Travis Perkins plc

Travis Perkins plc is a major supplier to the building and construction market. The company supplies more than 100,000 product lines, including kitchens and bathrooms, hand and power tools, landscaping materials, general building materials, painting and decorating materials, timber and tool hire.

Born out of a merger in 1988 between Travis & Arnold and Sandell Perkins, the company can trace its roots back over 200 years. Through a series of acquisitions and brownfield developments, the branch network had increased to more than 750 by 2004, making the company one of the largest timber and builders merchants in the UK, with sales of £1,829 million and profit before tax of £207 million.

During the 1990's Tony Travis was chief executive and subsequently executive chairman of Travis Perkins. Travis knew the business intimately, having worked in it all of his life. His family was also a major shareholder in the company. He was known as a frugal manager, who believed in a lean head office and tight operations. Travis saw builders merchanting as a simple business, in which the key was to buy cheaply and then provide a level of service that allowed you to sell at a good margin. Despite driving growth through acquisitions and brownfield site developments, he was always willing to walk away from deals if he felt that they were overpriced.

Travis handed over the reins as chief executive in 2000 to Frank McKay, who joined the business from Blue Circle. McKay continued the aggressive growth and development of the company with a number of significant acquisitions. Larger acquisitions completed during the period from 1995 to 2004 include: AAH, Keyline Builders Merchants, Sharpe and Fisher, City Plumbing Supplies, Commercial Ceiling Factors and Jayhard. In addition, there were numerous other bolt-on acquisitions of smaller chains or independents. In total, Travis Perkins conducted over 160 company transactions in the period from 1995 to 2004. These acquisitions were part of a general trend to consolidation in the builder's merchant industry. In 1993, the top five competitors controlled 40% of sales in the UK builders' merchant sector. By 2004, the share of the top five had grown to 60%. The three main competitors were then Travis Perkins (15% market share), St Gobain (15% market share, built up by acquisition of companies such as Jewson's and Graham's), and Wolseley (15% market share, through branded outlets such as Plumb Center, Build Center, Pipe Center, and others).

The Travis Perkins acquisition formula became well-developed. Typically, the target company was a relatively underperforming business with margins in the range of 3% to 4% as against Travis Perkins margin of around 12%. After the acquisition, Travis Perkins would expect to achieve a 5% to 6% margin improvement through buying synergies and a further 2-3% margin improvement through overhead cost reduction. The buying synergies came from increased buying power and using suppliers with whom Travis Perkins had already negotiated good rebates. The overhead reductions came from closing previous head offices and making use of established Travis Perkins corporate departments at low incremental cost. The important areas in which Travis Perkins expected to achieve overhead savings were finance and administration, IT and credit control. There would typically also be some benefits from introducing the wider Travis Perkins product range, from improved service and prices, and from branch cost improvements. Against these improvements, there was often some loss of market share when independents became part of the national Travis Perkins chain, since some customers reacted against the national brand, which was perceived to be more expensive than their previous independent merchants. There could also be some loss of business due to standardisation on Travis Perkins suppliers where customers were anxious to remain with their old supplier. With a well-managed and high margin independent, the downsides associated with moving to the Travis Perkins brand could in some cases offset a good deal of the margin improvement.

Most of the acquisitions were selling into a very similar market to the main Travis Perkins customer base. However, the acquisitions of City Plumbing, Keyline (heavy, civil supplies) and CCF (insulation and plasterboard) had a somewhat different, more specialist focus from the traditional Travis Perkins builders merchanting. But even these companies had at least a 50% product range overlap with Travis Perkins.

Travis Perkins operated with three main central functions: finance, IT and buying. The corporate buying function was particularly important due to the role of buying synergies in the overall strategy. Through strong personal relationships and increasing volume of business, the Travis Perkins buying director was able to negotiate substantial group override rebates with all the main suppliers. The extent of these rebates on a product by product basis was not disclosed to branch managers, or even to regional managing directors, although they saw the overall impact of the rebates on their bottom line figures. Instead, the branch managers had a standard transfer price from the centre on which to operate. Branch and regional managers were also expected to relinquish control of finance and IT to the corporate functions.

On the other hand there was a strong belief in the importance of Travis Perkins branch managers as "local entrepreneurs". Travis Perkins established a framework within which these local entrepreneurs operated, which included a core product range, a standard pricing schedule, central buying and a number of other Travis Perkins policies and performance ratios. Within this framework, however, local branch managers had considerable discretion. They were free to augment the product range with stock they believed would sell well locally. They were able to negotiate extra discounts from suppliers for particular local supply arrangements. And they had wide discretion on sales and marketing to their local customer base. "A good branch manager can make a 50% or more impact on the branch's bottom line". Experienced Travis Perkins managers believed that this represented a good balance between central control and local autonomy.

The company's organisation structure was as shown in Exhibit 1. Branch managers reported into regional directors, who in turn reported to the four managing directors for the South East, the South West, the Midlands and the North. In addition, there were managing directors for Keyline, CCF and City Plumbing Supplies. A sales director handled national accounts. Close control was exercised through detailed monitoring of branch profit and loss statements, up through the regional directors and managing directors. The managing directors all reported to John Carter, the chief operating officer, who had over 20 years experience in the business.

A strategy review in 2004 identified a number of issues for the future development of Travis Perkins. These included:

- The threat to traditional builders' merchants from the growth of DIY home improvement centres which sold a similar range of products and were growing rapidly, in some cases taking market share with traditional builders' merchants' customers.
- The extent of future growth possible, given the relatively high degree of concentration in the UK builders' merchant business.

Exhibit 1. Travis Perkins Operating Structure 2004