

MAKING A DIFFERENCE

Why it is that some companies are able to keep making things happen in a fast-moving world, whether it's continually setting new standards, developing new, commercially viable concepts, and/or maintaining the freshness and value of their brand?

The defining characteristics are revealed in this report commissioned by Rawlison Butler.

WHY MARKET LEADER RE-INVENTED ITSELF



NOTHING TOO unusual for a knowledge-based company to completely re-invent the way something can be done. Less usual to find one which gives up a market leadership position to re-invent itself - to become market leader in a completely different sector.

The company in question was founded in 1936 by Jack Bowthorpe as Goodlife Electrical Supplies. The first employee was fifteen-year-old Ray Parsons who went on to be chairman in the 1970s of what had become Bowthorpe plc. By the 1990s, the company had re-invented itself as a global electronics conglomerate, with 100

subsidiaries organised into twelve divisions generating annual sales which reached £675million by the end of the century.

Eric Hutchinson, finance director, joined in 1983, and he's now the longest serving employee. "I've seen the company through a lot of phases," he says, "but with hindsight a telling moment was in 1995 when we acquired a business which was looking into modem cards. It was a fantastic acquisition, and so we bought a few more similar companies which did even better. The transforming acquisition for us was Netcom Systems which tested routers to switch data traffic. The routers basically help the internet to work - and still do today - so it was a great area to get into; a high value, low volume business. So, at the back end of the nineties, we were at the peak of the telecommunications boom, taking advantage as best we could."

To the extent of selling off most of what up to then had been the company's core activities to concentrate on this one sector. Of course, the boom was followed by the crash, and some pundits were mentioning the company in the same breath as Marconi, whose 'performance' it was in danger of emulating.

"How did we kept up morale?" muses Hutchinson. "My feeling is that although the culture of a business is formed by its leaders, the culture continues even when leaders go, as long as you've still got people in place who have been here five years or so. Also we're not a company which sits on its laurels in good times or on its hands when there's adversity. That's what keeps us going in the right direction. Admittedly our financial performance didn't look good then, but that was also because we were continuing to invest in developing the product range."

Now re-named Spirent plc, the company was becoming the world leader in test equipment to enable the communications industry to evaluate the performance of new technologies. Last year sales reached £272.1million with a £54.1million pre-tax profit.

"The late nineties could be described as rather reckless days, but companies are now much better at taking a balanced look at risk," says Hutchinson. "We only want to invest in the things we'll get a stellar return on. 'OK' is just not enough. We'll let competitors do the 'OK' work.

"Engineering skill is the lifeboat of the company – and the management's role is to make sure that it's being applied to chase the right opportunities for the company. The way we win is by anticipating what the customer will need – not by waiting to be told what they need. Manufacturers of telecom products are constantly adding functionality to their systems so we need to be constantly ahead of the game and be predicting where the technology will go, such as the smart phone, which requires a very complicated and expensive test rig.

"There's always a customer for a new product, but you need to be able to assess how many there will be, to make sure it won't take you down a cul-de-sac. You need a senior management that isn't distracted by yet another great idea, and can stay focused. The hardest thing is deciding what not to do. There's always a bit of luck involved, especially when you are trying to predict what products will take off, and which won't, but the more applied and diligent we've been, the more successful we've become."

In 2006 a new board was put in place, and driving through operational initiatives was on the top of the agenda, including the outsourcing of manufacturing to Thailand and a re-engineering of the supply chain which reduced costs by \$30 million dollars.

"Another big change involved taking a hard look at our company headquarters," explains Hutchinson. "Because we'd grown through acquisition, we had a big head office staff of seventy-five people. My office alone was big enough to play squash in. We recognised we had to dismantle all of that, so we're now down to a team of ten, working in a smaller unit. It's part of a process to achieve the most efficient, lowest cost model we can, across the whole business.

"Efficiency buys you a lot because you can gain market share by being competitive in what you can offer the customer. We've focused on taking costs out of our solution, more so than our competitors, so we can deliver more to the customer for the same

price. If you can just gain one or two points more of the market share over your competitors, it's very significant.

"Our key focus is on emerging growth markets in terms of both geography and technologies. We're in a great place to tap into Asia, for example, where is a huge opportunity. We were the first to go into China in a meaningful way back in 2004, and won a lot of business there. We're now the leading supplier of test capability into the Chinese market."

A big challenge will also be hanging on to their skill sets and resources when the economy hots up. But Hutchinson is optimistic. "While it stays flat, people aren't looking to move," he suggests. "And usually they find it more fulfilling working here, where they are a big fish in a smaller pond, and are more visible."

www.spirent.com

DRIVEN BY HUGE SENSE OF RESPONSIBILITY

Difference - that's what makes Icon Live, well, different. That, and the founders' huge sense of responsibility, which has increased as the company has got bigger.

The company supplies fashion jewellery solutions to retailers, in most cases on a concession basis where a sale is made as individual items pass through the store's till points. The retailer has no risk, sees a high density of sales from a small amount of space, and gets a "healthy" percentage.

"We never say who our clients are in terms of brand," says co-founder and chief executive Valerie Scott, "but it includes the whole spectrum from value supermarkets to more premium retailers, such as French Connection (the one I am allowed to mention!). Brand differential is the key. Everything is designed with a specific customer in mind. We'll work very closely with the clients' design teams, interpreting the trends in jewellery, which is designed here and then produced in China or India.

"A lot of the retailers we work with like and want the brand differential that we offer them. At the moment we only have one real competitor, which doesn't offer that same differential. Their turnover is about the same as ours, but I think what also sets us apart is that we are wholly owner-managed. That impacts on the values of the company."

A previous business experience has shaped Scott's thinking. "Our last company was wound up after a minority shareholder dispute," she explains, "and I learnt a lot from that - not least that success ultimately comes down to the relationships between the people involved, and what I went through is proof. It was an experience that I would never want to go through again, but ultimately it makes you the person you are, and you can't buy that kind of experience.

"My business partner Carly and I decided to try to set up again, and bought the old



business out of receivership in 2002, mainly with the aim of keeping jobs for the staff. Our backers said that what they were investing in this time around was the people, not the business. In the first year turnover was £11million, but this year we should reach £90million.

"I'm an accountant by training, while Carly is the entrepreneur. She describes us as a red Ferrari - she is the sleek exterior, while I am the engine making it work from the inside. As a result of our previous experiences, I've squirreled money away in the business, even when people have been saying I should have opted for debt - even today we don't have an overdraft or loan.

"I'm very focused on the staff, getting the teams to interact - I think it's crucial, as we are growing so quickly. Because of that, when we expanded into the property

next door, we decided to link it with the existing building and create a café upstairs. Everyone is given an allowance for one meal a day, so it means that we all come together there. From a cultural point of view it prevents there being an 'us and them' divide. We've got 300 people here now, and 2000 employees altogether, so having the right culture is important. People who have joined us have commented on the fact that it not a 'carrot and stick' environment here; it's all about everyone wanting the business to be successful."

Although Scott is quick to quantify that particular point. "Carly and I are obviously 100% Icon, but as you go down through the business, that inevitably becomes diluted," she says. "I see the challenge as ensuring that the managers we put in have the same DNA, the same Icon values as Carly's and mine. In order to try and achieve that, we've really focused on communication so that they all know the issues facing the business, both positive and negative.

"I feel it's a massive responsibility employing people, and making sure they are paid every month. I'm very aware that every person working here probably represents another three people at home.

"Are we tempted to have our own high street presence? No, there are too many fixed overheads and restrictions of space. We are always looking for other ways of expanding. We have concessions in Europe - Slovakia, Hungary, Poland, and the Czech Republic - already and once we've grown there and put the infrastructure in, we'll look at going elsewhere, including the States. We want to create a credible, international business, and we can't do that by trying to cover everywhere at once."

"There's a lot to achieve in the UK too. We recently launched The Earring Boutique Company online after Carly visited New York and realised there was nowhere in the UK where you could buy earrings like they had there; last autumn we also launched The Ring Boutique.

"We've gained a major licence to produce souvenirs and jewellery for the 2012 Olympics. The legacy that will bring to the company in terms of the names we'll be working with is fantastic."

www.iconlive.com

CHANGE OF NAME CAN CREATE POTENTIAL

What's in a name, in terms of what the company behind a successful brand is called? Actually, quite a lot if you want employees to think differently. And that's exactly what Airmiles needed to achieve to take the business to another plane.

When Airmiles were created in 1988, they were collected through purchases from British Airways (who had soon acquired the company) and High Street retailers, to be redeemed initially for free flights. This was a real eighties phenomenon - the idea of a made up currency, giving you something for nothing.

It grew meteorically for twelve years, but in 2000, BA created BA Miles for their executive club members. For the next six years the airline had Airmiles and BA Miles as two separate functions, until Andrew Swaffield was asked to come in as a consultant to advise BA as to what they should do with the former.

"My advice was to run the BA reward scheme from the Airmiles base, because of the company's fantastic database skills and ability to develop relationships with third parties," he explains. "Airmiles had a database of millions of names and had become very experienced at using that - in fact if you strip it all away, that's the core of the business. BA then asked me to take over as MD.

"Changing the name of the company to The Mileage Company was a big deal because it now reflects the fact that we are running two programmes and possibly more. The staff were very excited about it, as it helps them to see the potential for growth. Getting rid of the word 'air' gets people thinking differently. The Mileage

Company isn't the consumer-facing brand, but it works well, and is globally acceptable, even though most of the world thinks in kilometres!

"It's all about our database skills and the partnerships we can develop, plus the rather complex and unique art of managing the process of people wanting to spend their Airmiles. We want the process of buying Airmiles to be very fulfilling so that people want to come back and do it again. We sell the airmiles up front, for cash, to Tesco and other partners, and keep hold of the money until the miles are redeemed, so with four million members we have to be effective at cash management during that period.

"We've grown sales during the recession, by £30million in the past two years, and we are looking to repeat that every eighteen months. The business is pretty much recession proof because it's at times like this that people value their loyalty points more. Even though they are spending less at the moment, we're happy to be harvesting customers now, because we'll get extra benefit in the good times.

"Other loyalty schemes aren't really competitors – the main competition comes from apathy! We have to make collecting and using Airmiles appealing, so we get into our database and try to assess what it is that makes people bothered.

"Our business partners, such as Tesco and American Express, are very ambitious, so we have to demonstrate constantly that we are adding value. It means having empirical data to hand which can prove that Airmiles users are shopping more in Tesco as a result as well as keeping those customers loyal.

"We've relaunched an Airmiles credit card in the US recently, and that meant extensive research into the customer base, looking for people with the right income and spending profile. We then tested it on a group of customers, and finally launched it into the marketplace in a blaze of PR, using social networking as well as more traditional methods. That was in early December last year, and by January we had increased our customer base there by 36%. To get that right is a key skill, and it's about being able to tick people's boxes.

"The challenge is making the collection of Airmiles part of somebody's every-day life. A big mistake that some companies make is in believing that everyone is going

to think like them. Our customers are all very different, so we have to divide them into manageable chunks. We can't waste money marketing to the people who don't need it. It's not the best customers who need to be targeted; the ones who could be about to leave should be the priority. We get into our data and turn it into actionable plans."

For Swaffield, the most prescient challenge is growing their net promoter score, which rates a company on the basis of how likely a customer is to recommend them to a friend. "It tells you what customers are really saying about you," he explains. "That sort of 'word of mouth' is more and more important in a world where the media is demanding ever more of people's time. It's about understanding the data and innovating in a way that gets people's attention. It does get harder though. If you don't do it, your customer base is going to be distracted by other organisations using technology to attract them away from you.

"Another issue is that people are more concerned about their carbon footprint now, and companies are also anxious about being associated with airline travel because of that. However, our customers are telling us that although they care more than average about their carbon footprint, they also fly more than average. They will make sacrifices in other areas in order to justify their flights. The reality is that flying is here to stay, so we have to give the customer choices that enable them to feel they are doing their bit for the environment too, such as sending in their old mobile phones to raise money for charity. We've also partnered with an eco store, so customers can do practical things to help, and added a facility whereby customers can choose to offset the carbon footprint with their airmiles when they book. It helps in the boardrooms that we partner with, but we don't advertise everything we do as we don't want to be accused of 'greenwash!'"

The company has no physical assets beyond IT, so Swaffield sees people and the way they work the database as key. "We'd never outsource managing the database because it is so important to the business, or the call centre," he says, "because

everyone knows how a bad experience with a call centre can affect customer loyalty and reputation. Our call centre has been based in Warrington (along with a replica database) for the past ten years and is commercially successful because our staff are able to sell ancillaries at the point of redemption. We do use off shore IT developers in India though, and we'll call in marketing agencies for the skills that are more scalable than we can manage in-house. We also outsource payroll because we have staff overseas.

"I can foresee exciting times because of mergers in the airline industry. We are fortunate in that we are connected with BA and have unique access to their unsold seats – that, combined with a database, is an essential asset. We have partnerships with other carriers too, but having a core airline gives us scale in the market that we're in."

www.airmiles.co.uk
www.themileagecompany.com

GOOD SERVICE EQUATES TO LOWEST COST

"I can do the corporate spiel, but if the warehouseman doesn't really care and picks the wrong items, which will irritate and inconvenience the customer, then what I do as chief executive counts for now. The best way of delivering customer service is to do it right first time, every time. So providing good service equates to lowest cost! The alternative is additional cost to put things right and the potential loss of a customer."

There won't be many who would pick an argument with Jeff Whiteway on that one. But how does the group chief executive of OfficeTeam put his mantra into practice?

"To achieve 100% reliability, I spend time with the staff so that they know the importance of their tasks, and the relationship of their work to the rest of the supply chain," he explains. "It's important to remember to make the effort to seek out members of staff who have done something special; it's easy to forget how important that one-minute conversation is to the individual."

"Stationery really isn't a commodity. An average white collar worker in London costs £40,000 a year with NI, and will consume £400 of stationery supplies a year. If the purchasing department really devotes time to it, they could find maybe a saving of five to ten percent a year. But if there's a late delivery, the cost of the stationery compared to the cost of the individual's downtime is insignificant. It isn't just about price but expenditure, and how it relates to other cost centres."



"When I ask a customer how well we are doing, they shouldn't come up with a ready reply, because if we're not noticed, it means we're doing it right, and delivering on time."

Whiteway joined the business some twenty-four years ago when Straker acquired Marathon Stationers where he worked. Since then he's progressed to purchasing director, then assumed responsibility for operations. He recalls vividly the moment he was appointed chief operating operator - on that particular day The Financial Times chose to run a front page article posing the question 'Is the role of the COO over?'. Five years ago Whiteway was appointed CEO. Turnover at the time of coming over with Marathon was £2million - thirty-six more acquisitions later, and today that figure is nearer £200million.

"We represent 5% of the UK market," Whiteway explains, "but 50% of the companies in this sector are turning over £3million or less. Our target customer base is not the

home office, but office building occupiers spending £10k a year upwards, although we have thousands of smaller customers handled by our specialist small business team.

"I want to acquire dynamic businesses because then we bring good, ambitious people into our company; and we provide a career path for the directors of the businesses we acquire. Our group board executives all come from acquired businesses. When an independent sells, they want to make sure their staff have still got a job and that their customers will be looked after by the new owners. I'm the guy you don't want to sit next to at a dinner party because I'll want to tell you all about OfficeTeam and how we do what we do. I'm excited by the concept of the business.

"When a company is acquired, it's about people - the customers and the employees they deal with. Just looking at the P&L and balance sheet is when deals can go wrong. I can remember being criticised by a big four accountant who said that we running the company like a small business, but actually that's the only way to run a service-based company - every customer has to matter, and there can be no hiding place if a customer is dissatisfied. There is only boss in the company - it's the customer. They can result in you getting fired or promoted."

Of course OfficeTeam hasn't been the only consolidator. WH Smith bought out six large contract stationers and crashed all the brands together into NiceDay. That in turn was acquired by the French company Guilbert, who were taken over by Office Depot, a company which subsequently purchased Viking Direct.

And over the years, what is now OfficeTeam has gone through the hands of five private equity houses. It's an ideal business for them, generating cash, low risk in terms of capital expenditure, good stock turn, no customer representing more than 2% of turnover.

The big deal was Straker and Oyez (The Solicitors Law Stationery Society Ltd) getting together. Oyez was bigger so they were the headline act in the purchase, although Straker took the roles of chairman and managing director in the merged company.

"We could have continued to use OyezStraker as the brand, but it's a difficult name," recounts Whiteway. "We had belonged to a trade marketing group called OfficeTeam, and finally we'd bought the name. So many of our products already carried the OfficeTeam legend, it appeared on our vans, and I'm sure that some customers actually thought that was our main name anyway."

"We undertook some market research to find out why customers deal with us. When we asked them about their feelings towards our name, they effectively said we could call ourselves what we liked as long as we still delivered on service and price. You know, sometimes corporate ego gets in the way. It can be the company, rather than the customer, which is wedded to a particular brand name.

"And there's a cost in maintaining seven different brands. In Newcastle, for example, we had four reps from different brands we own all working against each other in the same territory. With one brand, we put them into one team; their activity levels increased, from 30% of the day in front of existing and prospective customers to 70%, and they were spending less time driving around because the territory was divided up between them. Now we are organised into five major regions, each with its own warehouse and monthly board meetings, but with central buying.

"The only obstacle to growth would be if we lost our mantra, because if you can't grow a business organically as well as by acquisition then it's not sustainable."

www.officeteam.co.uk

APPLYING DISRUPTIVE TECHNOLOGY TO COMPLETELY CHANGE MARKET

Developing new technology, to create a new product, for a new market. History shows that it's rare to do all three simultaneously and successfully. The computer industry though provides an excellent example in the form of Microsoft - which Ceres Power intends to emulate with its fuel cell technology. "Fundamentally we are going to change electricity generation from power stations (the equivalent of mainframes) to each home being able to do it (PCs)," explains chief executive Peter Bance.

What Ceres Power have come up with is microgeneration that works - in effect, every house can become its own power station.

Bance isn't fazed by the lack of trumpet and drums which accompanied the launch of the company. "Carriage makers in the 1800s probably didn't believe that the creation of the internal combustion engine would completely change things," he suggests. "As with energy companies today, they saw their position as established and robust, but ours is disruptive technology. The energy companies can't be passive and watch; they've got to get into the ring. The pace of change in electricity generation has been glacial - now it is happening in single-digit years."

What happens is that the fuel cell converts fuel and air into electricity and heat through an electro-chemical reaction, and generates both much more efficiently - 65% of energy created by a centralised source such as a power station is lost en-

route to the consumer. Replacing the conventional boiler, the Ceres fuel cell will save domestic users 25% of their total energy costs, gas and electricity, and reduce the CO2 emissions from a typical house by up to 50%.

The concept of the fuel cell isn't new. The German scientist Christian Schonbein came up with it in 1838. But for more than a century and a half, it has been more interesting than practical. There were two recognised ways of designing electro-chemical devices, but both had a series of flaws, and despite billions of investment, those flaws had prevented the transition from lab to market. It was at Imperial College in the 1990s that scientists came up with a rare example of genuinely applied innovation, not an interesting flight of fancy - in other words, a third way, and one which worked.

That single initial patent is the basis of Ceres Power and the genesis of a world-beating idea. In 2001 the company was set up with £4million of funding from high net worth individuals and then separated out from the university - "in order to develop a ruthlessly commercial mind-set," says Bance. "For us, the technology is a means to an end, not simply the starting point to develop new technology.

"We're passionate but rational enthusiasts would be a better description. You can't be zealots. You need to keep your belief in the mission, but it has to be based on fact. And you definitely need high energy levels if you are going to be a game changer. Get an image of the opportunities, of the risks, so you have a clear view of what is coming - so nothing should really come as a surprise. Then have strategic flexibility - don't close doors which you might need to re-open at another time.

"Fuel cells up to now have been too big, too expensive, too fragile, and too short-lived. Ours is cheaper to make, is more lightweight, is the right size for the mass market, and is tough as nails because the unique metal construction is robust. It is cost-effective for us to manufacture in the UK because we have a combination of automated machinery and high-skilled people producing an IP-rich, high-value product.

"Our first horizon is combined heat and power for the domestic market. The second is the commercial built environment and public sector buildings - a big prize because they are biggest emitters, the biggest threat to the environment."



To date Ceres Power has raised north of £90million (including two rounds of private funding plus an AIM flotation at the end of 2004). "Being a public company provides an important stamp of credibility for a company in our position," says Bance. "Having a bluechip shareholder base is critical for confidence - for staff, customers, and suppliers. A listed company means there's a seal of approval, that we've been scrubbed by the regulatory bodies." The first major customer to sign up was British Gas in 2008, who also bought a 10% stake for £20million. But that was the start of a £100million forward order book, which includes the name of Calor Gas, which, says Bance, "underwrites the future."

"What we are doing" he says, "is to build the Ceres brand by applying the strapline 'Powered by Ceres', which is the equivalent of 'Intel inside' for computers.

Meanwhile, Ceres Power has been building the intellectual property barricades. "There is no point patenting unless you are prepared to fight for what is yours," muses Bance. "We're insured so we can fight any case without touching our cash or it affecting the balance sheet, which will put off the companies which think they can get away with it because their pockets are deeper in a fight which could drag through the courts for years. Anyway, we've patented the 'what', not the 'how' - it's like the syrup which goes into Coca-Cola, we keep that a secret."

With his PhD, Bance first went into technology investment due diligence. "I was the scout for investors," he explains, "and I was good at spotting deals with real legs rather than curiosities. Then I got closer to the real action by brokering deals with large corporates, acting as an interim CEO for the new ventures." A year after Ceres was formed, he got a call from the chairman, and decided this was the company to bet his career on. He describes himself as business focused and technologically literate. "I'm fluent in both languages," he smiles.

He'll need both attributes to help Ceres Power stay ahead. "When you have the leadership position you just have to keep running," he says, "so that when new entrants make an appearance, you're always the company which is setting the standards.

"The really brutal market share battle for customers has yet to begin. The great paradox is that what we've got to do first is to create an environment for us all instead of prematurely competing for the customer. It's better to co-operate in first instance to raise awareness, to set standards. Phase two can be let the best companies win."

And Bance intends to still be in post when it all kicks off as it were. "Entrepreneurial companies in the UK haven't been ambitious enough," he explains. "I bring a north American mindset - that we believe we're going to deliver our mission. What often happens in the UK is that a company will invent the breakthrough, develop a product, sell some of it, and then is sold itself, I believe prematurely, before industrialisation and the real wealth is created. In that scenario, the

commercialisation takes place elsewhere, and the UK ends up importing rather than exporting. We want Ceres to have a fuel cell in every home in the world. We've got the ingredients for a global business, including the vision, the technology, the product, and the road-map."

www.cerespower.com

CAREFUL EXPANSION BUT WITH PASSION

If the staircase at one of his stores creaks underfoot, Ben Phillips is more likely to smile than call maintenance. A passion for retail, for design, and for architecture underpins his Steamer Trading Company, and what he's looking for in all three is character.

"Retail is in my blood," muses Phillips. "In fact, as far back as the nineteenth century, my great, great grandfather had a shop at 28 Aldgate High Street. My parents opened their first cookware shop in the Sussex village of Alfriston in 1985. My father was the first buying director of Habitat and my mother was homes editor at The Sunday Times, so it seemed the ideal thing for them to do. The shop was based in a 15th century building which used to be the Steamer Inn, so they called it Steamer Trading, because what they sold was quite diverse. They opened their second shop, in Lewes, in 1993, but although my father liked the idea of further expansion, they were both in their sixties and my mother was more cautious about it.

"I had been working for Credit Suisse - I was appointed MD with responsibility for retail and consumer products - but it wasn't my passion. I enjoyed retail, and loved

design and architecture. I wanted to take Steamer Trading and grow it to a different scale. I bought the company from my parents, taking it over completely as I didn't want to be dragging their pension fund along with my plans.

"I took on a larger site in Lewes and did incredibly well there, so we revised our strategy into opening bigger shops and went straight into opening two stores in the same week - one in Eastbourne and the other in Brighton in 2001.

"There have been years when we haven't been able to find the right building for a new store. We always try to buy our buildings, which are distinctive architecturally, so 95% of them are Grade 2 listed. At Saffron Walden though we've got a new unit, but the position is right. And our new Guildford Store is a departure for us in that it's a modern building in a traditional town centre."

There is another exception, if that's not a contradiction in terms, but in fairness, there wasn't a building with historical value in Bluewater Shopping Centre.

"For every store we take on, I sit down with a pen and paper and design it from scratch," explains Phillips. "I virtually built a dolls house of the Marlow store! That, to me, is what retailing is all about; there has to be one person's vision of how it should look. Once it's done though, I don't go around the stores all the time as I would only hone in on the tiny issues and that would undermine the managers.

"They know the vision, what we stand for. We don't hammer home the branding - we don't even use the same signage - but our buildings each make a statement and have their own character, and the staff are trained to make sure the customers have a happy experience. How do we sustain that? We employ mystery shoppers, and I've hired someone to work with staff to specifically to make the customer experience perfect.

"We work on staff awareness. We sell coffee machines that cost £1000 - that could be a member of staff's entire disposable salary for the month, being spent on something that isn't a necessity, so we have to train our staff to believe in the value of that product, even if they wouldn't buy it themselves.

"The other important thing that differentiates us are the products. Unlike a buyer for

a multiple retailer, I can buy in whatever I like for the stores. Nothing goes in unless I've personally said that I like it - all 10,000 items!

"It's been comfortable growth and we've never felt over-stretched. There's never been anything that's panicked me, or worried me or given me sleepless nights. We've chosen carefully and expanded at the right rate. I wrote a ten-year plan back in 1999 and we more or less hit it.

"The homeware and kitchenware market is very broad because so many retailers dabble in it - from Argos to Sainsbury. Only Lakeland and ourselves have grown over the past few years though, and several, like The Pier, have gone. I don't perceive the smaller players as a threat, and in fact I want there to be a strong housewares sector so that people begin to understand why it's worth spending a bit of money on a good toaster rather than buying a cheap one. There are no great homeware stores for us to learn from. Some retailers may have one or two shops, but running a third seems to be a step too far.

"For me though, coming from Credit Suisse, and having worked with some fantastic clients from a variety of industries, it seemed obvious what I needed to do in retail in order to grow. You've got to have confidence in what you are selling and display it in a way that people will also have confidence in it to make the purchase. Our profits have grown 75% from 2001 to 2009.

"The next ten year plan looks at taking us to thirty stores - we have just over twenty now - which means a continuation of gentle growth. We're bit like clothing retailer White Stuff, who we know very well, in that our strategy is to be in nice towns, in good buildings, but never overspending on them. But that means our main obstacle to growth is the availability of the right properties. We could be at fifty stores already if they had been out there."

Other limitations? "Possibly my own expertise," says Phillips. "At some point you have to start thinking differently, but it's knowing what you've got to change and when. We haven't been advertising or marketing the business currently, although we have a database of 120,000 people who shop in the store; and we didn't have much of an internet presence, probably because that doesn't excite me.

"My parents are out of it now after helping on a consultancy basis, but everyone here is very aware of their presence. If I thought my father wouldn't approve of something on the product list for example, I wouldn't list it. Their values still apply and it's a good sanity check."

www.steamer.co.uk

MAKING THE CASE FOR PROPER COMPARISON

This is the company, which, when under the wing of Johnson & Johnson, pioneered the moist dressing for wounds as a patient-friendly alternative to the usual gauze and tape arrangement. The dressing contains collagen, the main protein of connective tissue, and combines other 'active' biological ingredients to form a matrix which doesn't just cover the wound but helps to repair it.

This is also the biggest business that Johnson & Johnson have divested. Private equity brought in Steve Atkinson as CEO, with his twenty years' experience in medical products. It's the second Johnson & Johnson spin-out he has been involved with.

The first priority was a new brand name. Systagenix is an abbreviation of 'systems that generate the healing matrix.' "We spent a whole year building the brand by having a big presence at congresses, but that is the price we had to pay," explains Atkinson. "Nobody ever got fired for buying Johnson & Johnson products and we had to create the same proposition for Systagenix Wound Management.



Systagenix is more of a premium product than others in the market, but the lower cost advantage of rival products is compromised by the fact they can hold less wound fluid - which means they have to be replaced more frequently. "We have to be a market-making company," says Atkinson, "and as with other premium product manufacturers, we have to make the case for a full-cost comparison."

Actually, the maths are rather impressive. A Systagenix product can heal a wound in twelve weeks compared to three years with other products which would have to be changed every month. That's a cost of about £150 compared to thirty-six times say £5, plus £80 per visit to the patient's house to re-dress the wound each time.

"We're the only 100% pure play wound care company with a global reach," says Atkinson. "What had affected the business before was that it got merged into the surgical division of Johnson & Johnson, which meant the focus was lost. But what Johnson & Johnson does well is managing people and building brands; Band-Aid is an example. Because Johnson & Johnson is so decentralised, they have direct sales forces in places where the overhead is covered by other operations they have in those countries, with local distributors in other geography. In some countries, Johnson & Johnson are now our distributor."

While general wound product sales are dropping by 6% a year, advanced product sales are up by 4%, and it's a hub-and-spoke model which is being adopted to extend the company's reach. Customers in some countries will dial a local number but their call will be routed to Gatwick where it will be answered by someone fluent in their language. Where a sales office is established, the admin will be dealt with in the UK - the country where manufacturing takes place.

"We have competitors which are manufacturing in China," says Atkinson, "and I think there has to be a trade off between quality and price. Our people know that their company is making a difference to people's lives and they are have a part in that, which is something that would be hard to replace in a contract manufacturing facility. We manufacture in Yorkshire. It's highly automated, and we are producing a more advanced product in less volume.

"Our scientific approach is a real strength, an advantage not only in our people being recognised as podium speakers but because we have the facilities to develop products quicker, to fast track the process of identifying how they interact with biology which means we have a more certain route through the development stage.

"Here's the thing. If we create a strong company, it means everyone benefits - patients, customers, employees and investors. To build the company I look for people who can demonstrate results and understand the need to move as fast as they can. It's their achievements I want to see, because they'll all usually have a life sciences degree; even our VP human resources is a biology graduate. I see an MBA as another stripe on their sleeve. The reason for this approach is that you've got to appreciate that the company has so many things to do in parallel - we've got sixteen new products in the pipeline - and the leadership team needs to ask people to do

more than they have probably ever done in their working lives - but they'll also be achieving more."

www.systagenix.co.uk

INDEPENDENT APPROACH TO BUILDING MARKET SHARE

What can an independent specialising in more technical products do to increase market share? How about competing against the multinational volume distributors who sell on price?

Was Martin Clarke, chief executive of TFC Fastening Solutions writing a strategy or the business equivalent of a suicide note?

"Our core business," he explains, "is talking to designers and helping them to re-design assemblies to improve production by using our more expensive components which will reduce their costs overall.

"But if a customer is buying £20,000 of components from TFC, they're procuring standard stuff from elsewhere which can account for ten times that amount. So we set up a Fastlines division with its own catalogue. The thinking is that when we have a relationship with a customer, and you only achieve that because of quality of service, then we have an audience who will at least consider us for the volume products.

"Usually the volume suppliers try to move into the premium sector, rather than the other way around. How can we compete against the giants and their buying power? Because in every direct-line feed deal, it's being able to provide the 'funnies' effortlessly which matters. The volume suppliers see customers with that requirement as difficult to manage."

To provide the direct-line feed requirements of customers, TFC set up two service centres, each with lean manufacturing experts on site. "Our service centre concept isn't the same as a trade counter," explains Clarke. "There will be a relatively small number of customers who we can love to death - we can develop each centre in terms of infrastructure and type of staff to meet the requirements of the specific customers that location serves. With fewer customers, staff can spend more time with them, identifying what other needs we can meet."

"The biggest threat to a business is losing touch with the customer. They're driving cost out and even long-standing customers are being told to go out to tender, so we have to keep raising our game to keep them. Let's take a component for a gearbox, which might represent 20% of the total cost. The customer could say that they need to achieve a 20% price reduction in order to stay competitive.

Rather than simply see how we could possibly make a price reduction of that magnitude, we work with the customer to see how they could take cost out of the operation rather than from one component. It's the relationship basis of working which enables us to have those conversations. What we become is part of the process, not just a supplier."

So while at first it might seem strange that TFC expanded overseas by opening in Costa Rica, the reason becomes obvious - that's where a major customer had a requirement, and TFC set up in part of the customer's factory out there.

Because the company started as a father and son business in the sixties, there has always been a slightly paternalistic, friendly feel to it. When the son decided retire in 2007, rather than selling out to the highest bidder, he wanted his management team to be involved in the take over. Martin Clarke, now chief executive, formerly MD of the Serco Ryan fasteners division, came in to lead the mbo/mbi.

"The founder who sold the business is still a shareholder, and we meet regularly," says Clarke.

"Our options to grow," explains Clarke, "were to acquire a business which could contribute to profit straight away without needing much attention, or we could start from scratch, or buy a company in trouble which we could pick up for next to nothing. But we felt we needed something stable because we didn't want to divert our management resources. We found a possible acquisition, Cavalier Fasteners, so-called because that was the model of car driven by one of the founders when he started the business."

"Because they take us into a new market, the construction industry, we made Cavalier Fasteners an autonomous division, and in addition moved a TFC service centre into their location."

"The problem with any independent company," muses Clarke, "can be that it takes a recession for a company to accept that difficult issues have to be addressed. It can certainly be a challenge to come in as an outsider with an objective view, because arguably, as it stands at the time, the company obviously has a winning formula."

www.tfc.eu.com

www.cavalierltd.co.uk

TAKING ADVANTAGE OF CHANGE IN GEAR



"We knew that an independent motor dealership was either going to be a victor or a victim. We could see the game would be up for the owner-driver, single-site type of operation, because the manufacturers were going to want fewer but larger outlets. And you can judge for yourself what has happened - every village had its own garage which had a franchise, but now they've virtually all disappeared. "

When Glyn Woodage was appointed as chief executive eighteen years ago, Harwoods was a single site operation with an £11million turnover. Today, annual sales are in the order of £240 from twelve showroom locations. Established by the father of present chairman Guy Harwood in 1931, the company manufactured munitions on its premises during the second world war. Guy Harwood, who had

created the Coombelands Racing Stables and went on to train 1600 winners, joined the family business full-time in 1992.

"He gave me the opportunity to make a difference," says Woodage. "He had the vision and with my motor trade experience, I was here to facilitate it.

"At the time, the motor manufacturers were realising that while they were investing hundreds of millions of pounds in the product, the weakest link was the interface with the customer. Showrooms reflected the character of the owner-driver, and the cost of investing in the brand standards which the manufacturers were going to have to impose would be too much for most dealerships.

"There were a number of established owner-driver dealerships which had a long record of excellent customer service but didn't necessarily have the appetite to scale up the business in line with the manufacturers' demands. The combined asset and goodwill values made selling palatable, more so if the buyer was also a family owned business with a similar staff ethos and culture. Opportunities would surface virtually every week."

Harwoods drew up a list of brands that they wanted to work with - Aston Martin, Audi, Bentley, Jaguar, Land Rover - which meant that the motor manufacturers concerned kept Harwoods informed of any of their existing dealerships which were looking for an exit. "What we wanted to build was a business with lots of legs, which we could achieve by having a variety of brands," says Woodage.

"We are still looking to make acquisitions, but just building turnover is not the driver, and never has been. Otherwise you just become busier fools. What we are doing is to look for opportunities we can develop.

"It's also about getting the right people into the franchise. Having a good rather than an average general manager makes an enormous difference. Introducing someone of the right calibre into a dealership is like turning a tap on full-flow."

Consolidation wasn't the only change in motor dealership dynamics. "Companies used to buy their vehicles from the local dealership, but with contract hire and lease-purchase methods of procurement, they don't really care where the vehicles come from," observes Woodage. "What we have done is to plug ourselves into the vehicle finance companies. There's more vulnerability because if we lose one, it's a significant amount of business compared to a single 'end-user' company customer."

"Also the product has become more reliable and pricing has become more transparent because of the internet. Service intervals used to be 6000 miles; now that can be 20,000, which arguably represents a loss of £1000 revenue for each car."

Not that 'inevitability' is something that Harwoods accept at face value. Woodage provides an example by way of explanation. "A dealership would point out to a customer who had brought their car in for a service that they needed a new tyre, but couldn't compete with the national tyre outlets on price. We found that actually we could if we agreed a pricing structure with a wholesaler based on volume. Tyre sales now represent £1.25million of turnover."

Other initiatives include a separate servicing package for air conditioning, MoT insurance, and the recent launch of the Harwoods Club, which provides members (customers who sign up) with the opportunity to buy tickets to sporting events, with prize incentives including tickets to Royal Ascot.

But for all the packages and presentation, Woodage believes there's a basic truism that Harwoods keep in mind. "I still think customers like to buy from people they like," he says, "I like to have the knowledge that if I go back to a particular company with a problem, they'll deal with it for me."

www.harwoods.uk.com

REDEFINING ROLE TO ADD VALUE

It's not a trick question - but what would you say is the role of the freight forwarder? Of course it's to arrange the shipment of goods from A to B. The difference with Kamino Logistics is that they've redefined B.

"The challenge has been to re-think what we do," explains managing director Jim Nayyar. "Competition is fierce in the commodity market, where the rate per container from China to Holland is critical if it contains 100,000 tee-shirts which are selling in the High Street for 99p each. What we are doing is to add value to the customer's supply chain. We will bring in flat screen monitors into Rotterdam, and then at our facility pack twenty-five boxes of them to Greece to meet a specific order received by the customer - after first adding an instruction book in Greek and including the appropriate power chord. For another customer we ship in football kit and apply the appropriate logos and fulfil the order on their behalf. When purchasers of golf equipment called the number on the television shopping channel screen, the calls were answered by Kamino."

"As well as getting their product shipped around the world, we can help them sell the product more easily. We can do the quarterly VAT returns. We enable their business to be virtual because we're the actuality. If they sell via eBay, Amazon, it doesn't matter - it can still come through us."

With an accountancy qualification, Nayyar worked in IT and for a shipping company, but was happily doing his own thing as a consultant when he was approached by the founder of Kamino International Logistics in 1982 who wanted him to set up a

UK operation for the freight forwarder. In fact, Nayyar came on board as a co-owner, putting his "house, car, and cat on the line" as security to do it.

In the early nineties the third co-owner of the business sold his share to a German investment group - without the knowledge of his erstwhile colleagues. Subsequently Nayyar and Klaus Kretschmer sold 51% of the shares they owned to the group, and carried on. In 1996 they were called to Germany and told the company was going to be put up for sale.

Eighteen months later they had bought their business back. But Nayyar's efforts to introduce funding to develop the business and allow Kretschmer to retire seemed fated. Barings were interested, until the bank failed spectacularly. 3i negotiated a deal and then decided they wanted to work with bigger corporate fish. Then the owner of a similar business which had offices in China, where Kamino had yet to establish a base, agreed to buy 75% of the company. At the last minute he attempted to chip the price.



"As the deal meant staying on and working with him, I couldn't do it," muses Nayyar. Just as well. He was introduced to a boutique venture capitalist in Miami, who did a deal in ninety days. They own 75%, Nayyar has 9%, and 100 or so employees have the balance.

The company has twelve offices in the USA, three in the UK, four in Europe, one in India, and three in China, plus a 25% stake in a Japanese freight forwarder. Nayyar wrote the company's original integrated accounts and logistics system, which customers could link into; now the company has an in-house team dedicated to IT. And there's no call centre. Each customer has an account representative and their emergency phone number.

"Our philosophy is the inverted pyramid," says Nayyar, "with the customer at the top, and the next layer being our staff who interface with the customer. My role is to provide them with the support they need. Two thirds of our customers have been with us for at least ten years."

Hardly surprising, given that Kamino have in place a KPI for arrivals, and they achieve 99.1% on time.

www.kamino.com

KNOWING THE APPROACH THAT REALLY DOES MAKES SENSE

"Essentially we're a product company, and we can't be client-led as a product company. Our number priority is getting the product right - not for one client but for them all. The right description would be to say that we are client driven, client focused, that we recognise the need to know what is happening in the market, the impact on our clients, and what we need to do with the product to address those issues in the most appropriate way for our clients."

What Finlay Ross, chairman of Aquila Group Holdings, the UK's largest supplier of pensions administration software, is saying makes sense of course - just that it's the antithesis of the touchy, feely marketing-speak which has enveloped product marketing in recent years.

"We understand what it is clients need, and how to deliver that," explains Ross, "which isn't necessarily exactly the same as what they think they want. Nor should it be, because there is always a trade-off conflict in terms of what is deliverable within a product. It's in both of our interests to keep the integrity of a product which works - otherwise it is more costly for client and provider in terms of time and money.

"Clients acquire our product because for us, meeting their actual needs has been uppermost; our product delivers that, so they see it as the best option. Of course this is only achievable if you can provide a well defined offering which meets absolutely their needs - the other stuff around the margins doesn't concern the purchaser once they establish that.

"At 50,000ft, competing products can look identical. The difference is that because of our client driven rather than client led approach, we have a relentless focus on the quality of the software. One of our clients said they had paid thousands of pounds for our product yet they had only logged one call to the help-desk in a year. One of the reasons is that we aren't having to go back to individual clients for specific adjustments and re-writing.

"The relationship is symbiotic because pensions legislation and regulation is changing all the time, and a customer really needs a software supplier who will upgrade it all for them."

And the overriding philosophy extends to the updates. "We issue them once a year," says Ross, "although in between, if a client has an unexpected, drop-dead specific business imperative, then we'll meet it.

An actuary himself, Ross developed a software business within an actuarial firm, which he eventually spun out. "We spent the first two years putting in systems which had been provided for us within a large organisation," he recalls, "and of course there was one issue which we now had to think about - cash." Especially as one of the early contracts - 'huge' is how Ross describes it - for ill-fated Independent Insurance didn't make it.

"We had to make the business operationally lean, not so much in number of people in total, but in terms of those who couldn't make the transition to a much more commercial environment," Ross explains. That said, over twelve years on, fifty of the original complement of 100 are still here.

What sets Aquila apart is that it can cover all types of pension - corporate schemes, public sector and local government, providers in the financial services sector, plus third-party pension administrators to which the first two categories might outsource."

At the time of the buy-out, there were three other suppliers, all roughly the same size. Although the owners of one, Profound, were prepared to sell to Aquila a year later, Ross adjudged it to be too soon to make an acquisition. When a second rival, Heywood, was put on the market by its parent company, he didn't hesitate. "They were a good fit because of their market leadership position in local government," he

says. "It meant we became not just the biggest, but the provider with the clearest definition.

"We have no desire to be big for the sake of it. We're profit maximisers, and it's hard not to grow the business when you are successful as a consequence of meeting client requirements. Our ethos is essential. Otherwise, as our clients grow, we would have an unmanageable position, with different clients having different platforms and versions for us to deal with. It's the support grid of death which kills software companies."

Today, Aquila Group software covers some 7million people in pension schemes in more than 200 leading-name organisations such as Prudential, BP, Asda, BBC, and the European Central Bank.

Interestingly, in order to move into a new territory, Ross accepts that Aquila might have to be just a little bit client led. "It could be that we set up in a particular country because an existing client has asked us to support them there," he explains. "The risk is that we could be introducing features specific to that client without realising, although our experience means I think we would know; it's just that we might not pick up on them so readily.

"The outsource client is worldwide, and our challenges are not language or currency - we can deal with those issues from here - but finding a partner or company we can work with or acquire who understands the legislative framework in their country."

www.aquilauk.co.uk
www.heywood.co.uk

GROUND-BREAKING BUSINESS TAKES OFF

"We haven't re-invented the package holiday," says Steve Endacott, "but we have completely re-written the rulebook."

The former MD of My Travel and of Going Places is founder/CEO of the On Holiday Group - the name of the business reflects where it enables its customers to go and the mechanisms for making that happen.

Before, a holiday company would have had to own or charter an aircraft to get its customers to, say, Majorca. Their concern was managing assets, such as filling the plane and the colossal cost of brochures. But with the arrival of low-cost carriers, Endacott could envisage a tour operator simply scanning availability when someone is booking the holiday. "We aren't carrying the overhead, and it also means we're



not tied to a handful of airports," he explains. "We carry 700,000 people a year with fifty staff - the highest volume with the lowest overhead - and everything is done electronically."

Including promotion. "Brochures are expensive, and inflexible," says Endacott. "All of our distribution is on line, which means we can make new product available very quickly. The difficulty was getting the travel agents to think differently. But they have colour printers and can run off the relevant pages for the customer."

However, On Holiday Group was able to provide an enticing incentive. "Our model is to give travel agents a net price - they decide what commission they want to add rather than us telling them what percentage they can take," explains Endacott. "So we're saying, don't think of yourself as a sales agent but as your own manufacturer of holidays, because we're providing you with the component parts - flights, accommodation etc - to assemble for the customer."

But even with the new business model that Endacott has introduced, the barriers to entry are still considerable. "Unless you are carrying 400,000 passengers a year you can't make money. And for a VC, the return on capital to fund a venture wouldn't be enough," he suggests. "Other internet names such as Lastminute.com and Expedia work well with the major hotel brands, but in the beach sector, can you think of any big names? We're dealing with hotels which don't have yield management systems."

"Our real threat would be a lack of focus. An innovative company will come up with lots of new ideas and will try to run with too many of them. A balanced management team will prevent that from happening. We assembled our team before we could afford it - they worked for virtually nothing for a year in return for a shareholding. The biggest thing we gambled was our reputations, because a lot of people want you to be wrong when you introduce a new concept."

That said, balanced management team isn't a euphemism for simply sticking to plan A. "Holiday Taxis came into being when tour operators began charging for transfers," says Endacott. "We offer similar prices but a personal service, with the driver standing at the arrivals gate with a board and the passenger's name on it."

In addition to its own brands, which also include Holiday Nights (accommodation only), and Holiday Brokers (for the travel trade), On Holiday Group has contracted

with a supermarket operator. "They were looking for an in-store travel agency, but we demonstrated how it could be done on-line," Endacott explains.

"If we needed to raise money for future business development, we could look to an AIM flotation, but we're in a cash positive sector, and our business model doesn't include the purchase of tangible assets. If we wanted to raise money it would be to acquire another business."

"The motivation for me," says Endacott, "is to create and build a business which is groundbreaking. Success is measured financially, so of course it's a motivator, but that's not what gets me out of bed in the morning."

www.onholidaygroup.co.uk

SAME SYSTEMS WILL DEAL WITH MAJOR CHALLENGE

The biggest challenge for the head office of a global company with 2000 staff working out of eighty offices in sixty countries? Brendan Connolly, chief executive of Moody International doesn't need prompting. "Consistency," he suggests.

"International clients lead your business for you in effect because they expect a consistency of service, wherever they are in the world," Connolly explains. "BP for example, will have an expectation that what they see in Moody's in the UK, they will also get in China, India, or wherever it maybe. We contract in one place, but deliver in many; so we had to centralise certain processes and procedures but maintain a local feel by allowing the individual countries to manage their environment, with the clear aspiration to meet the Moody International standard. Everyone in our China office, for example, is Chinese, but everyone is working to the Moody's model as a consequence of our setting objectives, coaching and mentoring. The strategy is outlined in a detailed document, with charts galore, which every member of staff is given and is asked to sign.

"What works for us is to have local people with a global perspective. I believe you need to have the same systems throughout the organisation; one logo, one email, and a consistent approach to pricing everywhere in the world. Our model means we can contract in one country but deliver in many, and that is quite unusual; we have global pricing agreements, so if a price is agreed in South Korea with a customer, it also stands in the USA.

"We also differentiate ourselves by raising the barrier to entry to keep out some of the smaller competitors, such as our physical presence in so many countries for example. Behind all of that, what has also made a difference is having the systems in place for growth. You can't attempt to be the best if you don't have decent systems and processes as a basic rock.

The company was founded back in 1911, and in 2007 was sold to Investcorp.

There are four elements to the business now - testing, technical inspection and certification, technical staffing, plus consultancy and training. Clients are largely in the oil and gas, power, mining, construction, engineering, chemical, food industries.

The company has gone so far as to develop its own workflow management system. Called Evolution, it tracks everything from initial customer contact through to invoicing - which means that a client's requirement can be owned by Moody International in one country and supplied to other offices elsewhere in the world.

"The final piece in the jigsaw has been acquisitions to achieve significant growth," says Connolly. "Every time we scope out an acquisition, we put it against the strategy. If you've spent a lot of time and money putting together a plan, you have to stick to it. We're interested in moving into new areas, such as in consultancy and training. We've acquired two create new legs in those areas. They're both good, strong businesses and contribute 15% of total revenue between the two of them.

"We are constantly tracking everything that we do - a strategic plan isn't static, so we have employed a strategy and project manager so we have weekly reports on progress. If you don't set out how and when to track strategy, things don't get done."

www.moodyint.com

GETTING BACK TO THE CORE PROPOSITION

Trying to come up with a category for Robert Dyas isn't easy. The company's own website has the description ironmonger, but the stores also sell homewares, kitchen appliances, even home entertainment systems. "Our new icon is about trying to define us as being everything for the home and garden," says chief executive Steven Round. "We definitely fill a void in that we are there for the sort of things that you don't want to go all the way to B&Q or John Lewis for."

"The question which is most often asked in a Robert Dyas store is 'you haven't got one of these have you?' And invariably the customer will go out with more than they went in for. Everyone goes in for something specific and comes out with something new they didn't know they wanted. The challenge is that a lot of people don't yet know who we are."

Arguably, they've had enough time. The company was started in 1872 by Robert Dyas, who built it up to eighteen stores in his lifetime. It stayed in his family until 2002, when it was sold to the management. Two years' later, the company was bought half debt and half capital by private equity house Change Capital. The business was over leveraged, but this only became apparent when the market contracted after the heady years of 2004 and 2005 and profitability was declining.

Within three months of his appointment as CEO in June 2008, Round had gone back to Change Capital to tell them that in his opinion, their strategy was flawed. "Their aim was to have a store in every town," he says. "I wanted to be more clear about the proposition and who the customer was, because for a company like Robert Dyas, it makes more sense to have a store on the high street, but not in some of the big out of town shopping malls where recent branches had opened."

"I explained that we should be more of a convenience store than a superstore retailer. The previous management hadn't kept their eye on what the core proposition was and had lost focus, but we know that we'll make more money in a



small town like Banstead than in a Lakeside-type location. We tend to be successful in the more middle class locations. Call me a romantic, but I like having a community with a strong high street; it would be such a loss if the good, traditional names were to disappear.

"We spent the next few months trying to restructure and in March 2009, Change Capital exited and we did a debt for equity swap with our two banks, so now they own 90% and 10% is held by the management."

"We also needed to take a fresh look at the offering and edit the range according to the customer profile. Our most profitable store, for example, is opposite the Bank of England, but we know that people won't be going in there to buy a vacuum cleaner,

which would be a bit of a struggle to take home on the tube! The management who took over from the family had crow-barred a lot of stock into the stores so it became bizarre rather than a bazaar. It was difficult for anyone to find anything. The stores now have a more contemporary image, and we've made it easier for customers to find what they are looking for without having to ask for directions."

On Round's watch, the company has reduced its suppliers from 300 to 140. "And that has enable us to build better relationships with each one," he says. "We're also beginning to source our own products direct from the Far East now, rather than relying on intermediaries. Last year we introduced our own label product for the first time in years, because customers rightly perceive the Robert Dyas brand as being about good quality at a fair price.

"Everybody and nobody is our competitor. The struggle is staying price competitive, hence sourcing our own product from the Far East and having our own brand. I'm a great believer in the Wal-Mart philosophy of 'ready, fire, aim'! In other words, have a go, and learn from it. If you screw up after trialling something new just in one shop, it's not going to bring down the company.

"Our online business is about 2% of sales. We think it will grow, and we're also trialling store-home delivery. But our biggest capital investment recently has been in state-of-the-art systems which enables us to know what our sales are by the centimetre in each store, and to edit the stock accordingly.

"As the business is likely to change hands within the next five years, so our job is to build a strong brand, with clarity about what we are and who the customers are. We want customers to come to us for our USPs, not just because we're handy. We also need to achieve this if we are to widen our geographical footprint. The relationship with our banks as shareholders is unusual. They are supportive, but they're not retailers, nor are they typical investors, and the margin of error they give us is very small. So we scrutinise our performance daily because we're in re-invention mode at the moment, but I believe you have to keep the long-term view firmly in your sights.

"I see the job of the CEO as being like an orchestral conductor – you choose the music and determine how fast it's played, but you don't get down into the pit

yourself and take the instrument off the first violinist – other people are there to do the detail."

And Round is adamant that what makes Robert Dyas special is its staff. "I was in a store recently," he explains, "and the staff there were able to help a lady who wanted to get fly larvae out of her carpet, to the extent that they not only advised her which product was the best to use, but were able to talk her through the process and the likely outcome. We want staff who are interested in the products and can talk about them. We're happy to take on students on a part-time basis who have the right attitude, and we've found that some of them decide to make a career with us afterwards. Our recently appointed operations director started that way and worked her way up.

"I'm a strong believer in getting the right sort of people, but they're not all going to be the same type of person; I'm creative, but you need a balance of people like myself and those who are more analytical and focused on data. We keep a close eye on the culture to ensure it's working – we've introduced a staff satisfaction survey, an absentee survey, and a mystery shopper programme.

"You need to be clear with staff and show them exactly what it is you want to do as a business – if it's only in the ether, they don't get it. I just try to be open and clear with people about what has to be achieved, and what their role in that is. For example, when I first arrived the individual stores weren't aware of their own profitability, so we've made each store responsible for its own P&L, and it's really improved performance. I also think you need to tell staff if their company is in difficulty if you want to create change. That's what we've done here, and their loyalty to Robert Dyas is so strong, I have had staff approaching me and volunteering to take a pay cut if necessary. Fortunately those days now seem to be behind us."

www.robertdyas.co.uk

ORIGINAL SENSE OF PURPOSE STILL DRIVES THE COMPANY

Is it being facetious to describe Bowers & Wilkins as a sound business? Not if consistently being true to its vision is a measure.

Founder John Bowers was a hi-fi enthusiast who assembled speakers in his spare time at the back of the electrical shop he set up with his friend Roy Wilkins. He would talk about his desire to produce the best loudspeaker in the world, and a Mrs Knight, a customer who had frequented the shop, left him £25,000 to pursue his dream. "That sense of purpose, that vision, and John's belief that if you build a better product, you will sell it, is still what drives the business forward today," says Geoff Edwards, who was appointed executive VP, operations, at B&W in 2002.

The founder had swiftly come to the conclusion that concentrating on the UK market alone wouldn't sustain the worldclass business he wanted to create, and within three years he'd set up a network of distributors and dealers internationally; today there are more than 2000 around the world, with sales around £100million.

In the 1970s the company decided to move some of its engineers away from the manufacturing environment and into a dedicated research and development facility, to push the design envelope, as Edwards puts it. Out of what became known in the industry as the University of Sound came the loudspeaker cone made from Kevlar, a high-strength, low weight synthetic material, more familiarly associated with bullet-proof vests.

It wasn't the only big step-change in thinking. In the 1970s the company took a radical step by taking the 'tweeter' (the high frequency bit) out of the main loudspeaker cabinet to create a more life-like sound.

Then the University of Sound turned its attention to the actual cabinet, and in 1986 created a series of interlocking panels which improved the 'bass attack'. Seven years

on, B&W unveiled the Nautilus, the first loudspeaker not to look like one, with its curved shell-like shape.

The company responded to the I-pod era with the launch of its Zeppelin docking system in 2007 for £400 - more than 150,000 have been sold. "It meant we could take the brand to the next generation and provide them with a stepping stone," explains Edwards. "Another way of broadening the reach of the brand is by providing speakers for Jaguar cars. Some 60% of luxury cars elect to upgrade their sound system. We're cascading the same technology to create new entry level points. Speakers are our core business, but we need to be more involved in new media, which is why we have launched the Zeppelin Mini (£300), the P5 headphones, and multimedia speakers. If the next generation is only experiencing music through inferior headphones, then that will pose a risk to the loudspeaker market."

The other danger is that with commoditisation, the brand ceases to be important if you can buy an amplifier, speakers for a home cinema and a dvd player for £200. B&W prices cascade down from £43,000 a pair (fifty purchased a year for home use), through speakers used by the world's major recording companies and studios (such as Sony and Abbey Road), down to an entry point of £250. B&W launched its Society of Sound in 2009, an on-line community which discusses issues of aural fidelity; for an annual subscription, members can download a couple of albums a month in "super-high quality formats".

The company manufactures in Worthing, but entry-level products, where there is much more price sensitivity are likely to be made in China, where B&W took over part of a factory run by Rotel (a brand it distributes globally). UK managers were sent over to deploy exactly the same lines, testing, quality systems and working methods as in this country. "It's as if the product is made in the UK," says Edwards. "The only resistance when we announced our plans and how they would be implemented came from distributors in other Asian countries; but after they saw the facility and the quality, they were ordering three times more than expected."

Another advantage of the system synergy is that if there happens to be an issue, engineers on both sides of the world will be working on the problem. And another differentiator is a perhaps unexpected example of vertically integrated manufacturing. A mission-critical supplier based in Denmark - producer of the wooden cabinets - was acquired when it got into financial difficulties, and after six years, B&W brought them (machines and some people) over to the UK.

But there's one potential problem at the high-end. "Our dealers for loudspeakers are specialist independent outlets, and a combination of their owners getting older and changing retail trends mean their number is diminishing," muses Edwards. "But the consumer needs choice; if they can compare one product against another, it will lead to a sale because they can determine the value of one over the other."

www.bowers-wilkins.co.uk

FUTURE LIES BEYOND THE TRADITIONAL BOUNDARIES

From his earliest days, Harry Ricardo had a fascination for engines. At the age of seventeen he had designed and built one to pump water at the family house in Sussex. At twenty-three he set up The Two-Stroke Engine Company and began to manufacture the Dolphin car, with an engine he had designed and which local fishermen began to acquire because of its reliability despite working at prolonged low-speeds.

In 1915 he set up Engine Patents Ltd, the company which was to become the present-day fully-quoted Ricardo plc, and was contacted by the Royal Naval Air Service to help with the design of a device to manoeuvre tanks onto railway trucks. As a consequence, he also found numerous issues with the tanks' engines which he was able to rectify.

In the 1930s the company designed the first diesel engines for Citroen; in the 1960s the company developed an underwater diesel; also the driveline for the world's first four-wheel drive car (a Jensen); in 1986 the engine for the Voyager, the first aircraft to fly around the world non-stop; in 2008 hybrid vehicles for the Olympics in Beijing; in 2010 the Wolverine lightweight engine for unmanned aerial vehicles (airplanes) from concept to production was delivered in six months.

In the last few years the company has built up new markets in automotive - China, India, Russia - but probably more importantly has looked at where else it could apply its core competences. And found clean energy (wind farms), marine, and rail as being sectors where it could very much use its skills.



This wasn't a strategy to counter the effects of recession, and in some cases the virtual overnight cessation of spending by automotive manufacturers. It started eight years ago, and arguably, if it hadn't, Ricardo plc would be a very different (smaller) business if it was actually still in existence.

When Dave Shemmans was appointed as managing director of the UK subsidiary of Ricardo in 2002, his first task had been to reduce staff numbers by 20%. "I never wanted to have to do that again," he grimaces, "so when I was subsequently appointed to the role of chief executive three years later, I started a strategic realignment of the company which would help avoid this situation recurring in the future."

A 'household' name in automotive, Ricardo first began to re-engage with motorcycle manufacturers. "We could make the mental leap - it's like a car but with two wheels," says Shemmans. Then, trading on its reputation for the reliability of its transmissions, Ricardo began to make some inroads into the energy sector. "A wind turbine is like a big gearbox," suggests Shemmans, putting it into layman's terms.

"The customers knew we could do it, but the engineers here weren't necessarily convinced," recalls Shemmans. "We had to strip it back for them to say that first and foremost they are excellent engineers who have just happened to be using their skills in automotive."

Shemmans set up an innovation team to think about technology and how the company's skills could be applied beyond its 'traditional' markets. When the team began to look at flywheels and how they could improve electricity transmission, Shemmans could see that Ricardo was also able to position itself as an industrial consultancy.

"Our staff don't come here to do a job or because they're petrol-heads," he explains. "They have a real mission. They are creating the new generation of engineering for the good of the world. The role of the company is to feed them the opportunities."

Today, the company describes itself as a provider of technology, product innovation, engineering solutions and strategic consulting to the world's automotive, transport and energy industries - from research to implementation.

But what happens when the car industry comes back on full throttle? "I don't want to see the company turning the clock back, seeing automotive as a comfortable blanket to envelop ourselves in because it's where we've always been," says Shemmans. "There will be real opportunities for Ricardo because of our environmental knowledge. CO2 emissions haven't ceased to be the big issue. It's just that the recession became a more immediate imperative. It all started with reports in the media about car exhaust emissions, and the same thing is happening now with shipping.

"It's a space for Ricardo which no-one else is in. Once the Ricardo name has more resonance in a sector, then it means we have also managed to build a barrier to entry because of our company's engineering.

"What excites me is that we've got all of these engineers - electrical, software, mechanical - and they are able to communicate with the customers in sector-specific language. Our diesel specialists will be able to function at a technical level, but they also know the issues and applications in particular industries.

"I used to think that not producing enough engineers in the UK was a threat, but because of our spread across the world we can call on in-house expertise in Germany, the USA, China for example, so it's less of a problem. Video conferencing doesn't just enable this to happen effectively, but it provides cost and time savings."

Ten years ago automotive represented 80% of the company's turnover. By 2020, Shemmans says that percentage will have reduced to 25%, but Ricardo would have doubled in size.

www.ricardo.com

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