

Biggest buys best

Published: 24 November, 2011

Lisa Arcangeli

As the man at the top, Frank Elkins, managing director of BSS Industrial and a PLC board member, was more aware and engaged than most with Travis Perkins' process of purchasing his company.

"We didn't want to sell BSS," Mr Elkins admits. "But shareholder value meant it was a too great an offer to miss and Travis moved in at what was strategically a very good time. There weren't many players in the deal – because there couldn't be – and from Travis' point of view it purchased BSS for a very good price.

"At BSS board level we always said that if we were to be sold, then the best possible home we could go to would be Travis Perkins because the cultural and strategic fit was so good."

Why did Travis want BSS so much? For starters, it didn't have an offering in the commercial industrial sector and the lure of the powerful PTS brand proved to be irresistible.

"Since the acquisition," says Mr Elkins, "Travis has been very respectful of the fact that BSS is a good business that is continuing to grow."

Synergy may be an overused word, but in this instance it fits well. Travis brings many new elements to the table, as far as BSS is concerned. "There are buying synergies, low cost country-wide sourcing, procurement and the quality assurance processes for doing that," he explains. "This is something that BSS was already doing, but Travis has a far better understanding of these areas than we had."

Then there were IT platforms – essential for all merchant growth. BSS was on the cusp of developing its IT and was planning to roll out K8 to all its branches when the deal went ahead.

"IT had been a slow and painful journey for BSS," Mr Elkins recalls. This was largely due to the fact that it outsourced all of its software, so the adaptations required and nuances of the merchant market

sector all had to be programmed into K8. It was a laborious process.

"Travis Perkins has its own software with over 150 IT Development people within the company. That is why it has such an ability to adapt its systems so quickly and efficiently."

BSS has already started the integration of its finance system into that of Travis and some PTS branches are already on the Travis Perkins system.

Mr Elkins is anticipating that over the next 18 months BSS should be in a situation where the IT roll-out programme will start delivering some significant benefits.

"Another benefit of the acquisition is a much wider customer base," says Mr Elkins. "When you look at Keyline and some of the other areas we want to develop in the drainage market, we will have the ability to share customer information and credit accounts."

From a customers' point-of-view, our vision is that a transaction with BSS, whether for below ground drainage products or plumbing products, will provide an overall package of service that delivers these goods.

"It won't happen immediately, but our vision is to be able to deliver a much wider spread of products to our customer base through the various channels within Travis Perkins."

Mr Elkins is encouraged by Travis' view of BSS Industrial. "If you spoke to any of my branch managers or the operational team about how the integration is going, they would probably tell you they haven't noticed any difference. My teams have been left to get on and deliver their results for BSS." The market is better than expected, he adds.

As far as sales growth is concerned, BSS has continued to perform strongly. "The commercial industrial marketplace is holding up reasonably well. There are, of course, challenges within the market with bad debts and margin pressures but overall, we have had a strong performance in the first half," Mr Elkins says.

In its financial statement issued to the City on 3 August 2011, Travis Perkins' merchandising offer was shown to outperform its retail division. On a like-for-like basis for its fiscal year first-half, merchandising was up 10.7%, while retail was up 0.3%.

Merchandising's performance was further boosted by the BSS acquisition. Group turnover including BSS was up 54.2% to £2.35bn

(up 5.95% excluding BSS) and operating profit increased 24.7% to £150.1m (up 1.4% excluding BSS).

The group said it expected its fiscal year second-half to continue exerting the economic pressures experienced so far in the year, with retail volumes pressured and merchanting providing the best growth opportunities.

Mr Elkins concedes that in the merchant market "there is definitely a view that life is getting tougher in the domestic market sector.

"We have seen some softening in the last few months, but there are some very strong performers.

"Merchants are increasingly having to adapt to meet the constantly changing demands of contractors. Everyone is trying to push risk further down the supply chain.

"We are supporting our customer base with tri-part agreements with suppliers to ensure that specifications are held, innovation and new products are adapted to and put in."

The merchants' role, he believes, "is to constantly scan the market to ensure that the products our customers are using are of the right quality and to add value to the proposition.

"There is no doubt that the merchant market is changing. Just look at the cost of raw materials. There is enormous pressure on contractors to ensure they reduce both their material and installation costs.

"What we can do is to offer them alternative installation products. We train our staff in new product innovation to make sure we can do that.

"We have to ensure that we always add value and add a solution sell to what we are doing with our contractors, with the product ranges we offer, with our product proposition and our technical advice."

Are national merchants becoming too large? Mr Elkins turns the question around: "From a customers' point of view, is there a danger of too much consolidation in the marketplace? Biggest buys best and that helps drive down material costs for the installer base. The larger the distributor, the greater purchase leverage they can achieve and the greater resources they have for sourcing and looking at alternative supplies for their customers."

BSS is currently in discussion with the Government about

sustainability. "We are working with a number of bodies to see how we can support our customers to ensure that they get the best out of the public money that is available from the Green Deal and other forthcoming legislation."

BSS has developed forums with its customers to examine how to go about doing this and to establish exactly what services and information its customers require.

The merchant was looking into this prior to its purchase. Now it is looking at developing that market sector further.

"We want to be able to provide services to our customer base and support them as and when they require it."