

SWP 36/91 CASE STUDY - BEVERLEY PLC

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BEVERLY PLC

CASE STUDY

This case has been prepared by Andrew Norton and Bill O'Rourke with the assistance and under the direction of Robert Brown at Cranfield School of Management. The case is intended for classroom discussion only and is not meant to demonstrate either good or bad management practice. The authors are grateful not only to the owners of Beverly Plc for their co-operation in case preparation but also to the European Foundation for Entrepreneurial Research (EFER) for their financial assistance in covering travelling expenses during case analysis.

BEVERLY PLC 1

A CONTINENTAL ADVENTURE

Dennis Brown could now pause for breath. The success of his French company, Beverly (a subsidiary of Doulton Glass, itself part of the Pearson Group), had confirmed the promise excited by the first speculative marketing initiative back in 1980. In the intervening three year period Dennis had gained a close collaborator in the form of a talented ex Rugby player, Mark White. Together, they had began to exploit the market potential on the Continent for a special type of damp-proof protector developed by another part of the Doulton Group. Their association with Doulton had been very useful but an even greater opportunity had been presented to them in the form of a Management Buyout. The possibilities for Brown and White now eclipsed the achievements of the last three years.....

Dennis Brown had made a career out of the direct-selling industry which had revolutionised selling methods in the United Kingdom during the 1960's and 70's. Aggressive sales tactics had been eschewed by the major companies until then; they were perceived as being "unBritish" and "not the done thing".* The revolution started in the double-glazing industry where Dennis Brown had been a Director of Coldshield Windows,* bought out by Pearson in 1968.

* Industry Note on Direct Selling and Double Glazing (1)

* Industry Note on Coldshield Window Experience (2)

Dennis began to question why the direct selling method that had proved successful in both the US and the UK could not be replicated on the Continent. He had been transferred to Doulton's French subsidiary (Beverly) early in 1980 to develop the market there for Doulton's damp-proofing products.

Doulton had originally established a presence in France in 1974 to distribute a range of its glass products. This market had not proved attractive and Beverly was losing money. Dennis had a strong feeling that another Doulton product could be successfully marketed in France.

U.K. Experience

The Royal Doulton Group, as a by-product of its ceramic expertise, had patented a ceramic tube in the late 1960's which had the propensity to attract and absorb moisture. This product had not been developed with the home damp-proofing market in mind. In fact a problem over the years was the fact that Doulton, and later Beverly, could not scientifically explain why the ceramic tube was able to absorb damp when inserted into a wall.

Whilst the injection of chemical sealants into walls created a verifiable water barrier, thus being accorded an Agrément Certificate Valid in all Europe, the action of boring and insertion of ceramic tubes in walls, although practised for more than a century in Europe, could not be scientifically demonstrated to totally prevent rising damp.

Nonetheless, the tube process was effective in a vast majority of installations, explainable perhaps by the fact that even a slight reduction (2 to 3%) in rising damp enabled the internal surface of a wall to dry and permitted the plaster to retain newly applied paste and wallpaper. Wallguard (UK) led by Dennis Brown was thus able to grow rapidly in the 70's, using direct selling promotional techniques to popularise the tubes. The company offered an original 5 year guarantee on its treatment (subsequently extended) safe in the knowledge, that any deterioration in tube performance (unlikely) could be remedied by chemical injection. Surveyors were additionally trained to diagnose severe cases of damp (using electronic meters) where only chemical treatment (bought in from Sovereign) would be successful.

Possession of the unique Doulton tubes, nonetheless, gave the company the promotional opportunity to offer a unique damp treatment, enabling householders to avoid the highly expensive and inconvenient alternative of new floor foundations. Not surprisingly, therefore, from a standing start in 1974 the company had developed a 6 depot national coverage company by the late 1970's and a turnover of over £2 million, earning 10% on sales.

The UK damp-proofing market was near saturation at the beginning of the 80's (see Sales Graph - Exhibit 1). Doulton's ceramic tube had a static market share and was facing long term pressure from alternative damp-proofing companies using chemical injections. The uniqueness of the Doulton product enabled Wallguard to charge £10 per foot run of 9" thick wall, but this was being undermined by prices of £5 per foot for chemical injection by Rentokill and for £3 by Peter Cox and others.

Dennis was therefore able to suggest to his bosses at Doulton the merits of a trial marketing exercise for the ceramic tube in France. The timing was not right however for an major new initiative. In common with most other large UK companies, Doulton was having to grapple with the problems of difficult trading conditions and incipient world-wide recession. Interest rates were purposely raised by the new Conservative government under Margaret Thatcher to quell inflation leading to a strong appreciation in the value of the pound. Overseas expansion was not high on the agenda of many companies.

FRENCH MARKET TEST

The question then came of how to test the market on a low cost basis. Dennis's solution to the trial marketing exercise was ingenious. He recognised that Doulton was not inclined to support either a fully researched product launch or upfront investment in personnel. Finding no mention in Thompson's Yellow Pages equivalent in France for Rising Damp Treatment ("Salpêtre"), a trial newspaper advertisement was prepared (Exhibit 2) for testing in the Parisian region, the area most comparable with U.K. The advert was placed in the Paris Edition of the T.V. magazine, Tele 7 jours, in late November 1980.

The magazine was reassured to accept the advertisement by the fact that the Doulton Glass had a registered office in Versailles. The Royal Doulton name was used in the advert to emphasise the English nature of the company and the idea that the English ought to know something about rising damp! The response to the advert was very high - over 200 interested households. This figure was well above the response rates from UK adverts and a clear signal of latent interest in the product. A card was prepared telling the respondents that due to the unprecedented demand there would be a 3 month delay before installation.

This breathing space allowed Brown time to import the required tubes and find the initial installers able to do the necessary work.

The initial market reaction was encouraging but Dennis lacked a team based in France who could progress the concept. Part of the solution to this obstacle came from a chance encounter from among Dennis's large network of contacts. Mark White had graduated from Liverpool University in French and Rugby; his prowess on the rugby field had led to an invitation from Maurice Colclough, the England lock-forward to join him playing for a French club side. Mark had a variety of jobs in France but was amenable to the offer of a position with Beverly. Dennis now had the benefit of an able assistant who, moreover, was familiar with the language and customs of France.

LAUNCH, 1981-2

Dennis and Mark were able to consolidate the company's position in the French market during the period 1981-1983 through a combination of initiative and favourable external conditions. France was in recession after a failed attempt to reflate its domestic economy. The situation was particularly acute in Northern France, where there was a ready supply of eager, aspiring salesmen who would accept difficult working conditions. It is almost perfunctory to note the huge distances involved in the daily schedule of a direct salesman in France, so that sales territories were strongly denoted as being "France!"

The "initiative" factor was the readiness of the principals to test the unwritten assumption that French laws and customs made direct selling impossible. As the concept of 'self-employed' direct selling sales agents was little known in France, a legal contract was drawn up under French Law ensuring that agents would be paid only on commission (15% of net contract) with no employment charges

falling on the company (copy contract A attached). Only surveyors were taken on as contracted company employees (copy appointment letter, B, attached), with installation teams again being self-employed, supervised by surveyors.

The marketing approach taken in France closely followed the successful English pattern. Advertising was centered in Tele Sept Jours, always the best source, and local papers which gave rise to a number of leads pursued by the direct salesmen. The salesman was expected to generate his own business. The business was also driven by word of mouth and it was therefore imperative that Mark, as General Manager, ensured that quality of work done remained high. One bad job could result in serious loss of business in any one particular area.

Using the Doulton Glass office in Versailles as a base, Mark during 1981 was able to build a reliable team comprising a surveyor, installation supervisors and back-up book-keeper to serve the Paris market. The best salesman was made sales-manager. Tubes and chemicals were imported from England and stored in the office basement; capital expenditure was minimal. Installation crews need only small electrical drills, vans were leased. Advertising was the major expense, so by the end of the year, with 7 full time employees, and cumulative sales just under £100,000, the company broke-even on the year.

Dennis was determined not to repeat some of the mistakes that had lead to difficulties and fast growth of competition in England: frequent price increases would be avoided by setting an initially 'satisfactory' price, to give a 65% gross margin AFTER direct materials, sub-contract labour and selling commissions, which would allow 20% of turnover to be spent on direct advertising. Far greater use of chemical treatment would be recommended, with a 20 year guarantee, to avoid costly re-work after faulty tube installations (although

advertisements would stress the unique, to Beverly, tube approach). 1% of sales turnover would be retained for remedials.

An optimistic sales budget of £850,000 was set for 1982, with £100,000 advertising expenditure; a second storage depot and installation team was established in Arras to cover North of Paris to the Coast. Results proved their optimism justified; a profit of £75,000 was earned on turnover close to budget (Exhibit 3). Sales leads (Exhibit 4) through the year were closely monitored, as were conversion ratios and costs per lead (below £5 per lead). The Christmas Party for the sales agents at the Old Airfield, Versailles, was a very happy affair!

THE BUYOUT OPPORTUNITY

Beverly was never more than an interesting experiment within the wider Doulton group. In 1983 several events happened which changed life significantly for the principals:-

- Direct selling in the U.K. had come under media scrutiny and criticisms levelled at the more energetic proponents of the style; double glazing salesmen in particular had become something of a music-hall joke!
- Large companies were slowly returning to profitability often through a policy of cost-control and divestment of non-core business.

By early 1983, Doulton, following failure to stem losses despite drastic surgery, had divested itself of its direct-sales subsidiaries including Coldshield, Wallguard (in the UK) and Mullberry Home Extensions (see CSW note). Dennis realised

that he had a outstanding opportunity when Doulton Glass was itself taken over by a South African backed company, Solaglas. The new owners of Doulton Glass had no requirement for a small subsidiary in France especially as they were denied visas to visit the company. Its rising damp treatment was seen as incompatible with the new groups international glass concentration. Beverly, Dennis sensed, could be a candidate for a buyout, many of which were taking place in 1983 based on the incompatibility of the subsidiary within the context of the larger group.

The Negotiation

The new owners not only saw Beverly as incompatible, but were also anxious to avoid involvement with further direct selling activities. While the early trading results for Beverly in 1983 were close to budget, the declining sales leads statistics (Exhibit 5) raised doubts as to whether Beverly had already peaked in N.France. They were aware that a former glass manager had left in 1982 to set up a rival company in Paris (see Derna advertisement - Exhibit 6). It was an easy business to enter. The Beverly company had few assets, but by mid year had close to £170,000 in cash in bank (see Balance Sheet summary - Exhibit 7).

Dennis saw the company quite differently; they would have to stop using the Doulton name but, nonetheless, this was a real opportunity to make a lot of money if only he and Mark could handle the negotiations correctly. He wondered how to go about making an offer for the company.

INDUSTRY NOTE 1

NOTE ON DIRECT SELLING AND DOUBLE GLAZING

'Direct Selling', thought to have been introduced into England in the 1950's from America, initially as a means of selling Encyclopaedia Britannica, comprises two main elements:

- (1) the salesman is registered as "self-employed", responsible for his or her own tax and working arrangements;
- (2) the company "employing" self-employed salesmen, advertises the product/service direct to the public, providing "leads" (usually tear-off coupons from the advert) on a controlled basis to the salesmen.

This sales method had the advantage compared with conventional selling of being relatively low cost and low risk, particularly for smaller companies in developing new markets (avoiding fixed costs of salaried salesmen, plus associated fringe benefits) as well as being entirely results oriented and motivating for the salesmen (no sales commission paid unless a 'lead' was actually converted into an actual order). By the salesman taking a 10-20% cash deposit at time of order, with balance on job completion, direct selling also provided a comfortable "cash cushion" for the operating company.

The practice became widespread and instrumental in helping the development of the domestic double glazing market in the UK in the 1970's, where a large amount of personal selling was required in "unsocial" hours i.e. evenings or weekends, when both domestic partners in decision making could be present. With

most U.K. houses having non-standard window sizes, 'direct' salesmen were equipped to measure, price for an increasingly complicated product range (secondary windows, double glazed units, replacement frames) and provided a written quotation on the night (ranging from £500 for secondary windows to over £5,000 for full double glazing by the end of the decade), with lease-financing packages.

Disadvantages of the direct selling method, once companies and markets matured, included lack of loyalty or career progression by self-employed with any particular company, inevitable mobility by better salesmen to new 'faddish' products (e.g. double glazing succeeded by fitted kitchens), as well as the increasingly high 'fixed' cost of advertising in maintaining lead generation and salesmen retention. What began, therefore, as a low cost, low risk sales expansion strategy in young markets, is rapidly transformed into a high fixed cost (advertising), high risk selling strategy in maturing markets (see Coldshield Window Note).

INDUSTRY NOTE 2

THE COLDSHIELD WINDOW EXPERIENCE

Coldshield Windows (CSW) had begun in the late 1960's as an entrepreneurial diversification by the owner's son of the small Mulberry Glass company in Manchester. By developing an effective manufacture, installation, advertising and direct selling team, propelled by the growth of domestic central heating and concern with rising energy prices as a result of oil price explosion in the 70's, CSW was an early leader in the fast growing replacement window or double glazing market in the 1970's. Sales turnover frequently doubling each year, as a network of 14 assembly and installation depots was established to cover the county, and some 500 direct selling employees were engaged, sales reached £15 million by the mid 1970's and peaked at £26 million in 1979. With earnings at 10% of sales, CSW had become the most profitable division in Doulton Glass.

The rapidity of CSW's rise was only matched by the speed of its decline, coinciding as it did with:

1. The U.K. economic downturn in the first two years of Mrs. Thatcher's government; real GNP declined 2% per annum, and the double glazing market registered its first ever 1% fall. Most double glazing companies, including CSW (see Graph 1) had budgeted for a 25% sales increase (the previous five years industry average) and while improving somewhat, were still unable to keep optimism out of subsequent years forecasts.
2. 1978 had been the final year of a management "earn-out" for the original Mulberry entrepreneurs. Under the terms of the Pearson acquisition, a

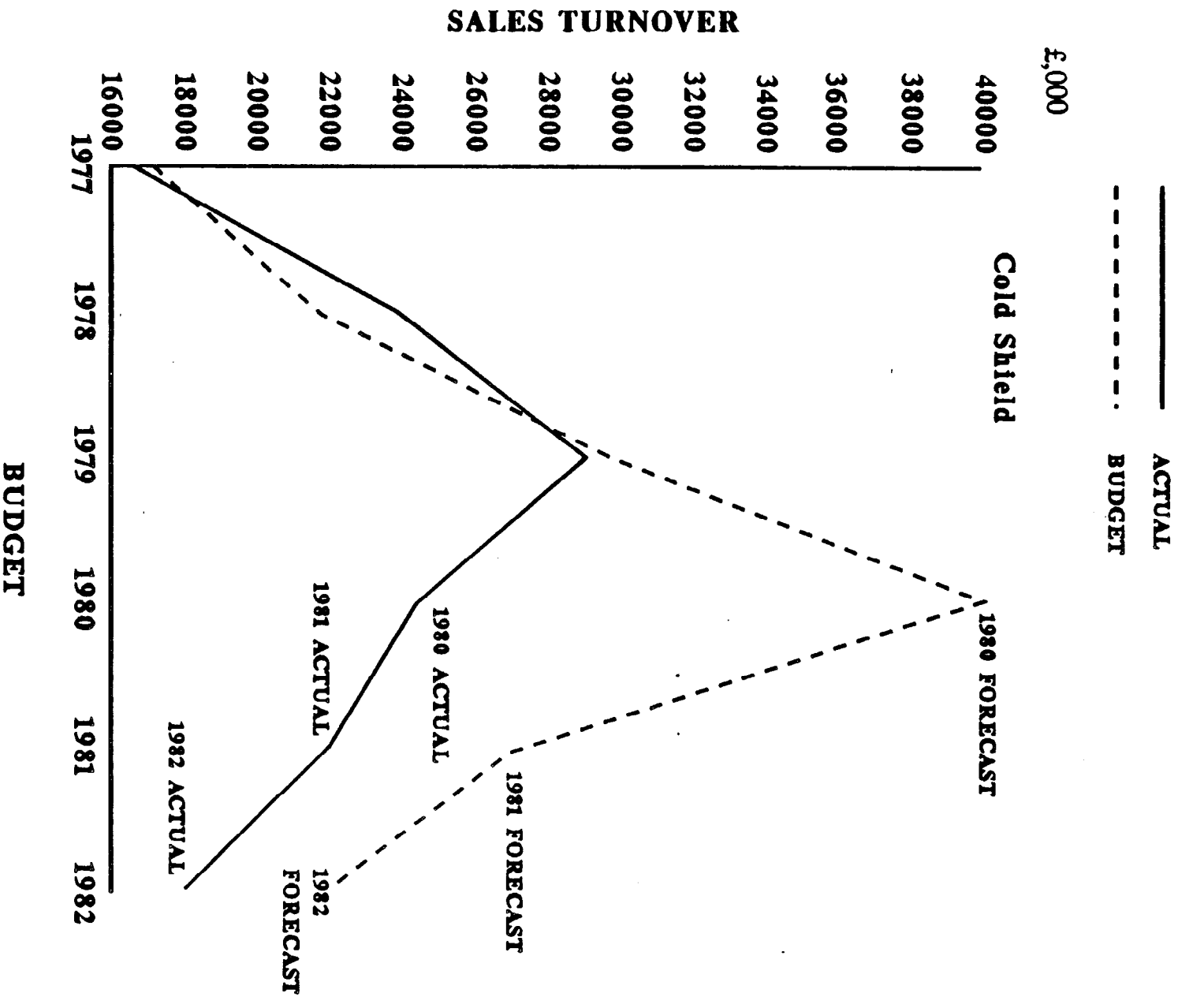
put and call option had been agreed, enabling original owners to sell their minority shareholding at an agreed price/earnings multiple 5 years later. This had encouraged minority shareholders, who were responsible for the day to day running of the company, to maximise 1978 earnings. In particular, by bold pricing in a growing market, CSW retail prices were shown by AGB Market Research in 1979 to be between 10 and 30% higher than main competitors. CSW's market share was nonetheless only estimated at 5% of the total market, the market leader being Everest with 15% market share; major brands accounted for only one-third of the market.

3. CSW's success has been based primarily on local and subsequently national newspaper advertising, feeding leads to its direct selling force. In the face of a static market and increased competition (see Major competitors promotional methods), the company was initially reluctant and subsequently unable to rapidly diversify its selling methods. As the cost per advertising lead rose from under £10 in the late 1970's to over £40 in 1980, the company was increasingly unable to feed and maintain its direct selling force.

Despite halving its assembly and installing work force and depot network 1980-82, the company was unable to stop its losses, leading to its sale by Pearsons in mid 1982, for some 75% of its net asset value, to its original owners. Despite valiant efforts, losses actually increased for the next 2 years, leading to eventual absorption and closure of the company by the Hawley Group. Among the double glazing major competitive brands in the 1980's, Anglian remains a successful BET subsidiary, Everest ownership has changed twice and Thermastor has recently gone into receivership.

GRAPH 1

**COMPARISON BETWEEN BUDGETED AND
ACTUAL (Latest forecast for 1981) SALES**



**PROMOTIONAL METHODS OF MAJOR DOUBLE-GLAZING
COMPETITORS, 1982**

1. Everest

Major sponsors of Horse Shows and Show Jumping, strong presences in all exhibitions connected with Home Improvements and at certain other regional exhibitions.

Heavy spenders on television and in the last 12 months have spent large amounts on press advertising.

They also recruit very strongly for people prepared to canvass and distribute leaflets on a large scale.

2. Alpine

Have permanent in-store displays at Debenhams. Have recently spent large amounts of money on television, national press and professional drop cardings. They also take part in all the major Home Improvements Exhibitions.

3. Anglian

Have at least 80 showrooms around the country and are still opening new shops.

Some national press advertising but most of the effort is on a local basis, via regional shops. The local manager is paid on a percentage of its turnover for advertising or leaflet dropping.

4. Crittall

Mainly national and local press, although they have recently used television. They have now opened a number of showrooms in the style as Anglian.

5. Thermastor

Market by way of national press advertising, backed up by T.V. and a canvass drop card operation.

6. Alcan

Mainly national press and some television, plus local advertising via their local offices.

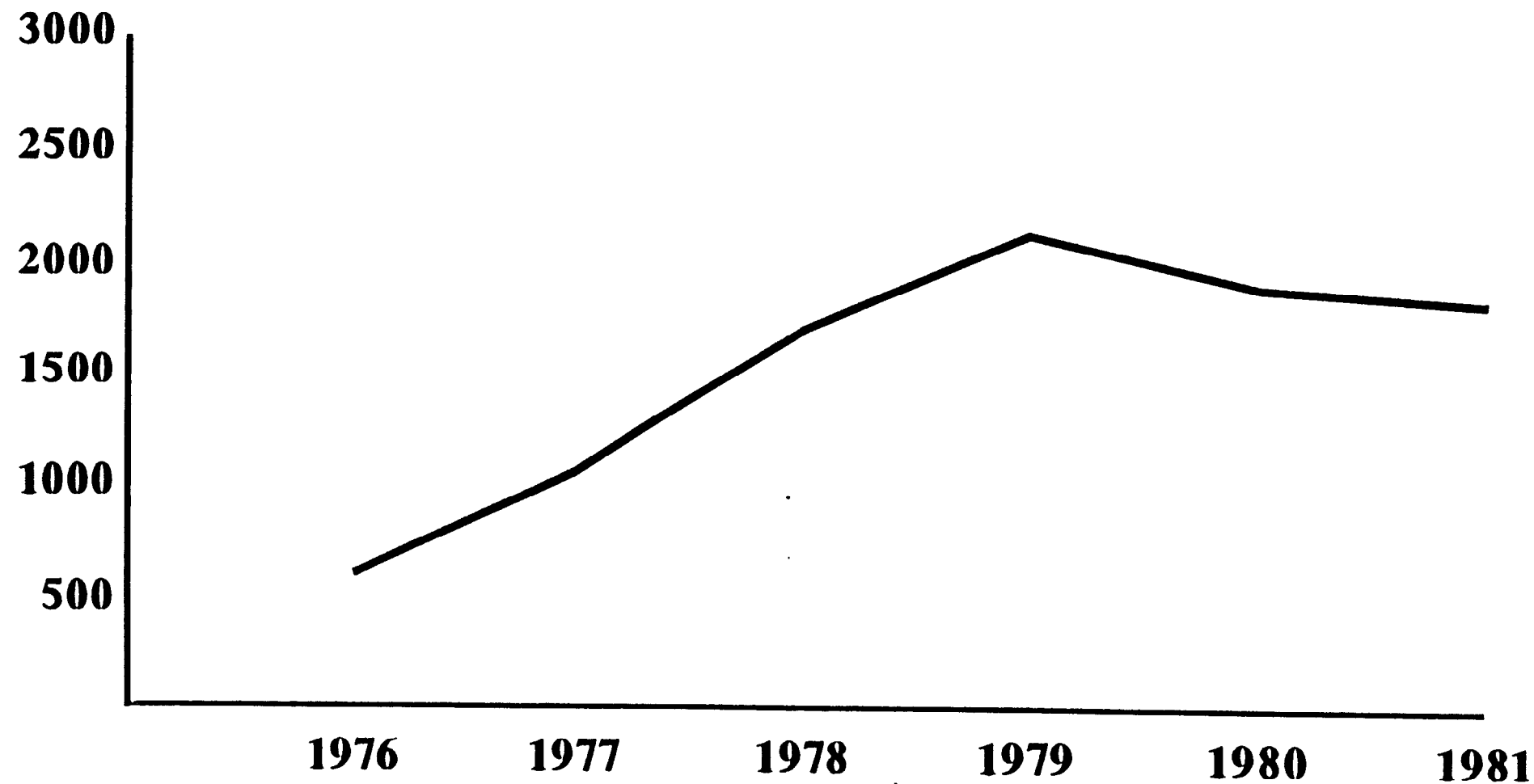
7. Astra Seal

Large T.V. campaigns, comparable to Cold Shield £2 million annual spent.

DOULTON WALLGUARD SALES GRAPH

SALES 1976-1981 - AT 1976 PRICES

£,000



FRENCH TRIAL NEWSPAPER ADVERTISEMENT

TELE 7 JOURS 22-28 NOV 1980

Lettres des Télé spectateurs

(Suite de la page 25)

se trouve sur une hauteur de 65 mètres d'éminence granitique, entouré de trois autres de 400 ans également. Ils dominent une vaste plaine face au Mont-Saint-Michel et fournissent encore, tous les quatre ans, de délicieuses châtaignes que les promeneurs se font la joie de venir ramasser.

M. FAVIERES,
92400 Courbevoie.

● ET STEPHAN ?

Merci à TF 1 pour l'émission « Numéro Un » en hommage à Joe Dassin, ce chanteur souriant et sympathique. Mais pourquoi n'y a-t-il personne qui pense à Stephen Reggiani, le fils de Serge, qui s'est donné la mort parce qu'il se croyait seul et oublié ? Lui aussi avait de belles chansons, qu'il composait lui-même d'ailleurs.

Mme Paulette BERGER,
18320 Jouet.

● MIMIKES, PITRERIES, ETC.

Une troisième diffusion de ce véritable navet, « Le Tatoué », ne s'imposait

vraiment pas. Plus le film vieillit et plus le cabotinage de Gabin (une fois n'est pas coutume) devient insupportable. Les mauvaises mimiques et les pitreries de De Funès sont de plus en plus lassantes. Bref, la mémoire du premier n'y a rien gagné ; quant au second, il y a longtemps, à mes yeux, qu'un peu plus « chargeur » ou un peu moins, cela n'a plus d'importance.

M. Georges BATISSE,
63000 Clermont-Ferrand.

● OBESITÉ MAL DIGERÉE

Je suis scandalisé par l'émission d'Antenne 2 « Question de temps », concernant les obèses aux Etats-Unis. Malgré quelque validité d'ironie mal placée, elle manque du sérieux le plus élémentaire. Parler du problème de l'obésité nécessite de traiter le sujet en tenant compte des tenants et des aboutissants, et il est regrettable que, par un phénomène d'amaigrissement assez facile, on l'ait assimilé à l'homosexualité.

Docteur PANNE,
84700 Sorgues.

NOTRE COUVERTURE

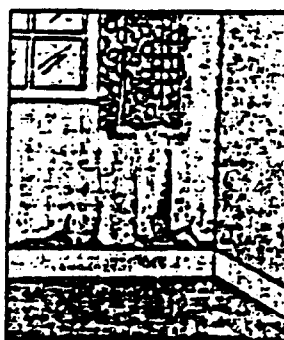
Michel Oliver



C'est un plaisir de le voir en action. dans « La vérité est au fond de la mer ». Pour prolonger ce plaisir, « Télé 7 Jours » vous offrira, dès le prochain numéro, sa recette hebdomadaire (voir page 120).

SALPÊTRE

enfin un remède
simple et définitif.



Comment venir à bout du salpêtre qui mine vos murs et réapparaît sans cesse en dépit du combat coûteux que vous menez contre lui ?

Le procédé Royal Doulton, qui fait miracle en Angleterre, permet de prévenir définitivement la formation de salpêtre en introduisant dans les murs des jubes de céramique conçus pour bloquer l'humidité.

Royal Doulton protège vos murs
de l'humidité grimpante
pendant 30 ans.

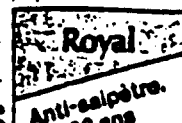
Le salpêtre est l'ennemi le plus tenace de votre maison : il mine les murs, il imprègne papiers, tentures et rideaux, et finit par dégrader les meubles, les tapis et les moquettes... Il a tôt fait de transformer une maison saine en une construction « suspecte » qui va perdre une grande part de sa valeur. L'élimination de l'humidité grimpante constitue donc un investissement particulièrement judicieux. Mais jusqu'à présent, vous cherchiez en vain une solution définitive. Désormais, Royal Doulton vous garantit pendant 30 ans contre l'humidité qui monte du sol. Ce procédé, qui a fait ses preuves dans des milliers de foyers anglais présente l'immense avantage de n'exiger aucun travaux importants. Grâce à lui, vous n'aurez plus jamais à vous inquiéter du salpêtre.

Demandez vite une documentation gratuite
en renvoyant le bon ci-dessous.

GRATUIT Je désire recevoir gratuitement et sans aucun engagement une documentation complète et illustrée sur le procédé Royal Doulton d'assainissement des murs. Je pourrai ensuite, si je le désire, demander un diagnostic et un devis gratuit (toujours sans engagement) pour ma propre maison.

Nom ACHARD Paul

Adresse complète 5, rue de la Baie, 91700 St Geneviève des Bois



Direct Sales Agents Contract (A)

CONTRAT D'AGENT COMMERCIAL

ENTRE :

SOCIÉTÉ VERRIERE DOULTON, Société de droit français, SARL au capital de 200.000 francs, dont le siège social est 75-77, Rue du Docteur Vaillant 78210 ST CYR L'ECOLE, représentée par Monsieur Mark WHITE, son Gérant, ci-après appelée «Le Mandant»,

D'UNE PART,

ET :

Monsieur LIZE Basile
78200 MANTES LA VILLE
ci-après appelé «L'Agent»,

domicilié à Chemin des Brouets

D'AUTRE PART.

Article 1 - Mandat d'Agent Commercial.

Par le présent contrat qui sera régi par le décret du 23 décembre 1958 et les textes subséquents relatifs aux agents commerciaux, le Mandant confie à l'Agent qui accepte, le mandat de le représenter afin d'obtenir des commandes pour la pose et l'installation de barrières d'étanchéité et des produits s'y rapportant selon les procédés utilisés par le Mandant, ainsi que pour la vente, la promotion et la distribution de tout produit offert à la vente par le Mandant. L'Agent exercera son mandat en pleine indépendance et liberté. Il peut accepter la représentation d'autres entreprises non concurrentes sans avoir à en référer ou à en obtenir l'autorisation, conformément aux termes de l'article 7.4 ci-dessous.

Article 2 - Durée - Résiliation.

1. Le présent contrat est conclu pour une durée déterminée d'un an. Il prend effet à compter de ce jour et se terminera le 06 Octobre 1983.
2. Il est expressément convenu que le présent contrat ne pourra être renouvelé tacitement. Les parties devront se réunir au moins quinze (15) jours avant la fin du contrat pour décider s'il y a lieu de le renouveler pour une nouvelle période, ledit renouvellement devant faire l'objet d'un écrit signé par les deux parties ou d'un échange de lettres en tenant lieu.

Ug
BL

3. Lorsqu'il aura été renouvelé le contrat deviendra un contrat à durée indéterminée qui pourra être résilié à tout moment par l'une ou l'autre des parties moyennant un préavis réciproque de trois (3) mois, lequel devra être notifié par lettre recommandée avec demande d'avis de réception.
4. En outre, le présent contrat pourra être résilié de plein droit et par anticipation par l'une quelconque des parties en cas d'inexécution ou de violation par l'autre partie de ses obligations aux termes du présent contrat et ce, à l'expiration d'un délai de quinze (15) jours à compter d'une mise en demeure restée sans effet, effectuée par lettre recommandée avec demande d'avis de réception par celle des parties victime de cette inexécution ou de cette violation. Des fautes répétées pourraient donner lieu également à une résiliation immédiate du contrat.
5. En cas de résiliation du contrat pour quelque cause que ce soit :
 - a) l'Agent devra promptement rendre au Mandant tous les documents à caractère technique, commercial ou publicitaire qui lui auront été confiés par le Mandant dans le cadre du présent contrat, ou devra en disposer selon les instructions qui lui auront été données par le Mandant ;
 - b) l'Agent devra immédiatement rendre au Mandant tous les produits et leurs accessoires qui lui auront été confiés par le Mandant ou devra en disposer selon les directives qui lui auront été données par le Mandant ;
 - c) tous les frais supportés par l'Agent dans l'accomplissement de ses obligations contractuelles aux termes des alinéas a) et b) ci-dessus sont à sa charge.

Article 3 - Indemnité.

Il est expressément convenu que le refus par le Mandant de renouveler le présent contrat à son terme, ou la résiliation anticipée du présent contrat par le Mandant au cas prévu à l'article 2.4 ci-dessus ne donnera pas lieu au versement d'une indemnité par le Mandant à l'Agent.

Article 4 - Territoire.

Le territoire de compétence et d'activité dans lequel devra se dérouler le présent mandat d'Agent, comprend approximativement : LA FRANCE . Toutefois ces limites de la région peuvent être changées à tous moments suivant l'évolution du marché.

Article 5 - Produits.

Les produits faisant l'objet du présent contrat (ci-après «les produits») consistent en des barrières d'étanchéité (tubes céramiques anti-remontées) ainsi que tous produits et matériaux s'y rapportant selon le procédé utilisé par le Mandant, et tous autres produits offerts à la vente par le Mandant.

Article 6 - Obligations du Mandant.

Le Mandant s'engage :

- 1) à fournir à l'Agent tous documents à caractère technique, commercial ou publicitaire que les deux parties jugeront raisonnablement nécessaires pour que l'Agent puisse remplir son mandat :

- 2) à informer l'Agent dans les meilleurs délais de toutes modifications apportées à ses tarifs, à sa documentation et à ses produits ;
- 3) à envoyer à l'Agent une liste des contrats, des confirmations de commandes échangées avec les clients demeurant sur le Territoire ;
- 4) à assurer entièrement la publicité des produits à ses frais.

Article 7 - Obligations de l'Agent.

L'Agent s'engage :

- 1) à faire tout ce qui est en son pouvoir pour obtenir des commandes de produits et pour promouvoir les ventes de ces produits dans le territoire ;
- 2) à se conformer scrupuleusement aux tarifs et aux conditions générales de vente établis par le Mandant, qui se réserve la faculté de les modifier en avisant l'Agent au moins sept (7) jours à l'avance ;
- 3) à transmettre au Mandant toute information d'ordre commercial ainsi que toute information sur la situation du marché et de la concurrence, tout changement intervenu dans le marché ou dans la situation financière des clients actuels ou futurs ;
- 4) à ne pas représenter et à ne pas assurer la promotion ou la vente de produits concurrents ou similaires à ceux utilisés par le Mandant ; cependant l'Agent pourra exercer une activité d'Agent pour d'autres maisons qui ne sont pas en concurrence avec le Mandant ;
- 5) à transmettre sans délai au Mandant toutes les commandes qu'il aura recueillies ainsi que tous renseignements et documents permettant au Mandant d'établir les bons de livraison ainsi que les factures correspondant à chaque expédition.

Article 8 - Commissions.

1. Une commission de Treize pour cent sur le montant hors taxes de la commande facturée au client sera versée par le Mandant à l'Agent selon les modalités définies ci-après.
2. La commission sera payable dans un délai de quinze (15) jours à compter du règlement définitif de la facture par le client au Mandant.
3. L'Agent ne recevra aucune commission pour les commandes reçues par le Mandant après la résiliation du présent contrat.
4. Tous les frais supportés par l'Agent dans l'accomplissement de ses fonctions sont à sa charge sauf accord préalable et par écrit du Mandant.

Article 9 - Marques - Brevets - Know-How.

1. Aucune disposition du présent contrat ne pourra être interprétée comme conférant à l'Agent une licence de marque, de brevet ou de know-how français ou étranger dont le Mandant est ou pourrait devenir propriétaire et dont les produits font ou pourraient faire l'objet.

A l'expiration du présent contrat, pour quelque cause que ce soit, l'Agent s'engage à cesser immédiatement d'utiliser le nom du Mandant ainsi que les marques appartenant à celui-ci.

2. L'Agent s'engage à signaler au Mandant toute contrefaçon sur le territoire des marques et/ou des brevets appartenant au Mandant et ayant un rapport avec l'objet du présent contrat et à lui apporter son assistance dans toute action engagée par le Mandant ou contre le Mandant relativement à une contrefaçon de marque et/ou de brevet sur le territoire.

Article 10 - Interdiction de cession.

L'Agent s'engage à ne pas céder sous quelque forme que ce soit les droits et obligations résultant pour lui du présent contrat sans le consentement préalable écrit du Mandant.

Article 11 - Non-concurrence.

Pendant un an après l'expiration du contrat, pour quelque cause que ce soit, l'Agent s'interdit de continuer à visiter pour son propre compte ou pour le compte d'un tiers la clientèle qu'il prospectait dans le territoire défini à l'article 4 pour des produits similaires ou susceptibles de concurrencer ceux du Mandant.

Article 12 - Conditions générales.

1. Le présent contrat constitue l'intégralité des conventions entre les parties et remplace toute convention antérieure écrite ou verbale à ce sujet.

Le présent contrat ne pourra être modifié que par un avenant écrit et signé par les deux parties.

2. En cas de nullité partielle ou totale d'une ou de plusieurs clauses du présent contrat, les autres clauses ou parties de clauses du présent contrat demeureront néanmoins en vigueur.
3. Le fait pour une partie de tolérer un manquement quelconque de l'autre partie dans l'exécution de ses obligations au présent contrat ne devra en aucun cas être interprété comme une renonciation tacite à ses prérogatives.

Article 13 - Loi applicable - Juridiction.

Le présent contrat est régi par la loi française et les tribunaux de Versailles seront seuls compétents pour connaître de toute contestation relative à l'interprétation ou à l'exécution du présent contrat.

Fait en double exemplaire à St Cyr

le 05 Octobre 1982

SOCIÉTÉ VERRIÈRE DOULTON :

L'Agent Commercial :

lu et approuvé
le 05 Octobre 1982
SOCIÉTÉ VERRIÈRE DOULTON

lu et approuvé

St Cyr le, 23 Septembre 1982

Monsieur BOIVIN Serge

1, Square du Lyonnais

78310 - MAUREPAS

Monsieur,

Suite à l'entretien que vous avez eu avec Monsieur WHITE, nous vous confirmons par la présente que vous êtes employé pour une période d'essai de trois mois dans nos établissements à partir de ce jour en qualité de :

Surveilleur de chantiers

dans notre département ROYAL DOULTON - WALLGUARD, situé à St Cyr l'Ecole.

Votre rémunération mensuelle brut sera fixée à :

FF. 4770

Une voiture du type RENAULT 5 sera mise à votre disposition.

Vous souhaitant un travail intéressant dans notre Société,

Nous vous prions d'agréer, Monsieur, l'assurance de nos sentiments les meilleurs.

Le Directeur,

Mark WHITE

Fait en double exemplaire Serge BOIVIN

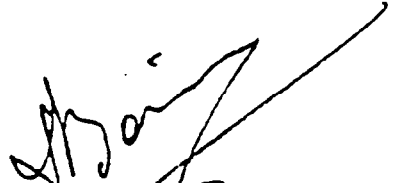


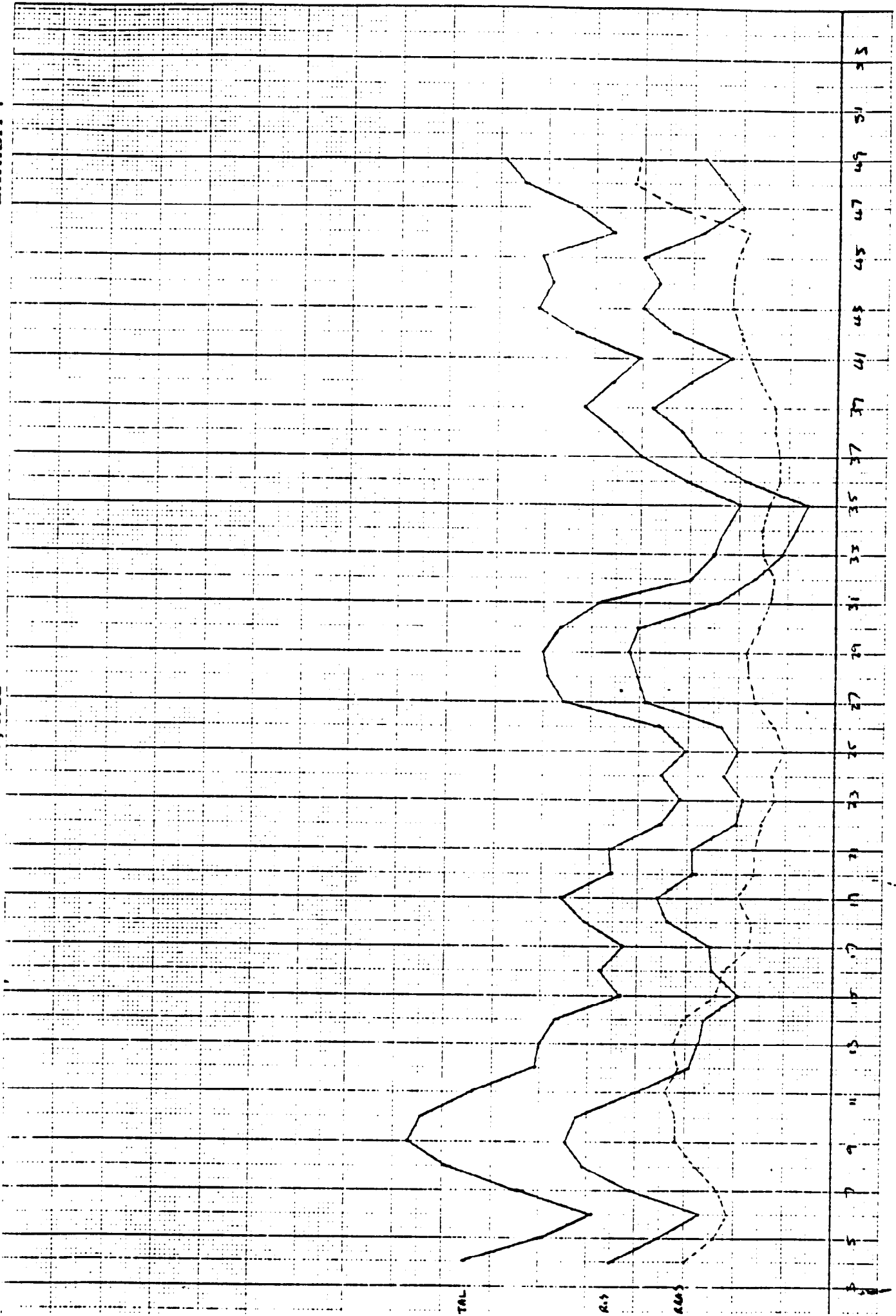
EXHIBIT 3

TRADING SUMMARY FRENCH FRANCS (11.5 TO £STERLING)

	1980 ACTUAL	1981 ACTUAL	1982 BUDGET	1982 FORECAST	1983 BUDGET
SALES:			9350	8738	12895
Materials			869	480	818
Labour			528	149	279
Subcontract labour/other			2629	2446	3690
TOTAL DIRECT COSTS			4026	3075	4787
GROSS PROFIT			5324	5663	8108
OVERHEADS:					
Indirect			968	975	1514
Administration			2189	2029	2671
Selling			1221	1808	2712
Transport					
Financial				46	12
Others					
(Sundry Income)				(8/	
TOTAL OVERHEADS			4278	4850	6909
TRADING PROFIT			946	813	1199
STOCK PROFIT			-	4	-
PROFIT BEFORE INTEREST			946	817	1199
INTEREST RECEIVABLE(PAYABLE)			-	-	48
PROFIT BEFORE TAX			946	817	1247
Materials			9.3	5.5	6.3
Labour			5.6	1.7	2.2
Subcontract labour/other			28.1	28.0	28.6
GROSS PROFIT			57.0	64.8	62.9
OVERHEADS			46.9	55.5	53.6
STOCK PROFIT				0.1	-
PROFIT BEFORE INTEREST			10.1	9.4	9.3
INTEREST RECEIVABLE(PAYABLE)					0.4
PROFIT BEFORE TAX			10.1	9.4	9.7

BEVERLY LEADS/4 WK MOVING TOTAL, 1982

EXHIBIT 4



BEVERLY FRANCES LEADS/4 WK MOVING TOTAL, 1983

EXHIBIT 5

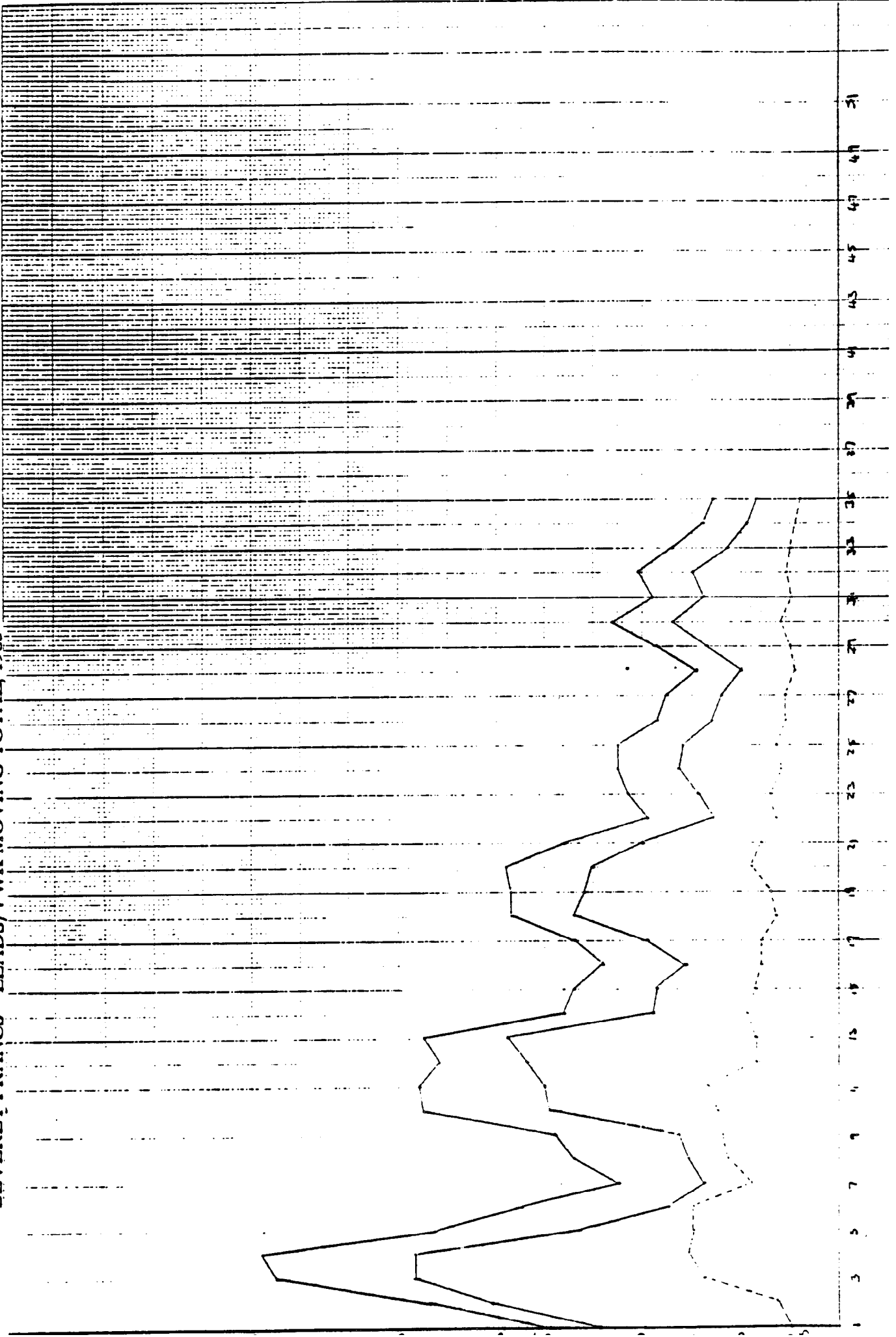


EXHIBIT 7

BEVERLY
BALANCE SHEET SUMMARY
 (FF '000s)

LINE REF:	1982		1983			
	SEPT	DEC	MARCH	JUNE	SEPT	DEC
1 Net Fixed Assets (Line 80)	76	76	76	76	76	76
2 Stocks & WIP	231	250	275	300	350	375
3 Debtors	1066	1050	1270	1500	1530	1670
4 (Creditors)	(1262)	(1010)	(1490)	(1520)	(1560)	(1610)
5 Working Capital (Lines 2 to 4)	35	290	255	280	320	335
6 Net Assets Employed (Lines 1 + 5)	111	366	331	356	396	411
7 HP Creditors	-					
8 Inter Company Loans	(322)	(322)	(322)	(322)	(322)	(322)
9 Other Loans	-					
10 Sub Total (Lines 7 to 9)	(322)	(322)	(322)	(322)	(322)	(322)
11 Bank Balance/(Overdraft)	892	895	1180	1441	1689	2097
12 Divisional Total (Lines 6 + 10 + 11) Per Supporting Schedule (Line 29)	681	939	1189	1475	1763	2186

BEVERLY GROUP PLC 2

DEVELOPING A NETWORK OF EUROPEAN DEPOTS

The negotiation to acquire Beverly had been neither long nor protracted. Dennis explained: "Whenever Solaglas started talking about price/earnings ratios or future earnings, I just said Mark and I planned to quit, take the key surveyors and start on our own! They soon gave up!"

Under the terms of the management buyout, the acquisition vehicle (NewBeverly) acquired Beverly for a cash consideration of £10,000, this sum been funded by way of a loan from Dennis Brown. In addition, NewBeverly agreed to repay an inter-group loan of FF2,032,000 (around £170,000) due to Doulton. The initial share capital of NewBeverly was £10. At the time of the buyout Beverly had free cash balances in excess of the total consideration.

After the smoke had cleared from the management buyout of Beverly, full time executive Chairman Dennis Brown and Group Managing Director Mark White were left with two branch offices in France, one at St. Cyr L'Ecole near Paris and the other at Arras near Northern France. Through purchasing Beverly, they had acquired a company that was profitable from day one.

A new marketing campaign was launched, using initially the brand name 'Royal Ceramic' - Exhibit 8. (The French had never been able to handle the Doulton name, but Royal and England had appealed to them.) The use of the English flag also helped ensure that leads soon recovered in the autumn. Little more was heard of Derna, their recent glass competitor.

What was now needed was a clear growth strategy to what they both saw as a huge gap in the French market for companies supplying building preservation services to the general public and to local authorities for use in housing and public buildings. The question now was how best to capture and exploit this market?

Sales and Marketing Strategy

The long term strategy devised by the directors was to establish a network of branches to cover France. This was to be achieved through the concept of "rolling out" the company from the two original branch offices and full time staff of 14. In effect, the original branches would take on business in areas further and further away from their base. Business growth would be monitored to identify high growth regions. Once a new region had too many sales to successfully manage from the original branch, another new branch would be set up in the new high sales region.

The effect of this policy can be seen in the map of France (Exhibit 9) showing all of the branches now operational. Table 1 shows all of the branches and the dates they were established. By 1987 a network had been established that provided extensive coverage of France.

Management of growth

The business generated by the new branches called for new management strategies. Therefore each of the branches was set up with a sales manager, an installation manager and/or a surveyor, plus a secretary. Each of the sales managers was to report daily to Mark White.

Initially the salesmen would get a sale by following-up on a media-generated lead or by simply cold-selling on the doorstep. However, to ensure against later complaints, the surveyor would always follow the salesman in, calling on the customer to ensure that the operation could actually be carried out successfully. The teams who actually carried out the work were always sub-contracted, though the same teams were always retained if they performed the job well.

The directors of the company held board meetings once per month. Mark White managed the French operation whilst Dennis Brown was investigating possible growth in new regions. Increased sales were recorded at most of these board meeting (see Table 2). Despite these successes, Dennis Brown foresaw the problems of future saturation of the French market. In early 1984 business had been growing beyond Northern France and into Belgium. However Customs and administration were causing problems, and if they could crack one European country, why not another?

FURTHER EXPANSION INTO EUROPE

Initial expansion into Belgium was suggested by Dennis Brown. In 1984 a new branch was opened at Wauthier-Braine, near Brussels. This expansion was eased by the fact that one of the Northern Region's best salesmen actually lived in Belgium, knowing the local customs, language and lie of the land. Later this policy of promotion from within, where possible, was to become a cornerstone of any expansion undertaken.

Some work was undertaken in England in 1986, as a result of requests from Hawley Group and Pearsons to affect remedial work on guarantees given by the now closed Wallguard (U.K.) Company. Attempts to introduce new customers,

however, by direct selling showed again excessively high costs (over £40 a sales lead) and myriad competition, with chemical treatment now being offered by many builders and house renovation agents. Fortunately, this was not yet the case on the Continent and remedial work was ended in England in '87.

Sales in Belgium were to prove encouraging (Table 2). However the original idea of using Belgium to "piggy back" into Holland was not proving a success. The different cultures of the two countries prevented sales penetration into Holland. Brown therefore enacted the setting up of a further branch in Veenendaal near Utrecht in 1988.

By March 1989 Beverly was operating in three continental countries. Turnover was approaching £4m and profits before tax were £550k (see Table 3). The question on the lips of Beverly was - "Where now?"



ROYAL CÉRAMIC GUÉRIT DÉFINITIVEMENT VOTRE MAISON DE L'HUMIDITÉ GRIMPANTE.

Comme des milliers de foyers anglais, Royal Ceramic
garantira votre maison contre les méfaits de
l'humidité grimpante. Des tubes en céramique sont introduits
dans vos murs sans complications, le plus souvent en 24 h.
Nos experts sont à votre disposition pour établir
gratuitement un diagnostic complet.

Travaux en alternance, possibles



30 ANS DE GARANTIE



Bon pour une documentation gratuite

Je désire recevoir gratuitement et sans aucun engage-
ment une documentation complète sur le procédé ROYAL
CERAMIC.

Nom (en majuscules) _____

Adresse complète _____

N° du département de la maison _____

_____ concernée par le problème d'humidité.

Renvoyez ce bon à : Royal Ceramic - 75-77, rue Dr Vaillant - 78210 St Germain-en-Laye.

ROYAL CERAMIC

EXHIBIT 9
DEPOT MAP

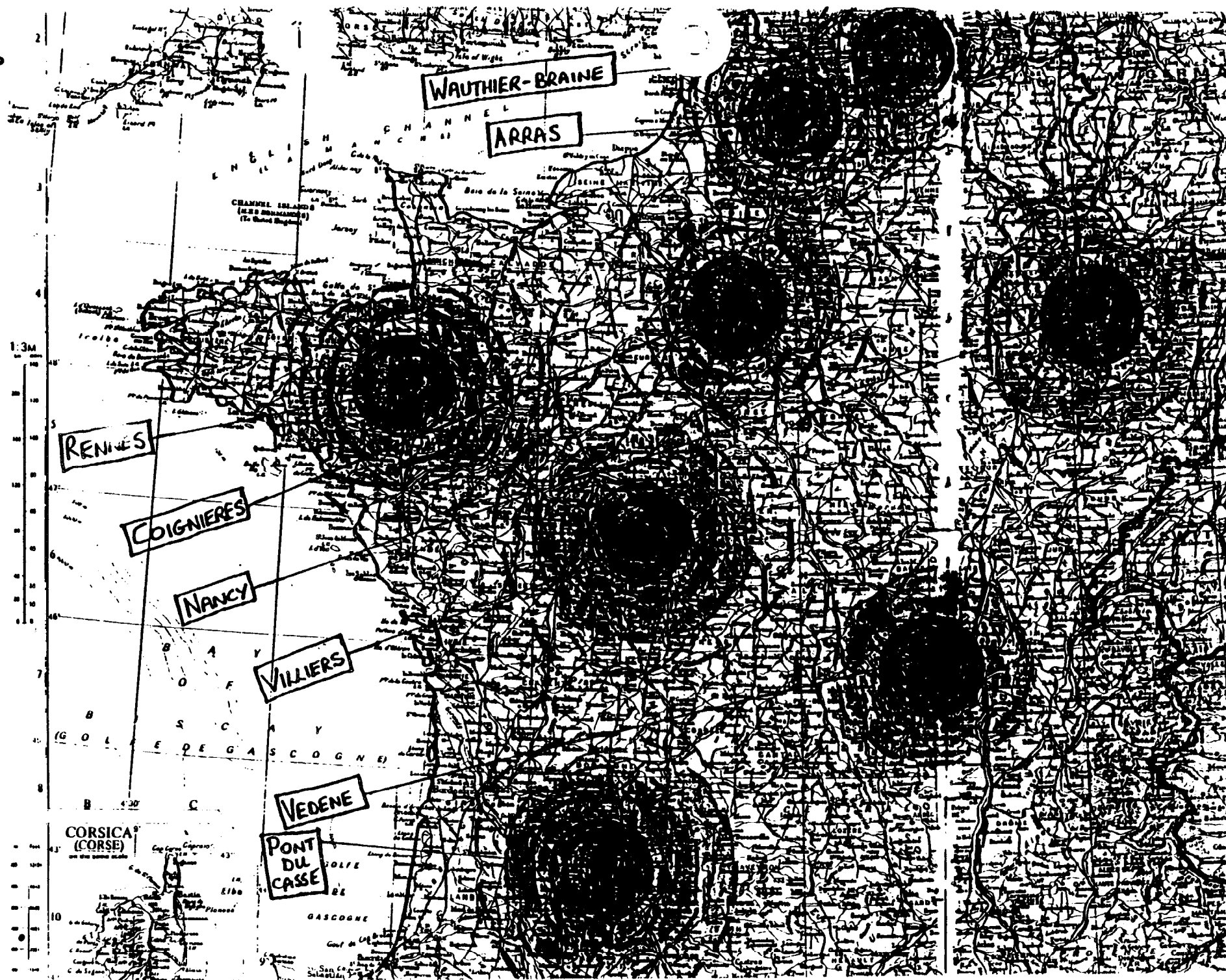


TABLE ONE BRANCHES AND DATE OF EST. BLISHMENT

FRANCE	BRANCH OFFICES	REGIONS	YEARS IN WHICH TRADING COMMENCED.
BEVERLEY (France)	Coignieres	Paris (head office)	1985
	Villiers	Central	1981
	Rennes	West	1983
	Arras	North	1981
	Nancy	East	1987
	Vedene	South East	1986
	Pont Du Casse	South West	1984
<hr/>			
BELGIUM			
BEVERLEY (Belgium)	Wauthier-Braine near Brussels		1984
<hr/>			
HOLLAND			
BEVERLEY (Holland)	Veenendaal near Utrecht		1988

TABLE TWO	GEOGRAPHICAL SALES ANALYSIS					
	8 MONTHS			9 MONTHS		
	ENDED			ENDED		
	31st March 1984	1985	1986	1987	1988	31 dec 1988
	£000	£000	£000	£000	£000	£000
UNITED KINGDOM	19	0	265	126	0	0
FRANCE	705	1427	1900	2315	2694	2176
BELGIUM	0	279	490	668	844	665
HOLLAND	0	0	0	0	0	178

TABLE THREE CONSOLIDATED PROFIT AND LOSS ACCOUNTS

	8 MONTHS ENDED 31st March				9 MONTHS ENDED 31 dec	
	1984	1985	1986	1987	1988	1988
	£000	£000	£000	£000	£000	£000
TURNOVER	724	1706	2655	3109	3538	3019
Cost of sales	262	477	879	959	1085	1005
GROSS PROFIT	462	1229	1776	2150	2453	2014
Selling/dist'n	58	51	334	408	412	313
Admin	277	911	988	1317	1471	1114
Other	82	78	105	124	115	163
OPERATING PROFIT	45	189	349	303	455	424
Other income	0	5	2	13	8	24
Interest payable		6	5	9	8	5
PROFIT BEFORE TAX	45	188	346	307	455	443
Taxation	9	91	178	171	186	172
PROFIT AFTER TAX	36	97	168	136	269	271
Extraordinary	0	0	0	21	22	0
Dividend	36	97	168	115	247	271
	0	0	0	0	42	0
RETAINED PROFIT	36	97	168	115	205	272
EARNINGS/SHARE	0.6p	1.6p	2.8p	2.3p	4.5p	4.5p

BEVERLY GROUP PLC 3

GOING PUBLIC

Dennis Brown as a busy man, is the sort who knows somebody somewhere who can help. His contacts suggested that the wise companies were moving towards a full listing on the Stock Exchange. The benefits suggested were improved credibility with customers and the general public and an opportunity to get a valuation of their company. Entrepreneurs had increasingly used flotation as a means to realise the value of their company, especially in the period up to the stock-market crash in 1987. Furthermore, a public-listing made it easier to attract new investors into the company.

On advice from Brown Shipley Stockbroking Limited, NewBeverly applied for a placing on the Unlisted Securities Market (USM), which was considered a much cheaper method of obtaining their goals, rather than a full Stock Exchange listing. In late March 1989, 2,193,000 Ordinary shares were placed on the USM, via a Private Placing, at a price of 57p per share, bringing the total number of Ordinary shares in issue following the placing to 6,428,600. At this placing price, the market capitalisation of the NewBeverly group was £3.67m. The Placing Document stated that the expenses directly relating to the Placing would be £120,000. Messrs. Brown and White would receive the bulk of the cash raised, leaving £130,000 for NewBeverly itself. They retained majority control of the company.

Company reasons for the placing were reported as follows in the placing report:

"The Directors believe that the company has reached a stage in its development which makes it appropriate to seek permission for its share capital to be dealt in on the USM...

...The Directors anticipate that the enhanced status of the group will increase the rate of growth of its business particularly with local authorities and other major customers who have rigorous vetting procedures for new suppliers. It should also facilitate the expansion of the business by acquisition although no specific company has yet been identified...

...The net proceeds of the issue of new Ordinary shares are to be used to finance the expansion of the business, principally by the group acquiring or establishing its own chemical manufacturing base in the UK."

The prospective price earnings multiple at the placing price was 10.46, not spectacular but attractive enough for the investors in the USM who had witnessed successes during the 1980's such as the Body Shop. The USM flotation proved successful. Beside the 33% each of the total shares held by Dennis Brown and Mark White, the rest of the shares were now held by over 250 small shareholders, none of whom held over 5% of the company.

A major question arose for the Directors of NewBeverly. Both Brown and White were now both personally wealthy and still maintained overall control of NewBeverly. However where was the growth they had promised to their new shareholders to come from? Acquisition, market diversification into related or non-related products or services? Perhaps into water filtration or humidifiers, which had previously been mooted? There was even a snippet in the prospectus of moving towards selling golfing equipment. Perhaps it would have been better

to have kept the company private after all! (see Richard Branson article, 'Glad to be Virgin'.)

Running parallel to the problems of where to grow were the usual problems facing all entrepreneurs who must move towards organised business structures. Where was the management, administration and back up services to come from? A lot of energy and time would now quickly have to be invested to bring about expansion of the company - new projects and new people to run them. Another possibility therefore raised its head at the time. Perhaps now was the time to sell out and move on? Particularly, as now, even the climate had turned sour.

WHERE TO NOW? JUNE 1990

With £1 million sitting in the Bank, NewBeverly's company accountant was watching movements in deposit rates on his Teletext screen. It was raining outside but unfortunately this was a rare occurrence in the summers of 89 and 90. In France the position was even worse with droughts being declared in many areas of the country: it was being suggested that the water-table itself had fallen. Holes in the ozone layer are not good news for the damp-proofing industry. The audited accounts for the financial year ending March 1990 reflect depressed trading conditions and prompted Dennis Brown to comment as follows:-

"As indicated in my interim statement in December, the absence of growth in turnover, and its consequent effect on profits has been caused by the unusually prolonged period of warm dry weather which prevailed throughout Europe during 1989 and has continued to the present. This was particularly noticeable in Holland which started operations last year, and contributions from this area were minimal. Whilst the results overall

are disappointing, margins have been maintained, and effective use of the group's cash resources, in the absence of alternative investment opportunities, has resulted in a significant increase in interest earned."

What alternative strategies are open to the management at the present time?

There are several avenues that are being actively pursued:-

- 1) Vertical Integration through the acquisition of chemical manufacturing business. The annual report states that the company is in contact with certain companies in the UK but to date no firm decisions have been made.
- 2) Continued Market Extension through expansion of the damp-proofing business into other Western European countries. Germany is a possible target.
- 3) Diversification into related and non-related businesses. NewBeverly has already started to go down this route through 2 initiatives:-

[i] the company has begun to market water-filtration products. These employ the old Doulton ceramic technology and are currently being test marketed in the South of France.

[ii] Mark White has developed an interest in the importation of golf equipment into France. The company now owns a "Professionals" shop on a public golf course in France and it is envisaged that this business will grow.

Another real cloud on the horizon was in the shape of a depressed share price. By January 1990 the share price had fallen almost 50% to 30p. The Financial Times did comment that the company might offer a larger competitor a ready-

built way into the European market and for this reason the share was tipped. The current share price is 20p. Dennis, the entrepreneur now public company chairman, wondered which of the options open to the company he should pursue!

Glad to be Virgin

Since Richard Branson turned his back on the City of London, his Virgin pop, shop and airline empire has flourished.

BY ROGER EGLIN

Photographs by John Stoddart

To the public at large, Richard Branson is probably most famous for his dare-devil escapades. His crossing of the Atlantic in a vast hot-air balloon came close to killing him, and his attempt to win the Blue Riband for the fastest crossing of the Atlantic on water, which he made in a high-speed powerboat, was scarcely less dangerous.

Away from the world of adventure, Branson's other public activities are equally unconventional. As a contribution to the battle against AIDS in the United Kingdom, he set up a charitable trust and launched Mates, a range of cut-price condoms. But in the world of business, the British entrepreneur is almost certainly best known for turning his back on the conventional financial resources of the City of London.

Branson made his Virgin records, retailing and leisure group into a public company in 1986, and rapidly regretted having done so.

He felt that the City didn't understand his business well enough to value it properly, and he was irked by endless formalities that he feared would throttle Virgin's growth. After two years of increasing frustration, Branson did what many observers thought was impossible—he took Virgin back into his private ownership. He bought out all the company's shareholders and committed himself to expanding Virgin without the sources of finance available to public companies.

Branson has never regretted the decision, and his gain has been the City's loss. When Virgin went private, it was valued at £248 million, or \$445 million, and its shareholders—who had seen the price of their shares gyrate between 175p and 85p—were happy to take

Branson puts people first and has replaced the financial resources open to public companies by forming links with like-minded Japanese.

140p a share, the price at which the shares had been issued. Now, two years later, Virgin has expanded worldwide: and the group, including the Virgin Atlantic airline, which was not part of the public company, is estimated to be worth more than £1 billion. This growth has made Branson, who is just 40 and whose first entrepreneurial venture was the launch of a student magazine in the Sixties, when he was a teenager, one of the richest men in Britain. He does enjoy some of the trappings of multimillionairehood: a private island in the Caribbean—appropriately, one of the British Virgin Islands; a lovely home in West London, where he was interviewed for *Best of Business International*; and another in rural Oxfordshire. But until recently, his favourite hide-away was his office aboard a boat on one of London's canals.

It still takes a very special occasion to squeeze this gentle, bearded man into something that resembles a business suit. Yet no one can mistake his business acumen, and the team who work with him are keenly aware of Branson's knack of taking a good business idea and turning it into something even better.

There is no more striking example of this than the rise of one of his own brainchildren, Virgin Atlantic Airways. When the group went public, experts in the City warned that it would be better to leave the airline, which they regarded as a highly speculative business, out of the package. Today it is competing successfully against much bigger rivals on routes across the Atlantic and to Tokyo.

The airline is run in the same distinct style that colours the entire group. Branson believes in delegation, good rewards for his 4,000 employees and the motivation of staff, whether they are selling records in his Megastores or working as members of the airline's cabin crew (who have his home telephone numbers just in case they need to talk to him). His approach to management can best be described as "bottom-up". Branson believes that if the interaction between staff and customers is successful, and the staff are happy, then the business will prosper.

But if his people-conscious management style is right for the Nineties, it also delivers performance good enough to satisfy the most hardnosed executive. In 1983 Virgin's pre-tax profits were £2 million. In 1989, including the contribution of the airline, they topped £20 million. Meanwhile, in place of City finance, Branson has been quietly substituting partnerships with large like-minded companies in Japan.

■ Turning Virgin back into a private company only two years after going public was controversial. But you were clearly very unhappy running Virgin as a public company. Why did you go public in the first place?

About four reasons are given to you for going public. One is to increase the company's public profile, which can be good for business. Second, you have paper you can use to make acquisitions. Third, it increases your borrowing capabilities. And, fourth, people can be incentivised because you can give them shares. It is also an opportunity to involve the public in your company.

Increasing our ability to borrow money was important. Just a year before going public we had a £3 million bank-overdraft facility. That was for a group turning over £150 million and earning about £12 million. We wanted to get out of the clutches of that facility in order to expand.

We went public as a clear-cut entertainment group, without the airline, and we attracted a great number of small shareholders—55,000 of them. We had reasonable institutional support, but not absolutely fantastic, and we'd set the price that we asked at 140p per share, which was below what the market would take.

■ Did disenchantment set in quickly?

In the ensuing year profits doubled. The day before announcing the figures, which we expected to push up our shares to 240p—or at least 200p—the crash of October 1987 took place, and they dropped to about 83p; and despite announcing doubled profits, the price didn't move the following day. Looking back at the original list, I asked myself where were the advantages of being a public company? We were not incentivising our staff: the share price had to claw back up to 140p from 83p before they could get anywhere. We were not incentivising our recording artists, and some of them had actually bought in at 140p. My next-door neighbour in Oxfordshire had come in at 140p with most of his life savings and was showing a loss of £40,000—and although he never said anything, playing tennis with him wasn't much fun. We had paper that was valueless to us because we felt the company was worth a great deal more, and we definitely didn't want to use that paper to buy other companies!

■ But weren't there some advantages?

Our borrowing capabilities had been enhanced enormously, as had the public profile of the company. People had realised that Virgin was a considerable force to be reckoned with. And we had all learnt from the experience. But what we'd learnt most was that we didn't want to be a public company.

Being public is incredibly time-consuming. You have board meetings for non-executive directors; you have "board meetings" the day before real board meetings; and every single thing has to be vetted by lawyers. You are tied up in tape. Around 50 percent of our time was spent worrying about going to stockbrokers' meetings, analysts' meetings, institutional meetings, making sure everything was done by the book—and worrying about the next quarter's results, the next six months' results, rather than planning for the long term. And so we thought, *Let's try to get out of this.*

■ That wasn't easy, though?

Initially we were told that it wasn't the done thing, but we found a good merchant banker who felt it was doable. We decided we wanted to bow out gracefully and make sure everybody got their money back. Your reputation is really all that you've got, and it's worth paying out more than you can just get away with to keep it intact. And so we bid 140p, which was over 50 percent more than the share price. We had a very good response. Everybody felt we'd been fair.

■ Have you had any regrets since?

In the last 18 months we've achieved two or three times what we achieved when we were a public company. There is a wonderful sense of freedom, a feeling that a weight has been lifted off our shoulders. We've proved to the City that our company is worth a great deal more. Admittedly, certain things have gone very well—but we always told the City they would go well. We set up in the U.S. three years ago as Virgin Records America, and we told the City it was going to cost money for three years, but that we'd break into profits during the third year. In the first two years it was costing a lot and we came under criticism, but we've now got a major force in America—a record company which turns over \$100 million and is making money. We have our own record company in 28 countries and, by organic growth, have become the world's sixth-biggest record company. A few months ago we sold a stake in our record company to Fujisankei of Japan for £100 million—and that put a value on it of £400 million.

This does, I think, indicate that the City's approach in valuing companies can be a bit askew. When we went private, the group was capitalised at £248 million without the airline and travel businesses. With them, it was probably



"My parents brought me up with a lot of praise. I think if you are running a company, you should never really criticise your staff. You should always be praising: if you praise somebody, they're going to blossom."

worth around £500 million. There have been conservative estimates that today the group is worth about £1.1 billion.

■ You have set up a number of partnerships since going private. Is this the way ahead?

We've decided to bring partners into a number of our ventures on a small scale. In Japan we've joined up with Marui, the largest retailer of young people's goods there, and we're opening a Virgin Megastore in the centre of Tokyo this year. It would have cost us £50 million or £60 million in seed money just to have got in on our own, so we're very pleased. We've also struck a partnership with Seibu Saison International, the Japanese hotels-and-leisure group, which has taken a 10 percent stake in the airline. Our growth will come by finding people who are willing to take 10 or 20 percent stakes in new ventures we set up. If I'd known everything I know now, I'd have tried partners rather than going public.

■ Do people ask your advice now about going public?

Yes, and some companies that are public and want to get out of it ask my advice. I was bending the ear of one chairman about why he should make his company private: it was grossly undervalued, and he didn't own quite half, so it was in danger of being taken over. That's another negative—below 50 percent, you're vulnerable and risk losing your company.

If you own your company, you have to ask yourself if you want it to be the biggest in the world. If you are happy being not quite the biggest, you don't necessarily need that paper.

■ Does the City of London take too short-term a view?

English stockbrokers do tend to behave a bit more like punters than the Japanese or French, who seem to invest on a long-term basis. The City's job is to make a living trading shares very quickly, and it isn't really thinking about investing in a company and sticking with it and seeing it grow in the next 10 years. The Japanese do that, and some of them even look at growing into the next generation. We've been dealing with French institutions lately, and they think more long-term. So do the Germans. English banks are going to have to watch themselves—the Germans and French seem more aggressive in helping people do business.

■ How does this difference show itself?

Foreign banks take small stakes in companies, but the English clearing banks don't, so they have to be conservative in their lending. If you want to start a new company and borrow, say, £80,000, the English clearing banks won't take the risk because they can't take a stake in the company—but the merchant banks will only talk to you if you want to borrow £2 million or £3 million.

■ **Are you much happier now that Virgin is a private company again?**

It was the best thing that could have happened. I sometimes think, Christ, where would we be if the City had valued our company anywhere near what it was worth and we were still public? I think you've got to enjoy what you do in life. If the people who run the company feel free, they can make the rest of the people who work for the company enjoy it, and you can have a happy company. If the people at the top feel that their hands are tied and that they can't make the kinds of decisions they feel are right for the company—and not just right for the shareholders and the City—then the company starts stifling. So, as it turns out, we were very fortunate.

“If anything goes wrong in a public company, it goes wrong very publicly and happens very quickly—and everybody panics and pulls the rug out.”

■

■ **Were you very badly misunderstood by the financial community?**

We've got artists like Phil Collins, Peter Dinklage, Genesis, Mike Oldfield, and so on—artists who sell millions of albums year after year. And I'd go into meetings with analysts, and they'd say, “Artists have short lives” . . . which is not the case. Virgin signs artists like Simple Minds and UB40, who'll still be selling a lot of records 20 years on. In our presentations we explained that there is no one artist who ever sells more than 6 percent of the record company's turnover and that 38 percent of its revenue comes from back-catalogue sales, which increase every year that we carry on. Around 75 percent of the record company's earnings come from overseas. Our German record company last year made £6 million or £7 million, our French company made £7 million or £8 million, and so on. Even when Culture Club took off, it didn't account for more than 10 percent of our total earnings.

Anyway, we tried to educate the City, and in a sense we failed—well, we *did* fail—and now I can play tennis with my neighbour and look him straight in the eye.

■ **Were you too unconventional in the way you ran the company? You don't like to wear a suit, and I've heard descriptions of conferences in which the advisers and the accountants were all wearing suits—and the chap in slacks and sweater was from Virgin.**

I am sure there was an element of that. But anything I do in life I like to do well, so I wasn't going to go public and not play the game fully. We made a real effort to do most things by the book. There were certain things I did, like the Atlantic crossing in a powerboat, that did not affect the company and that I wasn't going to stop. You shouldn't live your life com-

pletely because of the perception the City holds of the bottom line. You should lead your own life to an extent you feel is correct, and I didn't compromise. By English standards, Virgin is a fairly unconventional company, superficially. We do dress as we feel comfortable. We do work in quite pleasant environments. This house is, in effect, the head office and until six months ago my houseboat was virtually that . . . I like to work around my kids. The staff come first in our company, which is perhaps a slightly Japanese way of thinking. I think it should be every company's way of thinking.

■ **Did you concentrate more on formal management when Virgin went public?**

One useful thing about going public is that you do make sure your systems are absolutely watertight—so that, for example, you know week by week what each of your record stores is making. It has been very useful, as a private company, to have got all those systems on board.

■ **One of the useful things about going public, you said, was being able to use your paper for acquisitions. Are you glad now that you can't do that? You've chosen not to buy other companies.**

Yes, I am very glad. During the Eighties, the City's mistake was glamorising takeovers. They are very attractive to the City—it makes a lot of money out of them—but takeovers are not necessarily of great benefit to the employees. They definitely come last in many of them. A lot of companies just got bigger and bigger and very, very impersonal, and I can't see how many employees can enjoy working for them. If a company needs cleaning out, it's much better if that company sells off little bits of itself in management buy-outs, say, and gets smaller rather than being taken over.

■ **Virgin is a big company now and is going to become even bigger. How will you cope with that?**

I think that people want to keep testing themselves. They want to keep proving they can do a little bit more than they are doing, that's human nature. So even if I were to say I feel that we shouldn't get any bigger, that in itself would start demoralising people. All the people that work on the airline are longing to fly to Singapore and Australia: it's a tremendous challenge for everybody to break into new markets.

But I think that we now have the kind of set-up at Virgin where there is no real difference between running 150 little companies or running 12 little companies. It's obviously different from running one company, but the moment you've got five or 10 little companies, then it doesn't matter—almost—whether you've got 150 or 300 or 500. What these companies consist of are individuals. There's a group umbrella above them, but below it there are these very capable people running the companies, and I think the more freedom you give them, the more they will blossom.

■ **Have these managers shared in the rewards?**

Yes. We gave the two people running our American operation 10 percent each three years ago, and their shares are now worth about \$30 million. But they are the best people in the industry, and they have made the company worth a couple of hundred million dollars more. They are unpoachable because nobody could pay them what they can earn by having shares in Virgin. And you know, okay, we have given away a lot—but what we have given away didn't exist before. They have created that wealth.

■ **Should other public companies follow your example and go private?**

It was right for us not to be a public company, and I think it is most probably right for a lot of companies not to be public. Only about 5 percent of all the chairmen of public companies that I have talked to would not like to take their companies private if they were able to. I think that the City needs to re-evaluate itself and see why people feel that way. We were

BEVERLY PLC

TEACHING NOTES

INTRODUCTION

This is the actual story of an intrapreneur rolling out his vision into a fully fledged entrepreneurial success story. Dennis Brown goes the whole way, from a tiny office on the outskirts of Paris to a USM listing and a personal reward of over £500k (while still maintaining joint overall control). Only the name of the company and leading 2 protagonists have been disguised.

The story is noteworthy for a number of reasons not least of which is the fact that success has been achieved on the continent of Europe. The case is not meant to prescribe a course of action to achieve success in Europe. It does however make the point that there are opportunities for smaller companies and that 1992 is not the exclusive preserve of the major companies.

There are some other common themes running through the case-study:

- 1) Opportunism of the intra/entrepreneur
- 2) The effective management team and willingness to delegate
- 3) Rewarding effective performance throughout the company
- 4) Using the resources of the bigger companies at the start

The pedagogical objectives of the case, developed for use on owner-manager and MBA courses at Cranfield, are summarised in Exhibit 1.

The case touches on a variety of topics but the focus is very much on marketing (particularly focusing on direct selling techniques, as an aid to low cost/high penetration of new markets) and human resource issues in the fast-growing company. (Finance did not present a major problem because of the company's deposit taking, direct selling techniques.) Part 1 of the case starts with the period leading up to the management buyout in 1983; Part 2 takes the student through the growth phase 1983-1989 culminating in the listing on the USM. The concluding section 3 addresses some of the present concerns for the business.

Students should prepare for class discussion by reading the case and industry notes contained in Part 1, concentrating on the issues:

- (a) How many in the class would now offer to buy-out the company? Why? (Blackboard SWOT analysis attached - Exhibit 2); List the reasons for Solaglas wishing to dis-invest (new owners, non-core activity, bad experience of direct selling, down-turn in orders) and determine reasons for M.B.O. (financial opportunity to roll out the company i.e. to expand in Europe by natural growth not acquisition).
- (b) How would you, as Dennis Brown, negotiate to buy-out the company? How would you value the company prior to negotiations, what tactics would you prepare for the negotiation discussions (starting position, fall back position etc.).

Part 1 contains some "how-to" Exhibits (direct salesman's contract) and examples of how to develop in Europe (sample market research, recruiting a team).

Following this discussion, the shorter Part 2 can be issued to the class, allowing 5 minutes for preparation. Class discussion should focus upon:

- (a) What new directions for growth should Beverly consider (more geographical expansion, new products);
- (b) How should the company organise for future growth (e.g. adopt more conventional selling approaches e.g. salaried salesmen instead of commission only, bearing in mind earlier Coldshield U.K. disaster);
- (c) How can the entrepreneurial owners harvest their efforts? (Their own objectives, pros and cons of alternative exit routes, e.g. trade sale vs going public.)

For the final discussion, Part 3 can be issued, and after 5 minutes preparation, final discussion should follow the above issues, endeavouring to get the class to:

- (1) Decide a mission statement/set of objectives for the company that will focus further growth;
- (2) recommend a further growth strategy for the company (which business, what investment strategy);
- (3) recommendations for role of founding entrepreneurs. In particular, focusing on whether more professional management could be introduced and how? Can professional managers work comfortably alongside intra/entrepreneurs?

As a USM publicly quoted company these are some of the genuine issues currently facing Beverly PLC, and doubtless many others, as the entrepreneurial 1980's companies in the U.K. face the more difficult trading conditions of the early 1990's.

How does Beverly, an English owned and quoted USM company, but with no operations in England, all in Europe, stand to benefit from post 1992 Europe?

PEDAGOGICAL OBJECTIVES

- To provide an "expansion in Europe" case for Cranfield Small Business Growth Programme (owners of £1m - 5m turnover S.B.'s)
 - start-up
 - roll out

- To emphasize S.B. practical "how to expand" ideas, e.g.
 - market research
 - direct selling
 - control of key success factors

- To provide a focus for strategy discussion
 - management buy outs/disinvestments
 - secondary market flotations
 - future growth options and objectives

- To contrast entrepreneurs and professional managers
 - golf equipment vs core business
 - evolution and crisis!

PART ONE: A CONTINENTAL ADVENTURE

Exhibit 2

Possible Blackboard Plan

Would you offer to buy Beverly?

INDUSTRY OPPORTUNITY/ THREATS	COMPANY STRENGTHS/ WEAKNESSES	MARKET DEVELOPMENT STRATEGY	FINANCIAL RISK/ RETURN
<u>MARKET</u>	<u>TEAM</u>	<u>STRATEGY</u>	<u>COMPANY/ VALUATION</u>
<u>How Big is French Market?</u>	<u>How Strong is Team?</u>	<u>Does Beverly have a winning formula to role out?</u>	<u>What is company breakeven?</u> <u>Asset, P.E. value?</u>
<ul style="list-style-type: none"> - Assume likely to be £5m market like U.K. - M.Research (advertisement) shows strong demand in Paris area. - Low cost of entry to build market share. 	<ul style="list-style-type: none"> - experienced U.K. entrepreneur able to build Anglo/French team on back of Doulton. - Language difficulties solved. - Motivated sales force. 	<ol style="list-style-type: none"> <u>Product</u> <ul style="list-style-type: none"> - Chemical treatment is an Agrément Certificate approved product <u>Price</u> <ul style="list-style-type: none"> - Good margin, without excessive U.K. pressure to previous increase. <u>Promotion</u> <ul style="list-style-type: none"> - Advertising strategy works, producing satisfactory low cost leads. <u>Place</u> <ul style="list-style-type: none"> - 2 good N. France depots. <u>People</u> <ul style="list-style-type: none"> - Direct selling methods introduced and successful. Good installation teams/manager. 	<ul style="list-style-type: none"> - Company has survived start up costs and is operating profitably. - Good time to make an offer when little track record available. - Net assets are £40k P.E. 10 x PAT £30k (5 x PBT) <p><u>Negotiation Strategy</u></p> <ul style="list-style-type: none"> - Offer to buy company for £170k - Threaten walk-out by management team to open in competition instead.
<u>Strength of Competition?</u>	<u>How Important is Company Name?</u>		
<ul style="list-style-type: none"> - No major competitors. - French builders appear to have forgotten low-technology solutions to rising damp. 	<ul style="list-style-type: none"> - Royal Doulton a powerful brand name, will be lost. 		
<u>What are major threats to Beverly?</u>			
<ul style="list-style-type: none"> - Former employees likely to start as competitors (e.g. Derna). - Easy entry will encourage competitors as in U.K. & price wars. 			
<u>Conclusion:</u>			
<p>Good small business opportunity to get in and out?</p>			

PART TWO: DEVELOPING A NETWORK OF EUROPEAN DEPOTS

Issues

1) Rolling out a company from its original base. One particular method is suggested in this case, describing how the "ripple-effect" was put to good use throughout France and then into the Benelux countries. Company grew very much as had previously been the case in U.K., which is obvious lesson for those who think only way to expand in Europe is by acquisition.

2) Developing management teams to deal with growth in different geographical locations. Consciously trying to avoid mistakes of earlier U.K. growth i.e. no major price increases, conservative financial practice (provision for poor work), careful control especially of key measures like advertising cost per lead, lead conversion rate.

3) Having successfully built a company in Europe, as profitable as earlier in England, question now is should the entrepreneurial team "get in or get out"; continue to grow, possibly going public, or anticipating similar difficulties as earlier in England, get out (e.g. via trade sale, M.B.O. to French employees) before market matured or competition grew.

Issue here is very much decided by objectives of owner. Both Dennis and Mark, having previously been employees of a public group, had strong desire to be Directors of a public company, as well as personally rich.

PART THREE: GOING PUBLIC AND WHERE TO NOW

Issues

1) Having gone public, for largely personal reasons, the majority owners now face the little thought about role of new shareholder's expectations! Discussion should focus on other options the entrepreneurs could have utilised (as per Richard Branson, Virgin article).

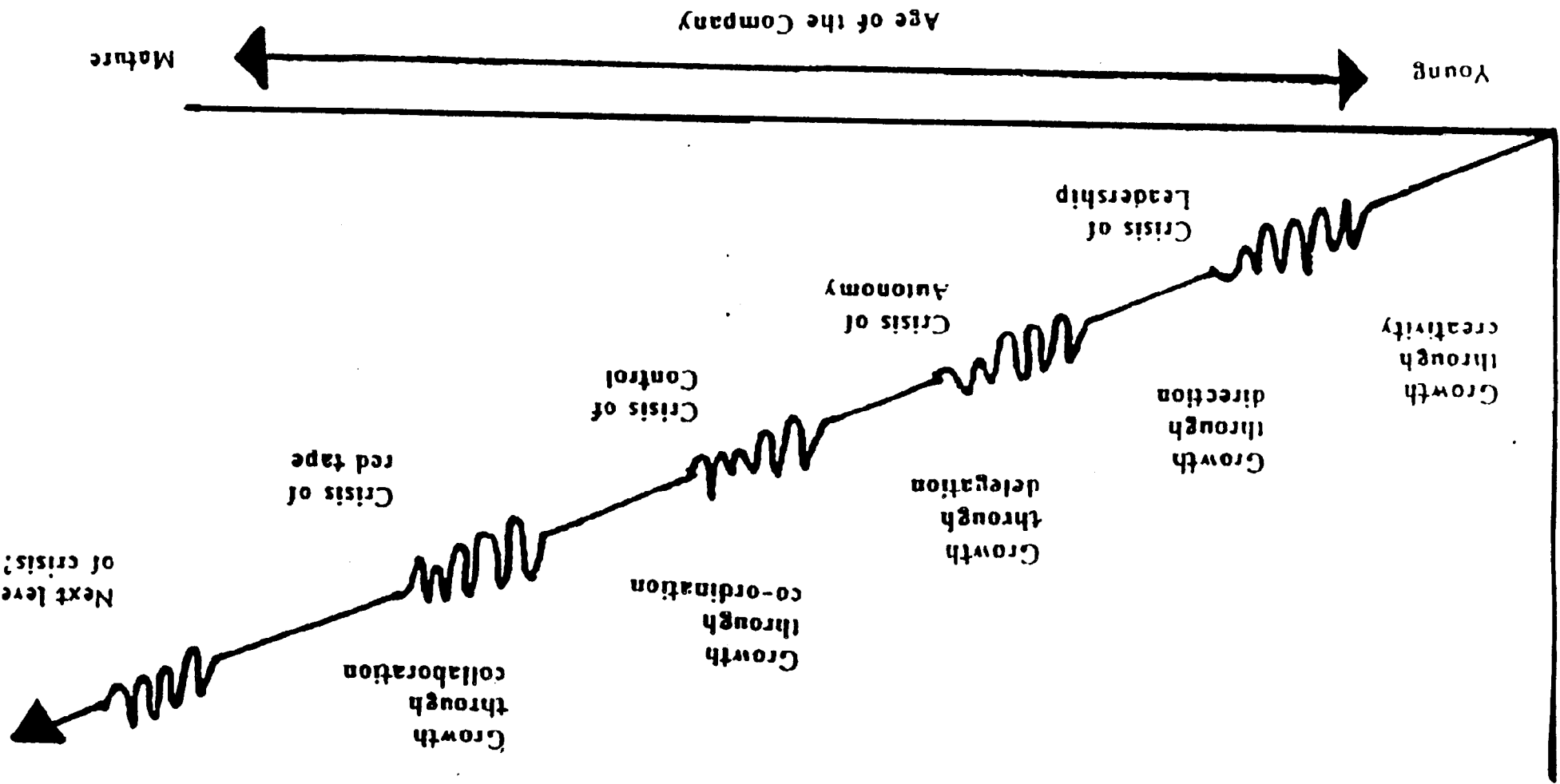
2) After the gloss of the placing, how to live up to expectations and plan a public growth strategy is difficult for former entrepreneurs. Witness as Mark's increasing interest in his hobby - sports equipment! All the "In Search of Excellence Books" suggest:

- stick to your knitting!

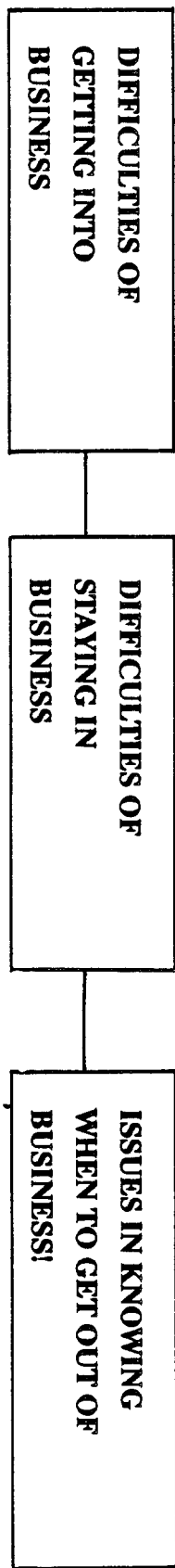
This would entail backward integration (buy Chemical supplier), especially perhaps a U.K. base for an English owned, but entirely European (non U.K.!) operation. Or related diversification (e.g. like Rentokill, into other household treatment methods). All of this might be good textbook sense, but would it keep the two controlling entrepreneurs motivated? Could they, in turn, recruit professional management and work happily alongside them (or gradually withdraw). All real, live issues to explore!

Teachers might at this stage make reference to the Greiner Curve (HBR July-August 1972); try and place Beverly on the growth curve and suggest how the company might best progress with mission statements and specific growth strategies. Equally the three boxes of 'Growth Phases in a New Business' (Exhibit 4) might be used to summarise the questions that arise in the beginning, middle and end of most entrepreneurial activities.

Evolution & Crisis as a business grows & matures



GROWTH PHASES IN A NEW BUSINESS



Your Target Focus:

VENTURE CAPITALISTS/
FINANCE BACKERS

CUSTOMERS/BANKERS

INDUSTRY COMPETITORS/
SUPPLIERS

Questions To Address:

■ Is your product or service needed?

250 real customers to
Tele Sept Jours Advert,
for Rising Damp Cure.

■ What are key factors for success in your business?

Low cost per advertising
lead per depot.
Low remedial cost
Cash Advances/Bank position

■ How long before competitors take you seriously?

Derna (one employee)
unsuccessful.
French builders aware of
chemical treatment.

■ Can you make a profit?

Break-even in 1st year;
positive cash flow from
deposits.

■ How long to achieve Break-even?

Break-even under 12 months
in each new depot
(except Holland)

■ What is changing in your business section environment?

Climate (weather) changing!
Will Direct Selling have long
life on continent?

■ What is your marketing entry strategy?

Unique tube treatment,
for branding in Advertising.

■ Can you develop market differentiation?

Maintained unique tube
advertising
Search for new products
(water treatment, sports)

■ Can you maintain market differentiation?

Growth is self-financed through
cash deposits.
Customer base growing in new
countries.

■ Do you have the right personal qualities?

Entrepreneurial team quickly
assembled.

■ Can you develop a balanced management team?

Brought in Financial
Controller. Promoted best
salesmen to depot managers.

■ Your own and shareholder objectives?

Can entrepreneurs "stick to
their knitting?"
Outside shareholders views?