the future. An economic revival could change it all. At any rate - whether the demand will revive in spring or later - we have our projects prepared and are able to launch them immediately.

However, the crisis persists. How do you cope with that directly in the company; many companies cut their marketing budgets and resort to layoffs...

Cutting the marketing budget at this time would be very short-sighted. We may actually increase it. In a way, however, we are restructuring our communication activities. Of course we cannot neglect the media, but we're looking for other ways to make our brand visible, even indirectly, and to strengthen its image. I'm talking about our charity projects, the Miss Czech Republic contest, our own team for Rally Dakar and our participation at the trade fairs MIPIM and Expo Real. It is linked to our strategic plan: reinforce Central Group's market position and increase it to a third, even at the expense of profit.

You answered a lot of questions. What would you asked about if you knew that you would get a correct answer?

Of course I would be mostly interested how the current crisis would develop. I feel that all economic projection models have failed. Most of all I would be interested in the time delay, the difference between the renewal of economic growth and the revival of the real estate market. But in the end it doesn't matter. You know, the crisis is just. It affects everyone equally. Only the consequences will be tolerable for some and more painful for others.

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