

CHAPTER 2

BTR

The group and its business

2.1. BTR plc¹ is the controlling company of a large United Kingdom based group (BTR) with manufacturing and trading subsidiaries in Britain and many other countries including the United States of America, Canada, Australia, South Africa and West Germany. Some two-thirds of the group's earnings are generated overseas.

2.2. BTR is principally engaged in supplying rubber, plastics and engineering goods for industry and also supplies certain medical and consumer products. Many of its products have applications in materials and fluids handling (eg conveyor belting, industrial hose, lined pipework, rolls and machine clothing, ball valves and actuators) and transportation (eg pipe and electrical assemblies for aircraft; moulded, extruded and reinforced rubber and plastics products for road vehicles; safety equipment for marine use). Engineering products range from large welded steel modules for fitting to offshore drilling platforms to the manufacture of tungsten and titanium cutting tools.

2.3. A fuller list of the company's products is at Appendix 1.

History

2.4. Certain elements of what has become the BTR group date back to businesses, founded in the nineteenth century, which had an important part in the foundation and early development of the rubber industry. In the present context, however, it suffices to look back to 1934, when the name 'British Tyre and Rubber Company Limited' was given to a business which in the preceding year had been successfully floated as a United Kingdom public company to succeed a previously American-owned concern.

2.5. British Tyre and Rubber, whose original products included tyres for road vehicles, conveyor belting and industrial hose (besides minor products), grew organically and by acquisition. It benefited from new technologies and products (notably synthetic rubber and plastics) developed during or after the 1939-45 war. The manufacture of tyres was however discontinued in 1955 as it was becoming unprofitable. The company was subsequently renamed BTR Limited.

2.6. Despite some degree of further diversification and rationalisation, BTR's fortunes declined until the mid-1960s.

¹ In January 1982 the company's name was changed from 'BTR Limited' in compliance with section 2 of The Companies Act 1980.

Management philosophy

2.7. BTR explained that in late 1966 a new central management team was created. Its management philosophy was, and is, epitomised in the expression: 'growth is the goal, profit is the measure, security is the result.' It is, moreover, BTR's conviction that in markets where national commercial frontiers are in effect disappearing a strong, efficient, independent United Kingdom-based enterprise operating internationally is necessary to the national economy and the group's employees, customers, suppliers and shareholders.

2.8. Plans were laid for growth, both by undertaking the manufacture of additional products in the United Kingdom and by creating and acquiring overseas operations. BTR told us that, given the fragmentation in the 1960s of the industrial rubber products industry, with differing qualities of technology and low capital investment, it took the view—in which it secured the concurrence and assistance of the Industrial Reorganisation Corporation—that rationalisation was overdue. One result was the merger in 1969 with the Leyland and Birmingham Rubber Company, which had important interests in Africa. This, and the acquisition in 1976 of S W Industries Inc, a United States manufacturer of roll coverings with plants in America and elsewhere were important steps in internationalising BTR's operations.

2.9. BTR stated that, in any evenly balanced situation, preference was and would continue to be given to 'in house' investment, but that there were circumstances in which acquisition provided the best route to growth. In the five years 1976–80 £130.3 million were spent on acquisitions of new subsidiaries and some £77.9 million were expended on fixed assets for existing BTR companies. This investment was in part directed to companies that had been within the BTR fold for some time and in part by way of investment in new equipment and technology in companies which had been recently acquired. For example, in the five years in question the total investment of some £18 million in BTR's 'polymeric' activities (rubber- and plastics-based products) was split as follows: £13 million in pre-1977 BTR companies, and some £5 million in companies subsequently acquired: Andre Silentbloc (1977) and the Allied Polymer Group (1978). BTR told us that when it acquired a company as a going concern it was the policy as soon as practicable to make such capital investment in the enterprise as, on assessing the market situation, BTR felt was justified.

2.10. BTR also told us that acquisitions were not considered unless they possessed some 'contiguity' to existing group operations, either in process or in product range or within the same kind of market. A list of BTR's principal acquisitions in the period 1971–80, indicating the contiguity element, is at Appendix 2.

Organisation and control

2.11. The corporate functions of the BTR plc board and central organisation are to develop group strategy, overview major acquisition negotiations, agree and monitor annual profit plans and allocate additional resources to subsidiaries where this is justified by perceived market opportunities.

Central services

2.12. BTR told us that it keeps its organisation as simple as possible with central services at group or regional headquarters held to a minimum. Services are provided where combined group size provides greater purchasing power or to optimise use of professional services. In BTR today central services cover:

- (i) purchasing for major raw material requirements, eg natural and synthetic rubbers, textiles and chemicals;
- (ii) insurance, pension and legal matters;
- (iii) treasury facilities;
- (iv) international taxation;
- (v) corporate planning; and
- (vi) management development for senior management appointments.

Research and development

2.13. Most BTR products are components supplied to other manufacturers. Its technologies are largely predetermined by those of its customers. It has to meet or improve upon their specifications for performance, life, and resistance to the working environment.

2.14. In responding to customers' requirements, each of BTR's manufacturing companies has an appropriate design capability and range of manufacturing skills and processes. BTR told us it regards development as an operating cost and a continuous process within the marketing function. Managers at BTR profit centres need to be satisfied, when deciding what development expenditure would be justified in the light of customers' changing needs and the market potential, that the outlay is likely to bring a positive and preferably early return.

2.15. BTR considers that fundamental research is outside the scope of its operating companies and that the wide range and relatively small scale of the group's individual activities would limit the effectiveness of a central R & D operation. BTR has, however, a small central development unit in the United Kingdom which undertakes work at the interface of differing technologies and co-ordinates and supplements work on specific projects, eg where there are overlaps between BTR manufacturing units, as in polymer technology. The unit is also alert to the state of relevant R & D in other countries.

Subsidiaries in the United Kingdom and elsewhere

2.16. Before the merger, BTR had over 30 operational subsidiaries in the United Kingdom, 14 in Australia, eight in the United States of America, seven in South Africa, four each in West Germany and Canada, three in Brazil and two in Switzerland. It has single companies in the Argentine, Austria, Denmark, Finland, France, Italy, Japan, Norway and Sweden. In Australia, South Africa and the United States the operational companies are grouped under locally-resident holding companies.

2.17. A list of BTR's principal subsidiaries and associated companies, showing the main activity of each of them, is at Appendix 3.

Regional organisation

2.18. Beneath the BTR plc board the activities of BTR subsidiaries are controlled operationally through three regions—European, Western and Eastern. The European region comprises mainly BTR companies in the United Kingdom and continental Europe, the Western region comprises mainly the companies in North and South America and the Eastern region includes those in Australasia, South East Asia and South Africa.

2.19. An exception to this pattern is that Worcester Controls (UK) Ltd is, like its original parent, Worcester Controls Corporation, included in, and controlled as part of, the Western region. (This applies also to all the other Worcester operations, ie those in Canada, France, West Germany, Holland and Spain.)

2.20. BTR also told us of another exception concerning certain products where the technology and markets are considered truly international, eg roll coverings and felts for paper machines. The activities of the BTR factories concerned, wherever located, are co-ordinated by the leading BTR operating company in those products.

2.21. Each region has a Chairman who is also a Deputy Managing Director of BTR plc. Each regional Chairman resides in his region.

Subsidiaries: balance between autonomy and control

2.22. Operating subsidiaries enjoy a substantial degree of financial delegation and operational autonomy, subject to guidance from their regional chairman and to the overall guidance and control of BTR plc. The guidance and control by BTR plc are exercised through the annual profit planning procedure and the subsequent monitoring of actual performance against the detailed profit plan of each operating unit and of the group itself and subdivisions of the group. Guidance and to some extent control is exercised by the setting of objectives for each operating unit, suggesting certain levels of sales, investment, manpower and so on, which the unit should keep in mind when preparing its profit plan for the following year. Each profit plan is discussed and agreed, amended as may be, at a meeting between unit management and a headquarters committee before adoption as the profit plan for the coming year. Profit plans throughout the group are prepared to a common format.

2.23. The monthly reporting system covers profit and loss account, balance sheet and cash flow information on detailed schedules produced to formats standard throughout the group, with precise analysis of material variances from profit plan, both for the month and cumulative to date. These schedules are accompanied by a financial report which provides, as a requirement, (a) reconciliation between actual and plan profit, (b) comments on inventories,

trade accounts receivable, fixed assets, and (c) comments on any other relevant matters. The degree of detail and the precise analysis of material variances from profit plan each month enable central financial control to be exercised over individual operating units, whilst the standard formats of profit plans and monthly returns facilitate financial control of the group at any desired level of consolidation.

2.24. Once an investment programme has been included in an annual profit plan, capital expenditure commitments for sums within the plan are approved according to the size of the sum involved by delegated authorities, so that commitments can often be made regionally or by a local board. Management at profit centres has some discretion to substitute an item not mentioned in the plan for one so mentioned, provided that the expenditure is equivalent or less and that the new item is consistent with the agreed business objectives in the plan. Only completely new commitments outside the plan and its objectives have to be approved by the centre.

Financial summary

2.25. Table 2.1 below provides some comparative financial indicators for the BTR group in respect of the years 1976-81.

TABLE 2.1 BTR group financial summary. Historical cost adjusted for fixed asset revaluations

	1976	1977	1978	1979	1980	1981
	£m	£m	£m	£m	£m	£m
Sales	212.4	247.9	351.1	432.6	509.8	637.5
Average capital employed	84.2	103.7	144.0*	186.4	296.9*	352.9
Profit before interest and taxation	28.0	32.8	45.1	62.0	77.2	103.7
	%	%	%	%	%	%
Return on sales	13.2	13.2	12.8	14.3	15.1	16.3
Return on capital employed†	33.3	31.6	31.7	33.5	32.2	30.6
Debt/funds employed	32.9	15.5	18.9	15.6	21.3	30.2
Employees (worldwide)	16,500	17,500	22,500	24,000	24,600	26,000
	£	£	£	£	£	£
Sales per employee	12,873	14,166	14,629	18,025	20,724	24,520
	£m	£m	£m	£m	£m	£m
Value added		111	158	198	233	300
	available					
	£	£	£	£	£	£
Value added per employee		6,343	7,022	8,250	9,471	11,538
	£m	£m	£m	£m	£m	£m
Exports by BTR United Kingdom companies	18.5	21.5	39.5	55.6	62.7	73.4

Source: BTR.

* In 1978 all United Kingdom fixed assets were revalued increasing capital employed by £18.7 million. In 1980 all overseas fixed assets were revalued further increasing capital employed by £19.3 million.

† For the purpose of calculating the return on average capital employed, the group profit before interest and taxation shown above has been augmented by the addition of pre-acquisition profits of major units acquired, to the extent that these were earned in the group's year of acquisition, as follows:

	1978	1979	1980	1981
	£m	£m	£m	£m
Additional profit before interest and taxation	0.5	0.4	2.7	4.3