

OnLine Case 16.3

Three diversified conglomerates: BTR, Tomkins and Williams Holdings

This case tracks the strategic development of three leading acquisitive UK diversified conglomerates. At different times in the 1980s and early 1990s, all three companies were very successful, typically using a 'hit squad' approach by a small team of turnaround specialists who were expert in evaluating recent acquisitions, setting demanding (financial) targets, rewarding success and dismissing managers who could not perform. In the second half of the 1990s, BTR was merged with another conglomerate, and Tomkins and Williams pursued more focused strategies. Their fortunes can be usefully contrasted with the stories in the book on Hanson, ABB and General Electric. In every instance two major challenges were:

- the ability to find and fund a suitable acquisition at the appropriate time and stage of corporate development, and then
- finding opportunities to add value.

Here there is evidence of a concentration on mature industries where the right competitive strategy could bring high rewards but where there was only limited growth potential.

BTR

BTR grew strongly in the 1970s and 1980s under the strategic leadership of Sir Owen Green. By the early 1990s the company was diversified into control systems, polymers (including factories in Taiwan), electrical products (Hawker Siddeley motors as well as Newey and Eyre), construction (Tilcon*, Graham Builders Merchants*, Pilkington Tiles* and aggregate businesses in the USA), transportation (railway equipment), packaging (Rockware Glass), paper technology and consumer products (Dunlop Slazenger* and Pretty Polly lingerie).

Alan Jackson succeeded Sir Owen Green as chief executive in 1991 (Green remained as chairman for some time afterwards) and instituted a strategy of withdrawal from non-manufacturing interests. The companies marked with an asterisk were sold to other parents or to their existing managers. At the same time Jackson made a number of acquisitions, including Varta, the German battery manufacturer and Gencorp, a US company which produces vibration controls. Hawker Siddeley (1991) was the last *major* acquisition by BTR.

Goold *et al.* (1994) examined the parenting style of BTR. They concluded that the company's underlying belief or paradigm was that businesses can benefit from pressure on costs and productivity; focused, mature, businesses which are pushed to increase prices and margins (at the expense of market share and growth) can be made more profitable. BTR's parenting skills were intensive profit planning, the ability to manage a decentralized business with multiple profit centres, low central overheads, and skills in acquiring and turning around acquisitions. This last point includes the ability to introduce the BTR culture into the new business.

BTR's heartland was based on manufacturing businesses, industrial customers, low to moderate technology and capital intensity, relatively stable environments with only limited impact from economic cycles and niche markets. Critics of BTR claimed that the strategy was uncoordinated and based on cost-cutting and price rises during periods of inflation. The prospects for both of these strategies largely disappeared in the 1990s.

Jackson's successor in 1996, Ian Strachan, continued with the strategy that he inherited, declaring that BTR was to be focused on four core activities: automotive components, power drives, control systems and other specialist engineering products. Several remaining businesses were targeted for divestment, but there were to be accompanying acquisitions of related businesses and new joint ventures overseas. Strachan advised institutional shareholders that 'BTR's day as an acquisitive

conglomerate is over' and that organic growth around its core strengths was to be a priority. In the past BTR had not invested heavily in organic growth.

At this time BTR still comprised over 1000 business units worldwide. Turnover approached £10 billion, although at the peak of its success revenues had reached £14 billion. The style of corporate management was changed from financial control to strategic control in order to encourage business managers to take a longer-term and more strategic view. Instead of annual profit planning being the key focus, growth priorities for up to five years were sought.

As disposal followed disposal, Jackson, now retired and living in Australia, expressed his belief that BTR was being reduced to too tight a core. Whoever was correct in his belief, the share price continued to fall through 1997 and 1998.

In November 1998 BTR was merged with fellow engineering conglomerate, Siebe, and the new business eventually renamed Invensys. The Chief Executive of Siebe, Allen Yurko, was to be the strategic leader and Strachan his deputy. Based on share distribution, Siebe comprised 55% of Invensys and BTR 45%. There were now five broad and complementary divisions: intelligent automation, controls, power systems, industrial drives and equipment and automotive components. The combined revenues were around £9 billion. In portfolio terms, both BTR and Siebe contributed 'cash cows' but BTR had more of the 'dogs' and Siebe more 'stars'. Some BTR businesses were still for sale – but, and somewhat controversially, Invensys bought Boan, a Dutch software business in trouble.

There were profits warnings in both 2000 and 2001 and the share price continued to underperform the main indices. More jobs were lost and Yurko resigned. His replacement, Rick Haythornthwaite, was seen as a turnaround expert. Disposals continued to leave a declared new core – control systems, for running factories and process plants, and for managing energy. Everything else was available for sale.

There was yet another profits warning in 2003. Amongst a range of problems, Boan was still in trouble – it was inadequately competitive and it was sold on.

Some of the businesses, but not all that were available for sale, were sold. As a consequence, Invensys announced a further restructuring. There were to be six divisions, including some of those that had been for sale. Control systems were still at the heart, but more markets were being targeted, including home appliances and railways. Haythornthwaite declared that 'slimming down was not what Invensys actually wanted – it had been forced on it by market conditions and shareholder pressure'. The latest change was now possible as the UK economy was strengthening. The new sales target was £3.8 billion, a considerable reduction on previous years. But the earlier plan had been only half that!

Tomkins

This conglomerate grew out of a buckle-manufacturing business based in Walsall, UK; acquired businesses included Smith and Wesson handguns, Hayter lawnmowers, Murray bicycles (in the USA) and a range of different industrial products. The chief executive – from 1983 until 2000 - Greg Hutchings, was ex-Hanson.

In 1992 Tomkins acquired Rank Hovis McDougall (the milling and baking business which owns the Bisto, Paxo and Mr Kipling brands), beating off a rival bid from Hanson. Four years later, after successfully absorbing RHM, Tomkins bought the US company Gates Rubber, the world's largest manufacturer of power transmission belts and industrial hoses. RHM cost £93.5 million; Gates was roughly the same. In 1997 Tomkins added a US manufacturer of windscreen wipers (Stant) to bolt on to Gates. At this time Tomkins was building up a cash pile which it used to buy back shares – it was not finding suitable new acquisitions and there were few investment opportunities in the businesses that it owned.

In 1998 Tomkins opted to dispose of its distribution businesses to focus on manufacturing. Tomkins bought a US tyre-valve manufacturer and sold the original buckle company. In the same year it was a loser in the auction for Dalgety Foods, which was bought by the Kerry Group of Ireland. However, Kerry sold Dalgety's Spillers flour mills to Tomkins. This provoked an investigation by the UK competition authorities who demanded that Tomkins sell four of the six Spillers mills that it had bought.

In 1999 Tomkins bought Aquatic, a Texas-based manufacturer of whirlpools, but opted to divest all of its baking and foods businesses to concentrate on automotive and building products. This was completed in summer 2000.

Hutchings resigned after an investigation into how he and his family had been using corporate assets for private benefit. It appeared the company had bought properties for their use and was also paying for their domestic staff. In addition, corporate jets were used as private taxis.

His replacement, Jim Nicol, a Canadian, began a disposal programme. Murray Bicycles (2000), Hayter lawnmowers (2000) and Smith & Wesson (2001) began the process. The new focus was to be on innovative products and developments in the core engineering and industrial businesses.

Williams Holdings

Built by accountants Nigel Rudd (a deal-maker) and Brian McGowan (acknowledged to be good at handling City institutions), Williams grew during the 1980s from an English Midlands base in foundries. McGowan left in 1993; Rudd remained as strategic leader. The acquisition strategy in the 1980s was based largely on good opportunities for restructuring, but Williams quickly realized the value of established brand names and concentrated on businesses where it could exploit its brand management skills.

Through the 1980s and early 1990s the acquisitions included: Fairey Engineering, Rawlplug, Polycell, Crown Berger paints, Smallbone (kitchen units), Amdega (conservatories), Dreamland (electric blankets), Kidde (from Hanson – aerospace and fire extinguishers), Yale (locks) and Valor (locks and heating). Several of these were then sold as Williams chose to focus on three business areas: building products (including DIY), fire protection and security (locks). Other UK fire-equipment companies were added to the portfolio: Angus, Rockwell and a Thorn-EMI subsidiary. These were followed by related fire and locks acquisitions in Italy and the USA, and in 1996 Williams bought Sicli and Siddes, the largest fire-protection company in France. At £175 million, Sicli was its largest purchase for five years.

At this stage in its development Williams claimed to be Britain's first 'focused conglomerate' but some critics argued that focus requires more than the structural 'bundling of a number of businesses into separate divisions'. The fire and security businesses helped to offset the economic cycles of the construction and building industries, and Williams (with 12% of the world market) offered a wider range of fire-protection products than any of its rivals. As fire-regulations were tightened around the world, this industry was enjoying a high growth potential; it had yet to reach the maturity stage.

(Tomkins, Hanson, BTR and Williams) . . . all started in the same place; buy what you can, sort it out and move on. Now our aspirations are to build businesses internationally.

Roger Carr, Chief Executive, Williams, in 1996

In 1997 Williams acquired Chubb Security (alarms and locks) on its second attempt and in 1998 it began to divest its home-improvements businesses, a move that it completed in late 1999. Now it was focused on fire and security. In 2000 the company was split into two: Chubb Security Services and Kidde Fire Protection. Yale was sold to a Swedish company.

Question: Why exactly did the conglomerate diversification strategy of these businesses lose favour with shareholders?

Tasks: Track the share price movements of these businesses during the 1990s and check their progress against the all-share index. What has happened in recent years? Which companies have managed to change and adapt effectively, and which have not?