12|7|81

Small businesses are big business in Britain today. More than 500 start up every week. The UK has 1.5m of them, defined as employing at most 500 people. Since 1979 such firms have created an estimated 700,000 jobs and are becoming the major job creators of the 80s.

This week, The Sunday Times starts a new series on the small businesses that are changing the shape of the British economy. We invite readers to send us information on any small company — public or private — that would reflect the spirit of this sector of the business community.

Eastern recipe for hi-tech

THE SUNDAY TIMES SMALL BUSINESS STORY

by Sam Passow

THEY haven't started doing morning exercises yet, but sometime soon the 400 workers at the Technophone factory in Surrey could be singing company songs.

Nine months ago Technophone, which claims to make the world's lightest and smallest cellular radio telephones, hired Frank McGovern as its factory manager. Drawing on his experience at Hitachi UK, McGovern has transformed the Camberley plant, raising production from 100 a month to 100 a day.

McGovern, a tough 48-year-old Glaswegian, has the entire non-union staff dressed in white coats, Japanese-style, working under slogans such as Who Cares Wins, and meeting once a week to discuss how to increase productivity. Quality control — one of the mainstays of Japanese industrial success — ensures that each Pocketphone unit goes through 21 separate inspections.

When the factory exceeded its target last month, instead of taking the workers out for a pint, the Scotsman passed around a bottle of sake.

The Pocketphone is the creation of the 49-year-old Swedish designer, Nils Martensson, who set up the privately-owned company in 1984. A £2.2m cash injection earlier this year financed a robotic assembly line, which produces 95% of the Pocketphones. The result? A tiny unit, 7in by 3in by 1in, weighing 18.5oz, which fits an executive's top pocket.

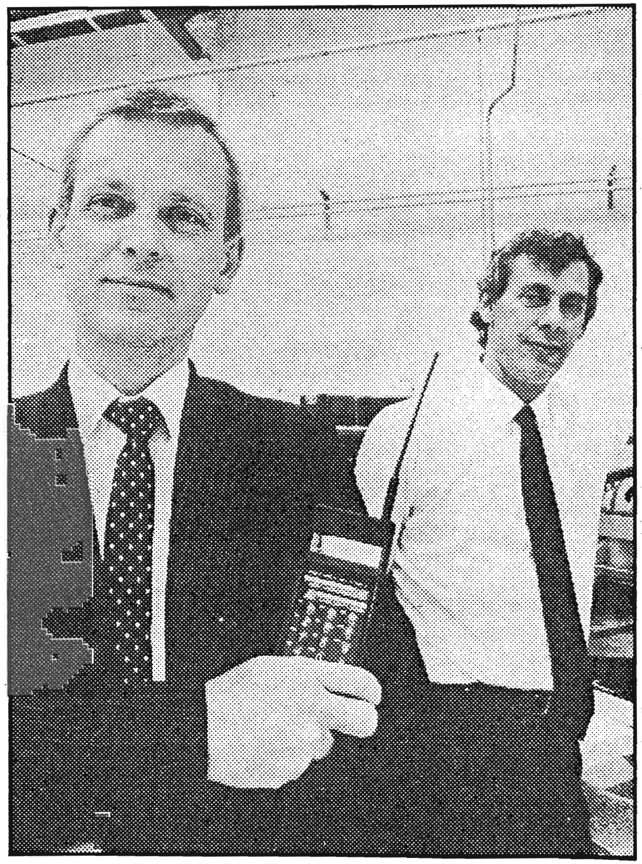
Technophone claims it is the most "intelligent" machine of its size on the market with a memory holding up to 100 names and numbers. It can also be used for electronic mail, as a modem for a portable computer or as a direct link to a mainframe system to retrieve or store information.

Martensson came to Britain six years ago. He is an unashamed Thatcherite: "I was caught in the wave of the Thatcher revolution, which made England a very attractive place to set up a company, especially one which is creating a market for the future. Our R&D has made us the world's largest pocket phone manufacturer, out-producing such firms as Motorola of the USA, Mitsubishi and NEC of Japan and Mobira of Finland," he says.

By 1991, when the EC has standardised its cellular phone network, the company plans to produce a "European phone" which can be used in 13 countries without any modifications.

Martensson projects that the turnover for his firm for the current financial year will exceed £20m and that by mid-1989 the company's profits will exceed its total capitalisation of £6.9m

Bryn Colton



Hold the phone! Martensson, left, and Goldstone

To date, 80% of orders are exported. Half its exports are shipped to America and they are also sold under other logos in Europe, Australasia and Hong Kong.

The remaining 20% are sold in the UK under an exclusive licence to Excell, a Manchester marketing group. So far, over 5,000 have been sold in this country at a hefty £2,125 each, though a unit can also be leased for £13 a week. By adding a monthly line-rental charge of £25 and an average phone bill of about £50 a month (each call costs 33 pence a minute), it totals about £130 a month.

"Our sales account for approximately 35% of the hand-held market in the UK and about 15% of the total cellular market. By 1990, we feel that there will be at least 500,000 cellular phones in use in the UK, half of which will be hand-held," says Michael Goldstone, Excell's 42-year-old managing director.

5/7/87

Michael Ward

Ready for flight: motorbike-maker Roux sets Norton throttle for market listing, with a power assist from aero business

Bike legend revs up for early listing

● **SAM PASSOW looks at what is making Norton turn over these days**

NORTON Villiers Triumph Group, famed for the classic British motorbike, is shifting into high gear with plans to take it into the skies as well as on to the London Stock Exchange. Tomorrow NVT, known by thousands of enthusiastic bikers for its throaty Dominator and its Commando 850, will announce plans to go for a full market listing within the next 12 months – a year ahead of its previous schedule.

Today motorbikes are but a small part of the grand design of Philippe Le Roux, the 36-year-old managing director of Norton. With the British bike market in terminal decline (down to 105,000 bikes today, a third of its 1980 total), Le Roux's ace is a new rotary engine capable of being used by both motorcycles and light aircraft.

The ex-Schroder merchant banker is planning to build just 500 super-bikes each year at his Staffordshire plant – admittedly nothing to worry Honda or BMW.

"We are an engine manufacturer using a motorbike to demonstrate the power of our engine, rather than a British motorbike manufacturer trying to take on the Japanese and the West Germans," says Le Roux.

It is a strategy that has had investors flocking, and not just for the nostalgia of the old Norton name. When a public offering for Norton shares closes at the end of this month, it will have raised £3.77m since May.

A first rights issue of around 44m shares to the company's 7,000 shareholders raised £1.77m and was oversubscribed by £300,000 when it closed on June 22.

Over 3,000 additional investors have been pouring their money into the company at a rate of around £50,000 a day, Le Roux says.

NVT shares, currently standing at 6p, are traded on a matched-market basis under rule 535.2. But it plans to go for a full listing despite the fact that none of its current shareholders are institutional investors.

Le Roux is "amazed at the public response" to the fund-raising, especially considering that the prospectus clearly stated there could be no indication of potential profits.

The company has also yet to prove itself to the financial community. Le Roux, who took over the old motorcycle interests earlier this year, inherited a loss of £227,895 in 1986 on a turnover of £1.14m.

What is unique about the NVT rotary engine is that instead of pistons firing up and down as in a normal engine, a rotor revolves continuously in a circle, giving a quieter, lighter engine with little vibration.

NVT currently produce about 50 engines every month, only a third of which are for the motorcycles. The rest are earmarked for the light aircraft industry and the military – especially in America where the Pentagon is buying the quiet engines to power remote-controlled target drones and spy craft.

NVT has an exclusive licence with Teledyne, the manufacturer of Continental aircraft engines. Le Roux notes that while some 172,000 light aircraft are currently in use in the US and 20,000 in Europe, a combination of ageing craft and pent-up demand will soon lead to an order boom for new models, hopefully equipped with the rotary engine.

NVT research suggests that worldwide demand for remotely piloted aircraft is about 6,000 units a year and growing quickly.

In the motorcycle business, where the Norton name is best known, NVT currently makes about 250 of its high-powered 580cc Interpol 2 bikes a year at its Shenstone plant. Most go to the British police forces and military, but Le Roux plans to double that production figure by January and sell the rest to the public at about £6,000 apiece – slightly cheaper than BMW's K100 model and about £500 dearer than the top-of-the-line Japanese import.

NVT will be aiming these new "dream machines" at up-market males aged 28 to 45. These are the people, says Le Roux, "who remember Norton as we were."

He adds: "They see themselves as Richard Gere, who rode one in An Officer and a Gentleman."

Tom Kidd

Labelled: Donohoe gears output to customer convenience

Sticking to the market

by Sam Passow

THE SUNDAY TIMES SMALL BUSINESS STORY

26/7/87

1987

SEVEN years ago, Glaswegian Des Donohoe started out on his own with £500, a will to work, a qualification in marine engineering, a degree in marketing and a good deal of common sense. This year, he estimates that the company he started will turn over £1.25m.

The key to Donohoe's success is adhesive labels, the kind designed for industrial use. His company, Donprint, based at East Kilbride, now has more than 1,200 clients including IBM, Thorn-EMI, Digital, Black & Decker and Ford.

Donohoe, 37, started Donprint in 1979 after a five-year stint as Scottish area sales manager for an American company that manufactured labels in Manchester.

He left the company after a clash with management over the direction the industry was taking.

"They were not computerised and they failed to see that large companies would find it more economical to farm out the task of making stock labels rather than doing it themselves," he said.

It was a tricky start. He was operating in an industry where more than 400 companies in Britain chase a market of only £160m a year.

For the first nine months he was on his own — on the road by day in his Cortina, selling the labels, then printing them by night at home. By the end of his first year, he was able to hire two assistants and broke even with 60 clients and a £22,000 turnover.

Today, Donprint has a growth rate of 100% a year and Donohoe is forecasting pre-tax profits of £280,000 on a £1.25m turnover this year.

The workforce has risen to 33 and is growing at the rate of two a month, with the aim of reaching 100 by 1990. The Cortina has long since given way to a Porsche.

"There is no secret to this company's success," says Donohoe. "We are simply market-driven. The marketplace will tell you where to go — and you ignore it at your peril. I'm amazed that people in this country are not paranoid about customer service."

Putting customers first has resulted in Donprint winning the IBM Europe supplier excellence award for two consecutive years after delivering 3m flawless labels. It was also the 1986 joint-winner of the British Telecom small business award.

"It's a sad comment on British industry that we get prizes for doing what everyone else should be doing," Donohoe says.

Three quarters of his staff deal directly with customers and they are well motivated by an incentive scheme which adds about 20% to basic salaries. Donohoe briefs them on the firm's financial position every two weeks, which, he believes, spurs them to greater efforts.

He also runs Donprint along lines that any successful Japanese or German businessman would recognise. He consistently ploughs up to 10% of profits into research and development and zealously follows the "just-in-time" production technique.

Customers are increasingly turning to just-in-time to cut inventories and reduce cash flow. In the past two years, for example, IBM has reduced its number of label suppliers from 12 to four. Firms are now going to a single source, with just one or two back-ups.

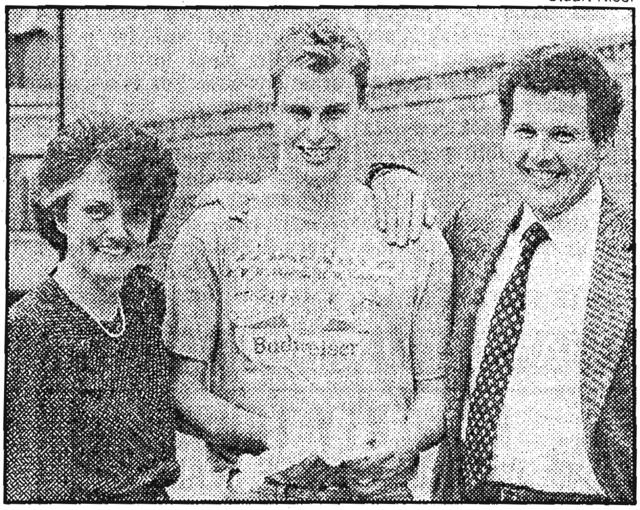
"What this means is that your deliveries must be prompt and there is little margin for error," says Donohoe.

In October, Donprint will launch a new computerised software system for IBM-type personal computers, allowing customers to alter the information on stock labels. Printing variable information just when it is needed on the customer premises should reduce current costs by up to 75%, Donohoe says.

One unexpected problem that Donohoe has faced is staff shortages. He says that, despite a local unemployment rate of 18%, he has had difficulty finding the right people. Only 60% of the staff he recruits stay for the long term. "We want people who want a career with us, not just a job," says Donohoe.

2/8/87

Stuart Nicol



Teamwork: Richard Nash with his employers, the Butchers

Nuts and bolts of enterprise

by Sam Passow

THE SUNDAY TIMES SMALL BUSINESS STORY

IT TAKES a Bluemay nut and bolt to hold together a surprising range of British products. Bluemay, a small Wiltshire firm, makes nuts and bolts of nylon — a sixth the weight of steel, but strong enough to be found in anything from Challenger battle tanks to Williams Formula 1 racing cars.

Based in the old market town of Devizes, Bluemay was founded in 1973 by a husband-and-wife team, Bob and Val Butcher, who saw the potential of thermoplastic products and invested £500 in a marketing firm importing plastic fasteners from Belgium.

"After a year, when we realised that we couldn't get the quality and service we wanted from them, we bought a machine and produced the product ourselves," says Bob Butcher.

Things began to take off for the company in 1976: it acquired three additional machines. Last year it was a joint winner of the British Telecom National Small Business Efficiency Award.

Although Bluemay has a turnover this financial year of only £750,000, it has now linked up with a West German manufacturer of plastic plugs and caps to form a company, Multicap, to market those products in the UK. It suddenly finds itself competing in a multi-million-pound market.

This bold step hardly fazes the Butchers. Over the years they have fostered a remarkable corporate spirit among their staff of 22. Last year the Butchers spent a quarter of their pre-tax profits of £75,000 to send every staff member, including the tea-lady, on some form of training course to broaden their skills.

Richard Nash, a production planner who had joined the firm five years earlier right out of school, was sent on a five-day Industrial Society course at Keble College, Oxford. Upon his return, he set up, with the help of the Butchers, a community programme for school-leavers called Basil (Bluemay and Schools Industry Link).

Every week, Nash and others of the younger employees spend an hour with a half-dozen or so students from Devizes comprehensive school, showing them what it is like to work on a production line and advising them on such matters as how to do well at a job interview, open a bank account, handle their taxes and answer a telephone.

Bluemay also gives each employee who has been with the company for four years an equity stake in the firm. "Now when I work on the production line, I feel as if I own this piece of equipment," says Nash.

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Eyes right for growing profits

THE SUNDAY TIMES
SMALL BUSINESS STORY

by Sam Passow

THE VISION that created Crown Eyeglass had its origin in 1983 when Joe Lee went to his optician for a pair of glasses and was appalled at being handed a bill for £84. Being an astute entrepreneur, he did some investigating and found that £72 of that was profit for the optician.

Lee was aware that the law was soon to be changed to end the monopoly of opticians and optometrists and allow other people with certain minimum qualifications to retail spectacles.

Lee, now 55, got together with a boyhood friend, Harold Stonefield, whose family runs a Manchester cash-and-carry business. Each put up £5,000 of their own money, and with £55,000 in loans and an equity stake from Lancashire Enterprise Ltd, they set up Crown Eyeglass in Blackburn, Lancashire in 1984.

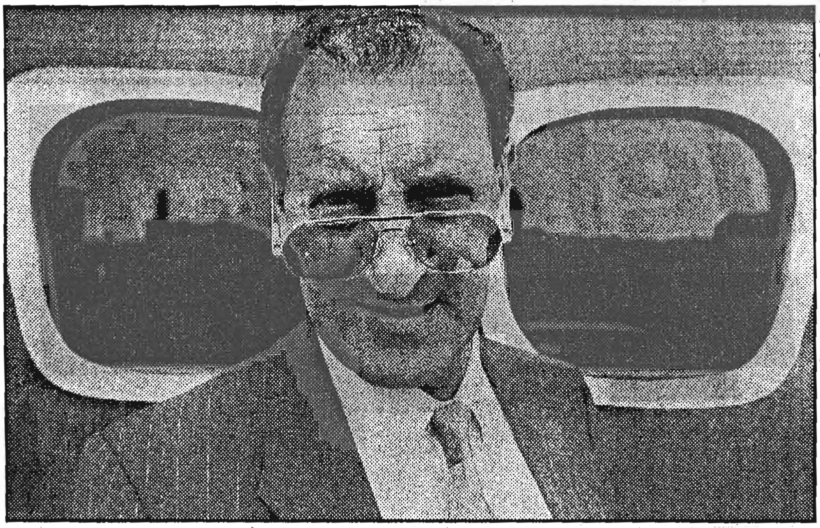
From the start, Lee and Stonefield decided to market the glasses through shops run under franchise. Statistics show that nine out 10 franchises succeed, whereas 90% of other new businesses fail within five years. And more than half of all franchisees are female.

Crown Eyeglass claims to be one of the fastest-growing businesses in this booming field. More than 250,000 people in Britain are wearing Crown Eyeglass spectacles, and their numbers are growing at a rate of 2,500 a week. Lee is selling made-to-order glasses at an average of £26 a pair, with delivery within four days.

The prescription is simple. For £9,000 a franchisee gets two weeks of training in fitting glasses, a corporate name and logo, displays for the shop, optical equipment, a stock of frames frequently changed to keep pace with fashion, and a constant advertising campaign in local papers.

Customers come to the shop with an optician's prescription and choose a frame from among more than 1,000 styles, with no extra charge even for the most superior frame. Orders are sent to the Crown Eyeglass factory, where lenses from suppliers in the Far East have their circumferences trimmed to fit whatever frame is chosen.

On average it takes 10 minutes to shape the lenses and fit them into a frame, but Crown recently managed to make the Guinness Book of Records for producing a pair of glasses in three minutes 20 seconds.



Andrew Stenning

Man who was keen to make a spectacle: Joe Lee's personal experience triggered his success

The franchise terms are designed to speed cash-flow for both parties. The franchisee normally charges the customer a 50% deposit. This is remitted to Crown, which uses it to finance the production. When the franchisee collects the balance from the customer, he pockets it.

Crown Eyeglass has moved up among the top 20 British-owned franchise operations. Last year it registered a pre-tax profit of £59,000 on a turnover of just over £1m. It went public last April on the Unlisted Securities Market, raising £500,000 by selling off 25% of its equity.

Today it has 70 outlets and more are opening – at a rate of two a month. At present most of them are in north-west England, but in two years Crown plans an assault on London and south-east England. The goal is some 500 retail shops within 10 years.

"Our ultimate aim," says Lee, "is to have a retail outlet in every major city and town in the country and then use them as a vehicle to distribute a wide range of eyecare products on a licensing arrangement – possibly even accessories such as make-up."

Crown has hired 61 people to work in its factory. In addition, it has created more than 200 jobs through its franchising operation.

Franchising is having a growing impact on the economy. There are more than 20,000 franchise operations in the UK, employing more than 150,000 people. A study commissioned by the National Westminster Bank and the British Franchising Association notes that retail spending at franchise outlets is currently around the £2 billion mark and is estimated to rise to £6 billion by 1991.

These figures are confirmed by Crown's own success. "So far we've only had seven franchises fail in three years," says Lee, "and 95% of our stores are run by husbands and wives. A third of those are situations where husbands are basically trying to provide businesses for their wives."

According to John Stanworth, director of the Small Business Unit at Central London Polytechnic, "As many as 50% of franchisees would not otherwise have become self-employed."

● *The National Franchise Exhibition organised by the British Franchise Association will be held at the Kensington Exhibition Centre in London, October 16-18. For further information: phone Karen Haig, 01-734 9587.*

Scaling barriers to real success

by Sam Passow

MELANIE FREE and Helen Butlin are two determined women who hear – about a dozen times a day – that they have worked their way up from the gutter.

They take a lot of ribbing as key managers of a company in the male-dominated construction sector. Free is deputy managing director and Butlin is materials manager of Gutter Maintenance, based in Hertfordshire. The small company specialises in supplying, installing, unclogging and cleaning roof gutters.

The key to operating in such an industry, says 29-year-old Butlin, is actually knowing more about the subject than most men do, and combining that knowledge with a sense of humour.

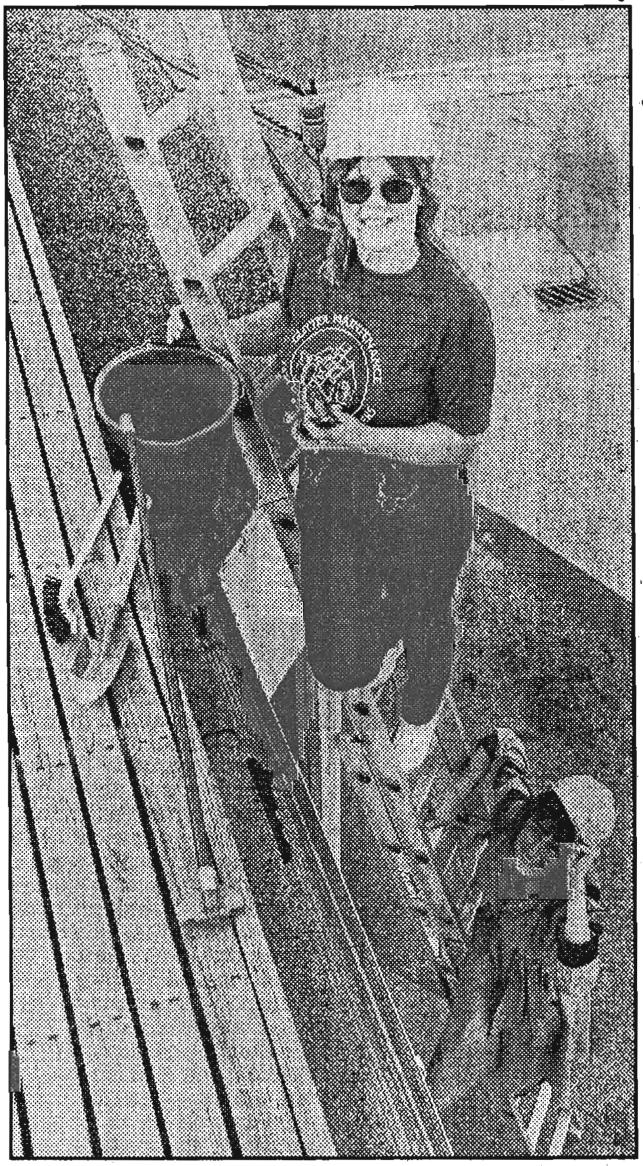
"We draw our strength from brains, rather than brawn. We never give the job a second thought; we just run it the way we would any other business," she says.

"For example, when a customer comes in and asks me if I have a 90-degree bend, I smile and ask him what angle he wants. Because in fact there is a difference, depending on whether you're talking about a pipe or gutter fitting."

Gutter Maintenance was set up 20 years ago – by a man. It handles around 4,500 accounts a year, 200 of which are local authorities in London and the home counties which are responsible for maintaining public buildings, council flats, schools and hospitals. The firm employs 30 people with a turnover of about £675,000 and a pre-tax profit of £60,000. It also does fittings for restored historical buildings and churches.

Free, 39, who is married and has two daughters, came to the gutter business after eight years in the fashion industry, a more traditional sector for women. She says that initial male reaction to her work is often patronising, but is convinced that many of the barriers confronting women in industry, especially those managing a small business, are often imposed by their own lack of confidence rather than by real obstacles.

Mark Ellidge



Climbing the ladder: Helen Butlin, top, and Melanie Free

THE SUNDAY TIMES SMALL BUSINESS STORY

When asked which women they admired the most, both Free and Butlin placed Margaret Thatcher at the top of their lists for "her determination and ability to get on with things in the face of constant criticism."

Free also gives top honours to Mary Archer for her conduct during her husband's sensational libel case.

"She appeared so self-possessed, while inside I'm sure she was breaking up."

She sees a parallel between Mary Archer and the conflict most working women face in having to balance a job and run a home while their husbands or boyfriends can concentrate solely on their careers.

"Even when I got promoted to deputy managing director, I still had to go home and do the laundry and cook dinner," says Free. "There are days I feel it's a struggle to cope, but you have no choice except to get on."

As for her husband, who is a general manager in a large company, does he help out after hours?

Says Free: "There's really no equality between the sexes. I think women have the advantage because most men are really a bit insecure, and you have to make them feel they're important."

Tom Stoddart

Creating an image of durability: Asquith's Crispin Reed and one of his replica antique vans

Replica vans deliver the real advertising money

by Sam Passow

WHEN Coca-Cola was celebrating its centenary, its marketing director in the UK wanted innovative ways of displaying the firm's traditional logo. One was to buy five 1929 Model-A Ford vans from a British company called Asquith Motors – they were, not surprisingly, replicas.

Coca-Cola isn't the only household name to use the "antique" vans as an advertising medium. Asquith Motors, an Essex company, has sold 175 of these reproduction vintage vehicles to the likes of Daks-Simpson, Austin Reed, Holstein Lager, J&B Whisky, Maxim's de Paris, Wheeler's Restaurants, McDonald's, Perrier and Akai.

"If the first principle of good advertising is to stand out from the crowd, then these vans certainly attract stares wherever they go," says Crispin Reed, marketing director of Asquith Motors.

"People are always saying that they don't make things like this any more; if they see something that looks 60 years old – even if in reality it's not – they automatically think the product must be good to have lasted."

If fact, Reed's vans are nothing more than fibreglass-moulded replicas mounted on modern Ford or Reliant chassis. They cost between £9,800 and £15,900, depending on the model, and each takes 500 to 800 man hours to make. The five different models are finished with leather seats, walnut dashboards, klaxon horns, brass fittings and hand-painted logos – all of which pay tribute to bygone days.

The vans were the idea of Bruce West, Reed's partner in a reproduction furniture business, who in 1980 restored a 1927 van to deliver mock chesterfield sofas. The vehicle drew more interest than the sofas so in 1981 West and Reed set up a company to produce the vans.

Reed, now aged 43, and West started the company on a shoestring, spending £4,000 on a chassis and other parts. But as with many other budding entrepreneurs, they had trouble raising finance.

THE SUNDAY TIMES
SMALL BUSINESS STORY

"I went to the bank and asked for a small business loan," said Reed. "But I was turned down by the manager who said I could have the money only when I could prove I could sell the product. But once I sold the van, I didn't need the money."

Reed and West struggled on their own for two years, but when they finally realised the potential for replica vans they sold 90% of the business to the Hunnable Group, which injected the capital that was needed for expansion.

At present, Asquith Motors makes one van a week. Last year, its turnover was nearly £900,000 with a pre-tax profit margin of 38%. Reed hopes his 25-man workforce at a factory in Great Yeldham will be able to increase output to two a week by the end of the year.

The largest overseas market is West Germany, which takes 20 vans a year, but Asquith Motors has also sold three vans to America. In the next two years, the company hopes the US will account for a third of its output. One of its first sales there was commissioned by Ogilvy and Mather, the advertising agency, for a New York watchmaking firm.

Enterprise pays

● Glenrothes Development Corporation and The Sunday Times are staging a competition, Enterprise 40, which aims to encourage five people, aged 40 or over, to set up a new business there.
The winner will receive £2,000; four runners-up get £500 each. Any of them that actually set up a business at Glenrothes will get aid from the corporation worth £35,000: venture capital of £15,000 and a two-year free lease on a 5,000 sq ft factory (worth £20,000). They will also receive £5,000 worth of advisory services from the accountancy firm Spicer & Pegler.
Entries must be in by January 11; winners will be picked on March 17. The judges: Ivan Fallon, deputy editor of The Sunday Times; David Erdal, chairman of a Glenrothes company, Tullis Russell; James Gulliver, Argyll Group chairman; and Clive Bastin, national managing partner, Spicer & Pegler.
Further details and entry forms from: Glenrothes Development Corporation, Enterprise 40 Competition, SCOTMAIL, 420 Swanston St, Glasgow G40 4HW.

Enterprise 40 judges, left to right: Ivan Fallon, David Erdal, James Gulliver, Clive Bastin

New town out on its own

by Sam Passow

IT WAS three years ago that Doug Scott won a competition designed to woo entrepreneurs to start a small business at the Fife town of Glenrothes.

At 45, Scott was tired of working as a mechanic for a large aircraft repair firm in Perth. Glenrothes was offering inducements for people to make use of hangars alongside the town's airstrip. Scott set up a repair shop for radio and navigational equipment.

Various aircraft operators had promised him plenty of work. "During the first 18 months I couldn't find enough hours in the day to get things done," he says. "But now things have slowed down to the point where, if they don't improve quickly, I probably can't go on much longer."

But Glenrothes won't lose him. He says: "At least I have the satisfaction at this point in my life that I have given it a go, and no matter what happens I will stay here. What I have learned is that people will promise you the earth when you do your research, yet it's another story once you get going."

Glenrothes, a town created by a development corporation on a greenfield site when the Fife coalfields were still thriving, turns 40 next June. Like Scott, it is going through a mid-life crisis.

As one of Britain's oldest industrial development parks, covering nine square miles, Glenrothes is home to around 225 firms. They employ more than 8,600 people out of a local population of 38,400.

After the coal wealth failed, the first firm on the industrial estate appeared in 1958: Jack MacNally and six women started a subsidiary operation for an American firm, Beckman Instruments. It is still going strong, though under different control, and boasts more than 1,000 employees.

MacNally, now 70, is recognised as a local historian. He says: "One of the secrets of Glenrothes is that everyone knows everybody here, and you can go and fight directly with the development corporation.

"If you fight tooth and nail, you will usually get what you want. And that's something you can't do in London. You

40 GLENROTHES 1948-1988

get the feeling here that they need us [entrepreneurs] as much as we need them."

Local unemployment, at 9%, is well below the Scottish average of 13.2%, but this is a mixed blessing. It led directly to last year's withdrawal of regional development grants, which underpinned inward investment with 22% capital allowances for new plant and machinery.

With that sweetener removed, four other Scottish new towns that retained their grants — East Kilbride, Livingston, Irvine and Cumbernauld — were given an immediate edge. With Glenrothes, these five industrial zones have accounted for 70% of all new investment in Scotland in the past decade and competition for every job is fierce.

Currently 30% of the Glenrothes workforce are employed by American multinationals. Last year General Instruments pulled out, with a loss of 400 jobs. That exit followed the withdrawal of Burroughs, leaving Glenrothes without a major electronics firm.

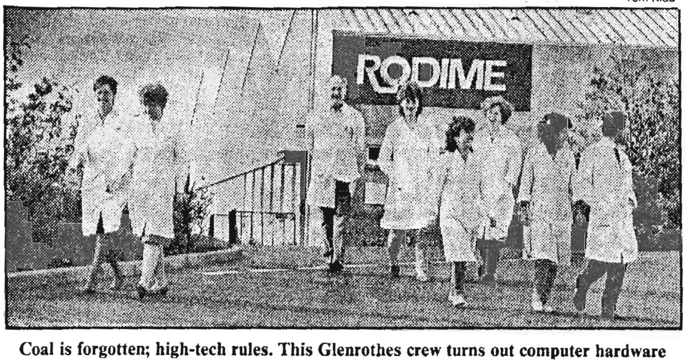
East Kilbride, near Glasgow, has managed to hold on to the American-based Motorola and attract the Japanese firm Nikko. Livingston, next to Edinburgh airport, has attracted NEC and Mitsubishi from Japan.

Industrialists in the area see Glenrothes' ability to attract high-tech firms as essential if the area is to prosper. There is a problem of accessibility: the nearest large airports are Edinburgh, 32 miles away, or Glasgow, 60 miles away.

"While the community spirit here is light-years ahead of other areas in Scotland," says Tom Valentine, financial director of Kineticon, a locally-grown semi-conductor firm, "Glenrothes is losing out to the other industrial parks because it is not closer to major airports."

Last year the development corporation attracted a record 38 new firms, but still saw 30 others close. The most encouraging element of its balance-sheet for this past fiscal year was that despite these setbacks the actual number of jobs grew by more than 1,200, as a number of existing operations increased staff.

Tom Kidd



Coal is forgotten; high-tech rules. This Glenrothes crew turns out computer hardware

40 GLENROTHES 1948-1988

THE SUNDAY TIMES and the Glenrothes Development Corporation in Scotland are staging a competition with prizes worth up to £200,000. Enterprise 40 is open to anyone that age or over who submits a proposal for a new business. There will be five winners. Competition details and a report on Glenrothes can be found on page 91.

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SAM PASSOW
Business News

THE SUNDAY TIMES

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5/7/87

Steel to turn in top profits

by Sam Passow

BRITISH STEEL will on Tuesday unveil record profits of well over £200m for the 1986-7 financial year. The results will confirm the corporation's record as the most profitable major steelmaker in the world and set it on course for a return to the private sector in 1989.

Since 1980, when Sir Ian MacGregor wielded the axe to cut a £1.8 billion loss, British Steel has achieved the highest productivity of any steelmaker in Europe and is now challenging Japanese levels. Last year, a tonne of British steel cost about $419 against $538 for Japanese and $442 for West German.

But the company's current chairman, Sir Robert Scholey, is expected to warn that this year's level of profitability will have to be maintained if British Steel is to remain competitive. This could mean further job losses in an industry which in the past 10 years has shrunk from a workforce of 207,000 to about 52,000.

One problem looming for Scholey concerns the future of the Ravenscraig plant in Scotland, the most vulnerable of the corporation's five large integrated steel works, employing about 3,200 workers. Decisions on its future were frozen during the election, but with the government now reduced to a political rump in Scotland, it has little electoral support left to lose if Ravenscraig closes.

● Tomorrow, British Coal Enterprise plans to steal the thunder from Arthur Scargill and the National Union of Mineworkers meeting in Rothesay, Scotland, for their annual conference. The British Coal job-building agency will announce that in the last two years it has created 20,000 jobs through 1,384 projects funded by five-year loans totalling £31m.

According to BCE chairman Merrik Spanton: "If British Coal can achieve its present goal of creating 15,000 new jobs a year, then we will be able to replace the 100,000 jobs lost in the mining community since 1983 within the next five and half years."

Last Thursday, British Coal announced plans for flexible working at its 13 super pits which could create up to 9,200 extra jobs.

A legend in life assurance

● London Life has made Dick Whittington live again — now to become the corporate logo of Britain's second oldest mutual life company. DIANA WRIGHT and SAM PASSOW look at how London Life is trying to expand without jeopardising its traditional values

LONDON LIFE, the second oldest mutual life company in the country — and one that doesn't make policyholders pay commission charges — will tomorrow launch a new corporate identity featuring Dick Whittington and his cat.

Fable has it that the young, starving Whittington entered on a life of finance and investment after his employer asked him to make a contribution to a cargo bound for the Barbary Coast — and he sold his cat.

But whatever the legend, Whittington was three times elected lord mayor of London, and became financier to the crown, in the early 15th century. London Life hopes that this image of integrity will illustrate the firm's strength as well as its long history.

"Our research told us that people are looking for a strong, established image when choosing an investment firm, which is why we hit on the Whittington theme," says Aziz Cami, a director of The Partners, the design firm that came up with the concept.

The new logo will replace London Life's 10-year-old double L design, commonly dubbed the "Wellies", at a cost of £1m.

London Life is one of only three insurance companies that doesn't pay commission to salesmen (the others being Equitable Life and Ecclesiastical Insurance), an aspect the company has not been slow to promote.

But while "non-commission paying" evokes the happiest of associations in consumers, it is only a genuine selling point if the absence of commission makes the policies genuinely cheaper, and if the company can still afford the quality of management achieved by the best of its competitors.

It must also sell enough of its products to retain a place among the major players in the market. The world is not an easy place for a small mutual organisation, with no access to shareholders' capital to expand — as some of the building societies will soon find out.

Like the building societies, London Life has the task of developing without jeopardising its traditional values. And in the past seven years, the company has expanded almost beyond recognition.

"It took us 174 years to achieve a total of £400m under management," says Chris Flood, the marketing manager. "Then in the next seven years we increased that more than threefold, to £1.3 billion."

The period of expansion also saw a marked increase in the turnover of the sales force. High turnover is a problem for all insurance companies, but London Life claims its sales force is more stable than most. Only about 20% a year change jobs, compared with an industry average of 85%.

"Our staff provide roughly three to four times as much business each as do the staff of our competitors," says Frank Blackmore, head of sales and marketing.

The remuneration method

London Life's new logo

of the salesmen helps, too. There is a bonus system, but the split between basic salary and bonus is in marked contrast to the norm: basic salaries are considerably higher, bonuses much lower. "A single sale makes absolutely no difference to the salesman's level of remuneration," says Blackmore.

The tangible result is that London Life's unit-linked contracts have no bid-offer spread and no "capital units" (a device by which premiums in the first year or two of a long-term contract are creamed off to pay for selling expenses).

In some ways, a link with a building society — another mutual organisation — would make a lot of sense, and London Life has had several approaches on this front. But this is where its non-commission-paying stance is proving a handicap. Societies would need to get something out of such a relationship; London Life dare not jeopardise its relationship with its customers by changing its spots.

London Life's current mix of business includes a large element of pensions business, particularly AVC (additional voluntary contribution) schemes. Endowment policies linked to mortgages are few and far between, and likely to become rarer as building societies recognise the importance commission can have

Another obvious gap in the London Life portfolio is unit trusts. Investment bonds and other unit-linked business currently account for £200m of its total £1.3 billion under management, but it is becoming obvious that even for London Life's traditionally "upmarket" (higher-rate taxpaying) customers, unit trusts are a more tax-efficient vehicle than bonds.

That is a gap the company is preparing to plug in the next 12 months — with a little help from Dick Whittington

10 7

Royal Life blitz raises eyebrows

by Diana Wright and Sam Passow

CITY fund managers are questioning whether Royal Life Fund Management's £5.9m promotional drive to launch an international unit trust will pay off.

Last year the entire unit trust industry, made up of some 147 management companies, spent a total of £26.3m on advertising. The average cost of a unit trust launch is estimated at about £150,000.

The Royal's unprecedented campaign is being masterminded by Moorgate Marketing, which estimates that during this month's campaign launch, 85% of the population will hear or see the advertising at least 25 times, which contrasts sharply with the 5% of the population actually investing in unit trusts at present.

Of the main unit trust firms, Fidelity topped the table in advertising last year with £2.3m, while M&G, the oldest and largest unit trust group in Britain, spent £1.2m. The Royal has a target of raising £300m from the launch but while its outlay is unprecedented in unit trust terms, the company says it is not looking for an immediate payback.

"We are viewing the campaign as partly corporate; we spend nothing on corporate advertising at present, compared to £4m-plus budgets from some of our competitors. Our aim is to increase the size of the market for unit trusts overall and to ensure that we are a major player in the field — not to make an immediate profit," says John Edwards, Royal's marketing manager.

The Royal's multimedia campaign marks the first time that unit trusts have been launched on TV. But the idea has already caught on fast: five more unit trust companies have either followed suit or are planning to tell their tale on television this autumn.

6/9/87

● THE Fraud Squad wants more information about individual investors on the share application forms used in privatisation issues, to help the police in clamping down on multiple applications, *writes Sam Passow.*

At the moment, investors are only required to provide names and addresses, which may often be false or misleading. Now the police are asking that applicants also supply details of how they are to pay for their shares. "We would find it very useful if the name of the bank, and the cheque number, is included on the application," says Detective Chief Superintendent Roy Gregg, adding that deception is usually carried out by people normally considered "pillars of the establishment".

Young thrust for industry

● SAM PASSOW
on John Banham, the next director-general of the CBI

FOR his entry in Who's Who, John Banham lists, as his recreational pursuits, ground-clearing and cliff-walking. Both could be essential for the new director-general of the Confederation of British Industry.

Banham, who at 46 will be the youngest man to hold the CBI post, has been controller of the Audit Commission, which specialises in hunting down waste and inefficiency in local councils.

"You could argue that I have been in the ground-clearing business in local government for the past four years," says Banham.

"What I think we have been able to do here at the commission is to put on the table solutions to difficult problems which people then take seriously," says Banham.

And that is exactly what he wants to do at the CBI when he takes over in March.

"I see the role of the CBI as being the promotion of enterprise *per se*. The great British public, by and large, still regards profits as an evil and we have a long way to go before people have an understanding that you need to earn a respectable return on assets in order to finance future growth," he says.

Heady stuff for an organisation of 240 people who unashamedly consider themselves as a "private-sector civil service". If they have any illusions that life at the Centre Point offices will continue as it has since the CBI was formed in 1965, they ought to pick up the phone and call the staff at the Audit Commission.

To begin with, Banham, a no-nonsense country type from Cornwall, has little time for formalities. "I do not believe in management by committee or management by consensus; I believe in getting good staff work done, listening very hard to what people who really understand a particular problem believe in, and then selling."

While he refused to comment directly on the performance to date of the CBI, Banham did note: "I have observed that there is a pretty

Waste-hunter: Banham

close correlation between poor management performance in a company and the likelihood that if you ring someone up, he is at a meeting. Try ringing around Whitehall some time."

This does not bode well for the three deputy director-generals, eight directors and 22 deputy directors of the CBI. Nor is it encouraging for its plethora of committees and regional councils.

Banham concedes that the main impression the public holds of the CBI is that of a special interest group for management. He wants to change that to one of a lobby for industrial change. And he already has an agenda:

● **Overhauling education and training systems:** "When I read statistics that, over the past six years, Japan has produced 400,000 more graduate engineers than we have in this country, and when I learn that the business studies course at Cambridge is oversubscribed three times, you have to start worrying. My commission has been able to show that if we can eliminate the waste of teaching empty desks over the next five years, then there are very substantial sums of money available for enhancing the quality of education over the next five years."

● **The financing of local government:** "This affects the disparity of economic growth between the north and south of the country." Banham is already on record as saying that London could be heading for a collapse in public service similar to that suffered by New York a decade ago, due to what he terms "creative accounting" by boroughs which are "loading future generation with the cost of decisions today".

● **Taxation and motivation:** This is where the cliff-walking comes in handy; Banham is already against the government's plans to introduce legislation next autumn that would replace locally fixed commercial tax rates with a new uniform national business rate.

He contends that not only will the government's plans make a big differential in the cost structure of business in both the north and south of the country, but that the ripple effects would spill over to salaries and escalating housing costs.

The former management consultant seems deeply concerned about the future.

"It is my hypothesis that, if you ask the average American or Japanese whether they think they will be better off in 10 years' time than they are today, the overwhelming answer would be yes. . .

"I don't think the average person in this country thinks he will be better off in the future. We have a tendency to look back and admire our past glories — and to some extent are afraid of the future. This fear is very corrosive."

11 JANUARY 1987

Fizzing up for the cola wars

by Sam Passow

A DRIVE to convert the nation from tea to fizzy drinks is under way soon after last week's link up between America's Coca-Cola Company and Britain's Cadbury Schweppes.

The joint venture is called Coca-Cola & Schweppes Beverages and is Britain's biggest soft drinks company. It is 51% owned by Schweppes and 49% by Coca-Cola.

Between them, Coke and Schweppes have a third of the carbonated drinks market. Within five years the

£50m campaign: Williams

new combined company will have 45%, says its managing director, Derek Williams.

Britain's soft-drinks market is estimated to be worth £3 billion a year, of which sales of carbonates account for two-thirds. Soft drinks constitute 16% of the total beverage market.

Williams notes that: "If we could get a 4% swing from the present tea market to the cola market, that would increase the volume of the cola market by 50%."

More and more Britons are turning to convenience and snack foods. Williams is convinced the soft-drinks industry has failed to respond to this change in eating habits and plans to spend £50m this year alone in marketing and advertising.

The tie-up between two of the world's best known soft-drink brand names presents a big challenge to the other major force in the industry, Britvic Corona, a joint venture between Pepsi-Cola US, and the British brewers Bass, Whitbread and Allied-Lyons.

Christopher Wheeler, investment analyst with Phillips & Drew says that the rationalisation of the industry as a result of these two joint ventures "will almost certainly increase the profitability of the industry as a whole". However, he is "concerned that any major increase in the gross margins of these two giants could be offset by their marketing expenditures".

Of the two consortiums, most analysts seem to favour the Coke-Cadbury deal as the one most likely to get its act together first and capitalise on its new market presence.

Cadbury could emerge as the biggest beneficiary of the joint venture. Since Schweppes was bought by Cadbury in 1969, it has hardly ever met its revenue expectations, and only in the last year did it even come close to Cadbury's requirement that each of its product divisions show a 25% return on assets.

"With this joint venture," says Williams, "we will not only be able to consistently exceed that level, but each year we should see our business grow."

13/9/87

Revamp at ICI

by Ian Williams and Sam Passow

ICI, Britain's biggest manufacturing company, unveils a fresh image on Thursday. It involves a revamped logo which will figure prominently in the first worldwide corporate advertising campaign in the firm's 61-year history.

Masterminded by Saatchi & Saatchi, the campaign will cost an estimated £20m and is thought to be one of the largest and most ambitious undertaken for a British company.

Denys Henderson, the new chairman, is keen to shake off what he sees as ICI's staid image and proclaim the company's size and stature internationally.

The new logo is the work of Wolff Olins, the design consultant behind the revamped images of Prudential and Royal Ordnance.

Changing the present roundel is said to have caused some disquiet among old ICI hands. The details of the new logo were under close guard this weekend.

This week will also see the results of British Steel's visit to the ad man, with the start of the build-up towards its £1 billion privatisation, scheduled for 1989-90. The company, now back in profit after a painful turnround, is trying to shake off the "sick man" image so assiduously cultivated during the 1970s.

The steel advertisements will carrry two themes: "Steeling the scene," and "In shape for things to come." It will run until November and start again in the new year.

● BP, the government's biggest flotation so far, has attracted interest from more than 3m people, *writes Philip Beresford.* Inquiries are flooding in at nearly twice the rate of British Gas at the equivalent stage of its sale campaign.

30/8/87

Police to get shares files

by Sam Passow

THE accountants Price Waterhouse will send a dozen files to the Department of Transport and the Fraud Squad this week, pinpointing rings of investors who tried to obtain shares illegally in the recent privatisation of BAA, formerly the British Airports Authority.

The Sunday Times has learned that some of these syndicates, making up to 1,000 separate applications, are already under investigation by the Fraud Squad for illegal trading in previous government flotations.

The move comes days after the last investors were officially notified of their allocation, and a new weapon that has helped to make this possible is a computer programme called Smart – Suspect Multiple Application Recording and Tracking. A key element in Smart is a database that matches past suspects and the methods they used.

"This is the first time anyone has managed to identify such fraud before the shares were issued," says Anthony Browne, heading a team of 20 specialists working 18 hours a day to weed out potentially illegal attempts to obtain shares.

"In the past, it has been possible to identify such rings only after shares had been issued."

Browne notes that investors whose share applications were rejected because they incorrectly filled out forms will have their funds returned with interest.

27/9/87

Watchdogs prepare trap for BP share cheats

by Sam Passow and James Cusick

NEXT MONTH millions of investors will be applying for shares in BP. With a profit guaranteed, some will be tempted to make more than one application. Will they be caught and what can they expect if they are?

Over the three years of the privatisation share issues, thousands of cases have been referred to the police, but to date only 10 people been convicted, all of them in connection with the 1984 British Telecom issue. Twenty three others are currently being prosecuted in connection with the British Airways, British Gas, British Aerospace and TSB offerings.

BT merely warned that multiple applications could be rejected, but stricter warnings published in share offerings since then allow the crown to go for full criminal prosecution. Heavy fines, seizure of assets and the possibility of a 10-year prison sentence have replaced the early light fines of between £3,000 and £8,900 which were imposed on those found guilty of fraud in the BT share issue. Those convicted were even allowed to keep their BT shares.

After the experience of the previous privatisations, a new breed of "forensic" accountants will be drafted in to sift through BP share applications in an effort to detect illegal practices.

Ernst & Whinney, the firm of accountants checking the BP offering, told The Sunday Times it would be using a new computer programme called Trial (Tracking and Reporting of Illegal Applications for Litigation) which detects fraud by examining the cheques that accompany application forms.

This is the first time an auditor has admitted that cheque details will be used to catch out the share crooks. Until now auditors have admitted only to scrutinising the names and addresses of applicants.

The firms that policed the earlier privatisation issues kept this additional check secret, for fear of giving away far too much to the fraudsters.

Sally Soames

Shadowing the applicants: Ernst & Whinney's Eric Anstee

The Trial system analyses information the clearing banks take routinely from cheques. It may reveal, for example, that a single account has issued several cheques payable to the BP share offer. This sort of information would be used by the auditors to confirm the suspicions of earlier checks.

A similar technique was used by Touche Ross during the flotations of British Gas and Rolls-Royce.

Cheque analysis is a breakthrough in detecting share fraud but it still falls short of the sort of checks the Metropolitan Police fraud squad would like. It wants to have cheque numbers and sorting codes recorded on share application forms.

City institutions are opposed to this; they claim it would make the application forms too complex for the average investor.

However, accountants are kept informed of the police demands. The Sunday Times has learned that firms supervising privatisations hold weekly meetings with a special nine-man unit of the fraud squad called the A1-Team.

Eric Anstee, director of Ernst & Whinney's privatisation group, said: "Accountancy firms are reluctant to divulge details of how their tracking works for fear that fraudsters will simply be tipped off and find new methods to circumvent the audit."

The largest single known case of multiple applications involved three people submitting 1,500 applications for BT shares. One person sent in 742 applications during the British Gas offer.

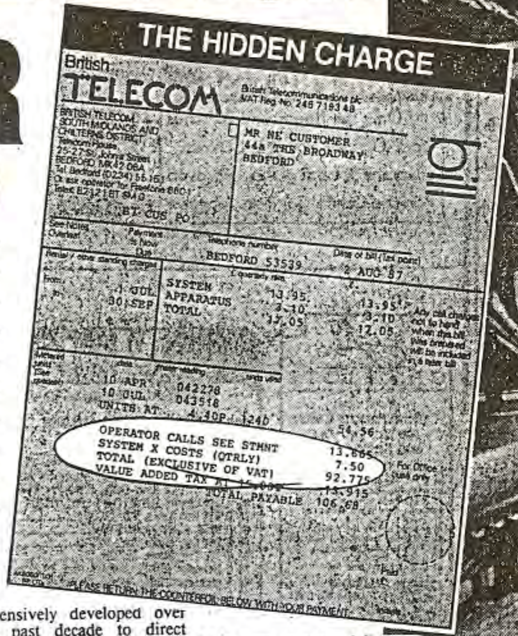
Certainly, the BP auditors will need all the technological help they can muster. Detective chief superintendent Roy Gregg, of the Metropolitan Police fraud squad, said: "With each share flotation the deceptions become more sophisticated as they tend to be carried out by those in the professions, rather than by normal criminals.

"When flotations began people would simply send in fictitious names from one address. But in one recent case, a doctor is alleged to have used names and addresses from his patient list. It's foolish to risk a good reputation for the sake of a few shillings."

SYSTEM X: THE £5 BILLION BLUNDER

BUSINESS FOCUS

● System X, the heart of Britain's new computerised telephone network, has cost the country dear. The switch, according to a London Business School study, has resulted in telephone bills at least 10% over the odds and has left the British economy with an unsaleable product and an uncompetitive telecoms industry. PETER WILSHER, CHRISTOPHER SMALLWOOD and SAM PASSOW report on the blunder that began in 1977 when Britain decided to go it alone on developing new technology for the 21st century



ANYONE who telephoned Cob Stenham between 11.30am and noon on a recent Friday heard a recorded message: "The number you have dialled is not available." It was not entirely true. Stenham, UK chairman of Bankers Trust, one of the thrusting American banks making its mark in the City of London, was at his desk, waiting for business, and the telephone at his end seemed to be in working order.

Accident-prone British Telecom was just having another problem with its new, computerised communications network, the heart of which is System X.

It was the latest in a series of failures which frustrated financial executives say are costing them big money. On this occasion the software had failed in six of BT's 30 "concentrators" that feed calls into Stenham's local Moorgate 382 exchange. While the fault was being traced, he and 1,500 other angry customers were cut off from the international trad-

After lodging an official complaint, a senior communications officer at Bankers Trust phoned Mercury Communications, BT's only effective rival. He wanted to know how long it would take to set up alternative lines. He was not alone.

After their experiences in recent weeks, virtually all the leading City institutions are in the process of setting up "contingency access systems". Mercury claims this year to have signed up all the big high-street banks, all the foreign-exchange dealers, five of the six inter-dealer brokerships, and 14 out of 15 American banks. These include Chase Manhattan, which has switched over to Mercury 40% of its traffic. A spokesman for the bank says sniffily that it could take BT 20 years "to find all the bugs in the software".

AT THE centre of almost all the problems is System X, the controversial state-of-the-art switching technology which has been painfully and expensively developed over the past decade to direct Britain's telecommunications traffic well into the 21st century.

Last week System X received another broadside of criticism, this time from Dr Peter Grindley of the London Business School. His study offered a detailed argument that the £4.6 billion package delivered by BT and its suppliers, Plessey and GEC, has indeed turned out, as in the words of an earlier attacker, to be "overpriced, over-engineered and overdue". So much so that, in the process, costs have more than doubled and the customer is footing the bill.

Ironically, it is not the system itself which is misbehaving. Mercury is using it to service the business picked up from BT in the City (not to mention the Stock Exchange, which has paid £5m to install its own extensive internal exchange). It is also being used by the robustly independent telephone authority in Hull, which was the first customer to buy System X in open commercial competition. It is so satisfied it has doubled the order.

Mercury and Hull confirm that both hardware and software are working excellently in their hands. "We have had very little difficulty," says Ray Matthews, the Hull general manager. Mercury's managing director, Gordon Owen, agrees: "It works well for us; it just doesn't seem to work for British Telecom."

This is the latest episode in a saga as chequered as any in British industrial history. According to Grindley, the men responsible for running and equipping the nation's telephone service have been guilty, at various periods since the 1950s, of short-sightedness, excessive caution, poor decision-making, misguided technical judgment, manufacturing ineptitude and a spendthrift attitude to public money.

Adding together the extra costs thus incurred gives a total of more than £5 billion, according to Grindley's calculations: £450m on research and development, duplicating much work already done elsewhere; £2,910m that had to be spent on already obsolete equipment to bridge the gap while System X was prepared and installed; £1,189m to maintain this obsolete equipment; and £520m to incorporate future improvements.

As a result British taxpayers will end up paying more than twice what they need have, telephone users will have to shoulder bills at least 10% over the odds, and the British economy is left with "an unsaleable product and an uncompetitive industry", the study says.

This verdict, needless to say, is furiously rejected by the people involved.

Tackling the technology: troubles persist and telephone users grow angrier as BT struggles to integrate System X

THE story began in 1966, when Roy Harris, then in charge of BT's long-range planning group, wrote a report on "the telecommunications of the future". Although computers and micro-electronics were in their infancy, it was clear that they would one day dominate the world's telephone business, and Harris said so. The first crucial mistake, by the people to whom he reported, was to assume that that day was still a comfortably long way off.

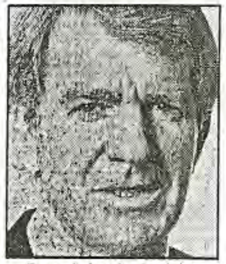
At that time the Post Office still had responsibility for telephones, so that decisions affecting a key high-technology sector were made by civil servants whose main concern was with delivering letters door to door. They decided that, for the moment, Britain could afford to soldier on with traditional technol-

electronic leap later.

What they failed to appreciate was how far Britain was falling behind. British telephone exchanges depended then – and to a great extent still do – on a piece of apparatus called the Strowger switch, named after the Kansas City undertaker who invented it in 1892. It is a solidly efficient electro-mechanical device which has done an effective job for most of this century. But, as early as the 1930s, newer, more elegant variants, like the Swedish crossbar design, had begun to take over.

The Post Office showed no interest. It argued that the alternatives were no better or cheaper, so there was no point in changing.

But the newer switches had one great advantage: they



Dey: defends decision

could easily be adapted to electronic control, with their own "stored programme" software. This would make them far more reliable, capable of offering a variety of new and better services, and vastly cheaper to maintain. Engineers, particularly in Sweden and North America, were quick to exploit such advantages; Britain, still hooked on Strowger, was left at the starting line.

It was not until 1974 that the soaring demand for telephone services forced a change of mind. A Telecommunications Systems Strategy Department was set up, and GEC was asked to start thinking about computer needs. But it was not until 1977 that the first development contracts were awarded – a year after America's Bell Telephone had its first digital trunk exchange working.

On December 13, 1977, Sweden's Ericsson pulled off a contract to supply digital phone systems for Saudi Arabia. A great new growth market had been born, with Britain, not for the first time, out in the cold.

Late that same year a report from Charles Carter, chancellor of Lancaster university, had recommended that British Telecom, as it became, be split from the Post Office, and that work start in earnest on System X.

Carter noted at the time what an "inward turning organisation" the Post Office had become, convinced of its own rightness in everything and tending to be arrogant and insensitive towards its customers.

Under market pressure, however, it started to change, notably by asking its equipment suppliers, for the first time, how they saw the best way to move ahead into the electronic 1980s.

There were two main options: a partnership with an overseas manufacturer that had experience of the new technologies, or going it alone. Plessey, at that time, was quite prepared to link up with the main French specialist, CGE-Alcatel and share the business, but the final choice went the other way.

With 10 years of hindsight, David Dey, the managing director of Plessey Telecommunications, still thinks that was right. He says a joint Anglo-French system could certainly have been delivered more quickly, but it would not have been so advanced and its likelihood of selling into world markets would have been virtually zero.

Grindley disagrees. His case is that the all-British solution was a costly mistake: "The history of extremely cautious decision-making and poor planning has meant that, with System X, BT has had to make a jump of several generations at once."

As a result, he argues, the benefits Britain can expect from its improved telephone set-up will be inexcusably late and costly, by international standards, while the manufacturers, for whom it should have been a "make-or-break" opportunity to establish themselves in world markets appear to have missed the export boat.

This was certainly not the outcome foreseen by Charles Carter. During the "inward-looking 1960s", he recorded, the industry's once buoyant overseas sales had collapsed from 25% of output to less than 13% by 1974. He hoped System X would not only give Britain a Rolls-Royce telephone service at home but also restore its engineers to the world leadership board. In pursuing these incompatible objectives, everyone concerned has fallen fatally between stools, Grindley believes.

The situation has not been eased by the peculiar make-up of Britain's telecommunications sector. Traditionally the Post Office parcelled out its orders to GEC, Plessey and the American-controlled STC. System X started life in the same way, with various parts of the development and supply programme shared among the three. This was not a success. As Grindley says: "There were acute conflicts of interest between the different manufacturers and BT, and among themselves."

These contributed to hiccups in design and to delays in delivery. After bitter and often public recriminations, STC was dropped from the group, with some non-System X contracts as a consolation prize; the other two were put under sharply increased pressure to perform.

By 1982 BT had been duly separated from the Post Office and turned into a public corporation. But it was only after privatisation, in 1984, that the BT chairman, Sir George Jefferson, was able to turn on the real heat of competition to improve performance. Starting with threats to bring in large quantities of American equipment, he followed through by giving the go-ahead for Ericsson, in partnership with Thorn EMI, to start installing their rival "System Y", which is now taking a growing share of the British network.

As a result there has been a measurable improvement in the suppliers' record. Equipment is now said to be leaving the factories at a rate sufficient to convert some 2.2m lines a year (against 300,000 for System Y). Half the smaller exchanges have been converted together with all but one of the main trunk exchanges (Norwich is being held back as a test-bed for new software). But while there is enough capacity to complete conversion by the mid-1990s, old technology is not expected to disappear before the 21st century.

Jefferson: turns up heat

THE critics' spotlight has now switched to installation, and the sheer difficulty of grafting new on to old. BT had enough skilled labour to cope while the manufacturers were dragging their feet but, now they are back on target, BT shows signs of being overwhelmed in many places.

One key problem is that of "overlay", fitting in System X with all the old stuff in the network. The switching over of lines is a delicate and tricky business, and there is plenty of room for unplanned hold-ups.

Some of these have been blacking out, cutting off or rendering unavailable large numbers of phone lines in London's financial heartland.

The Office of Telecommunications (Oftel), which was set up at privatisation as BT's official watchdog, is so concerned that it has threatened to impose fines or even withdraw the corporation's licence to operate in some of the worst-hit City districts. Senior ministers, like the energy secretary Cecil Parkinson, and Lord Young, at trade and industry, have even started hinting about legislation to break up BT's near-monopoly unless the service improves quickly.

In the meantime, Mercury has been exclusively allotted three new London exchange prefixes, 528, 860 and 548, and from September reckons it will be able to offer more than 30% of London's bankers, brokers and dealers a genuine alternative to BT.

For careful men like Cob Stenham, it will mean two telephones on the desk – belt and braces for safety.

Additional reporting by Chris Mitchell

19/7/87

System X may be a hang-up for BT

by Sam Passow

BRITISH TELECOM could face a large fine or lose its licence from the Office of Telecommunications to provide phone service for parts of central London unless it improves the service provided by its new System X exchanges.

The performance of the exchanges, which were introduced last year, has caused a wave of complaints. Michael Silverman, a management consultant who heads a local pressure group, the Euston 388 Exchange User Group, says: "If the problems are not corrected by early September, we will ask the director general of Oftel (the government watchdog body) to order BT to meet its obligations or risk a heavy fine or have its licence revoked."

At a meeting with angry customers last week, Denys Bennett, BT district manager for the City of London, conceded that many businesses were being badly affected by elusive problems, such as a ring-tone but no reply and an engaged signal when lines were free.

"The 388 customers have suffered enough; we are doing everything we can to get it right," said Bennett.

Bryan Carsberg, Oftel's director general, is reported in a letter to Silverman to have told Iain Vallance, BT's chief executive, that he "questioned whether more could be achieved by increasing the size of the present task force of 20 special technicians".

Oftel will now require BT to supply regular data on traffic flows in the affected areas as well as information on the clear-up rate. Carsberg has also warned that if the corporation's efforts are not successful, "We will take the matter up again at board level to see that BT's efforts are intensified."

Initial action by BT to clear up the problems appears to have had little effect.

The problems are particularly acute in the City. Two banks on different exchanges have cited similar problems.

Westpac, the largest Australian bank, claimed 18 out of 36 lines in its foreign exchange and capital markets dealing room were not working properly. The British securities arm of a leading continental bank says half its 300 lines have never worked properly since the system was installed in its West End offices in January.

● British Telecom's rival, Mercury Communications, has received a boost from the government, which, in a bid to stimulate competition, is trying to persuade European telecom operators to deal with the new independent carrier in the same way they currently allow access to American second carriers such as MCI and US Sprint.

11/10/87

Chinese plug in to System X

by Sam Passow

SYSTEM X, Britain's digital telephone exchange, has made its first breakthrough into a major overseas market with an order from China worth about £10m.

It was awarded to Plessey, one of the two manufacturers, and follows the £15m joint sale with GEC of 13 exchanges to Colombia in March.

Last week the two companies agreed to merge their telecoms operations to capture a larger slice of the £40 billion international market, of which Britain now has only 5%.

Although Britain is late in entering the world arena, it is thought to be well placed to win orders in the Soviet bloc, especially Bulgaria, where it has been negotiating for several years. The joint company also hopes for a further £75m order from Colombia.

■ AFTER battling for 10 months with British Telecom, the Euston 388 User Group has conceded that a consistently full service has been restored in the central London area; it will now disband.

The group had complained that the local System X exchange often produced a ring signal with no reply or an engaged signal when the lines were actually free.

Michael Silverman, a management consultant who headed the group, added: "Since we estimate we lost 20% of our business because of BT's negligence, the least it could do would be to compensate us on our phone bill. Having failed to show such concern, we are switching to Mercury in February."

12/7/87

Bank takes hot line on phones

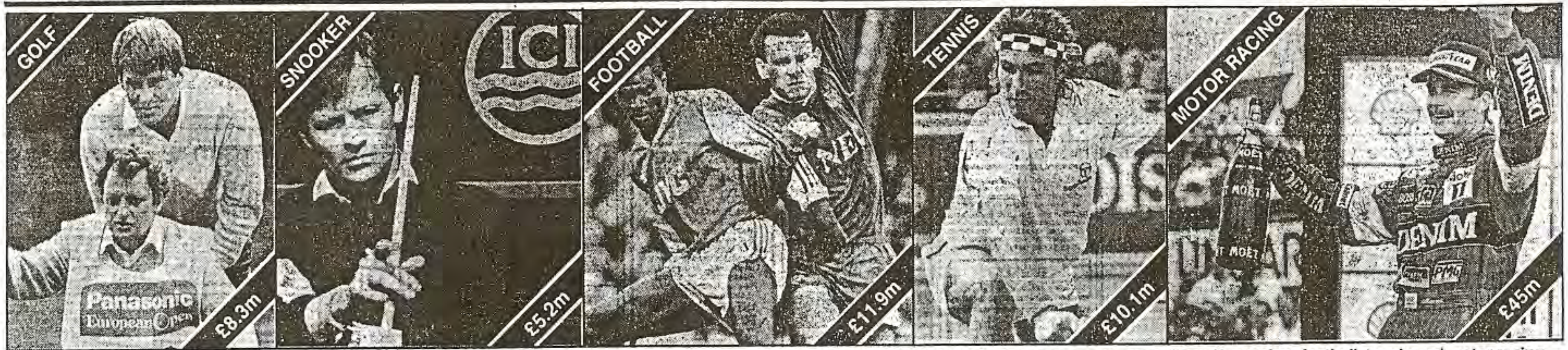
by Sam Passow

A MAJOR American bank in the City will this week consider plans for a national advertising campaign highlighting the alleged failings of its phones since a System X exchange was installed in its area last November.

The campaign would aim to tell the bank's customers that the poor service they have been receiving was not due to staff negligence but because the telephones have not been working.

"Our customers just can't get through to us. They are either getting a ringing tone and no reply or an engaged tone when we know there are plenty of lines free," said a senior bank official.

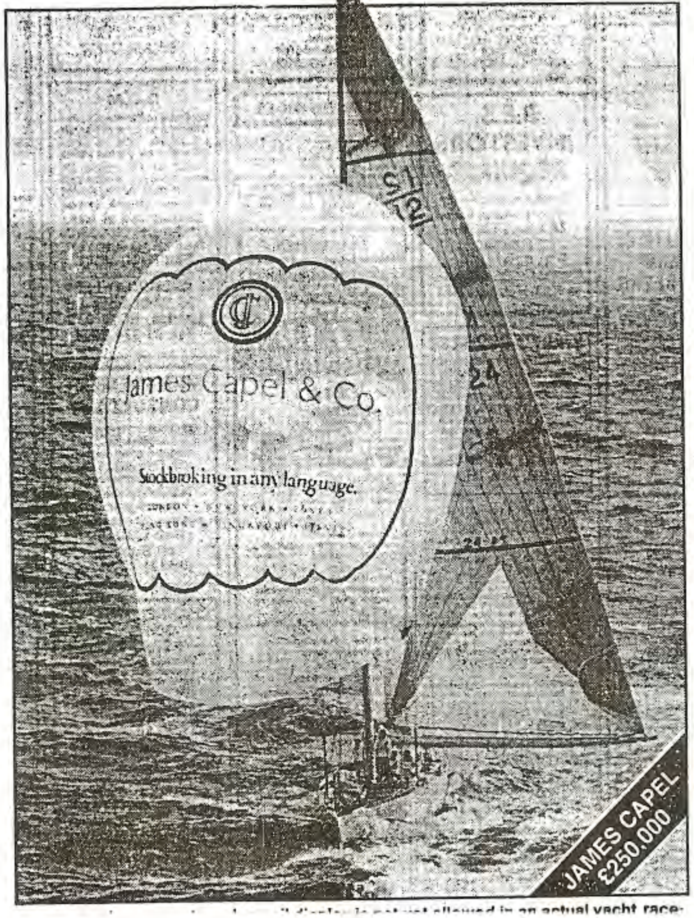
The bank's decision to proceed with this action will follow a meeting tomorrow between British Telecom and Euston Exchange 388 Users Group, a pressure group urging BT to commit more resources to solve local telecom problems. Although the bank is not covered by the Euston exchange, its decision to mount a campaign has been prompted by problems in the Euston area.



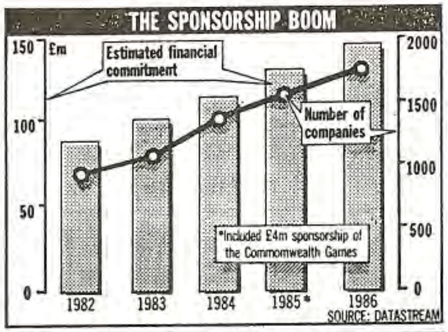
The pulling-power of championship glamour: these are the estimates of what British commercial sponsors are spending to have their names associated with golf, snooker, football, tennis and motor racing

THE SPORT OF MAKING MONEY

● More and more companies are turning to sports to promote their corporate images, splashing their names and millions of pounds on anything from yachts and racing cars to athletes themselves. SAM PASSOW and IAN WILLIAMS check off the scorecard



... is not yet allowed in an actual yacht race:



HOW THEY SPENT ON TV LAST YEAR

	Sponsor	Sport	Hrs/mins	Cost (£)
1	Cornhill	Cricket	189/42	750,000
2	Embassy	Snooker	120/06	350,000
3	Rothmans	Snooker	42/10	275,000
4	Tennents	Snooker	40/05	300,000
5	Benson & Hedges	Snooker	36/50	175,000
6	Mercantile Credit	Snooker	36/10	225,000
7	NatWest	Cricket	36/00	400,000
8	Benson & Hedges	Cricket	31/55	400,000
9	Dulux (ICI)	Snooker	31/50	275,000
10	Texaco	Cricket	31/37	250,000
11	Midland Bank	Bowls	30/20	n/a
12	Bristol Coin Exch	Snooker	28/15	175,000
13	Hofmeister	Snooker	27/15	200,000
14	CIS	Bowls	25/50	30,000
15	Liverpool Victoria	Bowls	19/50	34,000
16	Embassy	Bowls	19/20	131,000
17	Embassy	Darts	17/50	52,500
18	Car Care	Snooker	17/30*	50,000
19	John Player	Cricket	17/25*	73,450
20	Suntory	Golf	17/02	180,000

* Figures for 1985

BUSINESS FOCUS

WHEN Britain's team sails into the Solent on Thursday in a bid to win the Admiral's Cup, the contest will be of more than passing interest to Peter Quinnen.

Quinnen, the chairman of James Capel, London's leading stockbroker, admitted last week that he is a landlubber and has never set foot on a yacht. But he will do so during this run-up to Cowes Week. His firm, now controlled by the Hongkong & Shanghai Bank, has sunk £90,000 this year into sponsoring the team from the Royal Ocean Racing Club.

Quinnen reckons that a well-publicised cup race against last year's champions, the West Germans, will boost business at Capel's new office in Frankfurt, which opens next month.

Sailing has been slow to take to sponsorship, and it is still not popular with the sailing establishment. Yachting rules still bar Capel from flying its yellow-and-red "battle flag" during the Admiral's Cup races. But the brash commercialism of this year's America's Cup in Perth smashed any pretensions that sponsorship can be kept ashore.

Capel has one advantage at Cowes: many of the competitors are likely to be among its clients. Since Big Bang, Quinnen reckons Capel has put £350,000 into sports, of which £250,000 has gone into sailing.

The first £100,000 was spent on a tender for the British entry for the America's Cup: the same tender, appropriately named the James Capel, will be on duty at Cowes. Another £60,000 went into the world 12-metre championships in Sardinia earlier this month.

Riding a wave: Quinnen

Yachting is still a long way from the more expensive world of motor-racing sponsorship, which still attracts the most support. Every square inch of a racing driver's suit is up for auction, with sponsors arguing bitterly – some are said to have come to blows – over where they can stitch on their badges to get the most exposure. If a driver forgets to wear his cap in front of the cameras, he will be in for more stick from the sponsor than if he had spun off the track at the first turn.

This year an estimated £158m will be spent on direct sponsorship of all sports, compared with £50m in 1981. Close to £200m more will be spent by those sponsors on marketing and promoting their involvement, through advertising, hospitality at sponsored events and so on.

The grand total is likely to be more than £1 of every £10 spent by British companies on television and press advertising. It has become big business.

Last Thursday, the British Olympic Committee became the latest group to join in: it announced a £100,000 sponsorship by Douglas Llambias, a financial recruitment firm, for the British team in the 1988 Olympics. The minimum sponsorship for companies hoping to back the Olympics will be £50,000 and the committee is already halfway to its £2.5m target.

There was a time that sponsorship, particularly away from the drink and tobacco giants, meant stumping up a few thousand pounds as a philanthropic gesture towards the company chairman's favourite sport. That still happens; but increasingly sponsorship is seen as an activity through which a company can reach a wide audience in a way that rivals direct advertising or other public relations.

Companies think hard about where they put their money. Capel's association with sailing is no accident: Quinnen feels it is the sort of competitive sport with which the stockbroker should be associated.

"There are many parallels between yachting and the securities business," he says. "Both are team efforts, both are very competitive and both require a combination of strategic and tactical decisions."

Derek Etherington, consultant to the Sports Council on sponsorship, who acts as "a sort of honest broker" between companies and the council, says he is getting a record number of inquiries from companies that had never before thought of sponsorship. Last year about 1,750 were involved, compared with 900 in 1981. So far this year, another 118 have joined in. Larger companies are beginning to advertise for sponsorship executives.

Last November, Saatchi & Saatchi became the first advertising agency to move into the market when it formed a division called Sponsorship in Business. Since then, it has moved an undisclosed amount of clients' money into motor sports, running and yachting.

Capel's sponsorship effort is the largest by a British securities firm and No 3 among British financial institutions, behind the Save & Prosper unit trust group and National Westminster Bank, which both spend more than £400,000 a year.

Etherington reckons that the excitement generated by television coverage of the America's Cup has made sailing one of the biggest growth areas in sponsorship. The 17 syndicates at Perth spent an enormous £125m. Such was the pressure of the sponsors that, right after regaining the cup, the American skipper, Dennis Connor, told a worldwide televsion audience, "I'm going to Disney World."

This apparently spontaneous remark was in fact part of a carefully orchestrated campaign by the Disney organisation, which paid a premium for that remark. "We wanted that moment of victory. There is no recreating it," said Tom Elrod, Disney's marketing vice-president.

Even now, the International Yacht Racing Federation is struggling to enforce some obedience of its much-derided Rule 26, which bans commercial names from the sides of boats or on their sails during races.

At the America's Cup qualifying races in Perth last year, the British challenger, Crusader, fortified by £800,000 of White Horse whisky sponsorship, was renamed White Crusader.

This subtle circumvention of the rule, and the recognition that if this expensive sport was to keep the interest of its corporate patrons they would want some visible recognition, finally resulted in the relaxation of Rule 26 for last month's 12-metre championships in Sardinia.

Each boat was allowed to have the name of one sponsor on the side of its hull. The British entry was officially labelled White Horse Fine Old Scotch Whisky. The floating billboard cost the liquor firm an additional £150,000.

Quillen reckons that every newspaper article mentioning James Capel's involvement in a sport is worth at least 10 full-page ads in a quality newspaper for the way it promotes the company name.

The televising of sport has been the single most important factor in the growth of sponsorship. The hours given to sport have more than doubled, from 1,200 in 1975 to 2,711 last year. Channel 4 has brought many minority sports to the screen, and that is likely to continue, if only because sport is a cheap way to fill the screen: about £20,000 an hour, compared with £72,000 for light entertainment.

Twelve sports take up 80% of TV coverage: horse-racing, cricket, snooker, tennis, soccer, golf, athletics, bowls, boxing, darts, equestrian events and wrestling.

TOP 20 SPORTS ON TV, 1986

	Sport	Hrs/mins
1	Snooker	394/11
2	Cricket	335/41
3	Horse racing	275/54
4	Soccer	262/00[1]
5	Tennis	188/52
6	Golf	148/59
7	Athletics	131/04[2]
8	Bowls	112/00
9	Boxing	58/57
10	Equestrian	56/41
11	Darts	54/10
12	Wrestling	43/00
13	Motor racing	41/32
14	Ice skating	40/57
15	Rugby union	39/50
16	Cycling	27/20
17	Rugby league	21/09
18	Gymnastics	18/50
19	Motor cycling	17/51
20	Yachting	16/40

[1] inc world cup [2] inc European championship

With the curb on cigarette advertising, tobacco companies have found event sponsorship an effective way of getting their names on to the small screen. According to a recent survey, sports events sponsored by tobacco companies occupied almost 100 more hours on TV last year than in 1981.

Etherington says there has been strong growth in support from building societies, the finance and insurance sector, and electrical and motor companies. But the biggest growth has been from drink companies. Aside from White Horse, Beefeater Gin has a three-year £330,000 deal to sponsor the Boat Race, and Budweiser is sponsoring American football in Britain.

Motor racing is reckoned to receive around £45m in British sponsorship from 400 companies. The worldwide sum is huge, as a single Formula 1 racing team can cost £15m to £20m a season to run. But an estimated global audience of 1.4 billion watches Formula 1 racing events each year.

ICI, which is reckoned to spend around £2m a year on sponsorship, is now one of the principal sponsors of the Williams Formula 1 team, whose drivers, Nigel Mansell and Nelson Piquet, came first and second in the British Grand Prix at Silverstone this month.

John Lister, former head of ICI Fibres, recalls that it was initially a battle to pursuade the company to back motor racing, such is the expense. Now ICI, the parent, is taking over the sponsorship from Fibres, such has been the success.

ICI sees it as part of a wider corporate campaign to spread a new image throughout the world. "It's really done a tremendous job for the ICI image in recent years," says David Payne, head of marketing and promotions at ICI Fibres.

At one Tokyo motor show, Lister recalls entering the main hall to be greeted by the ICI Fibres logo on a Honda racing car. "It wasn't difficult to persuade John Harvey-Jones, the ICI chairman, that we were getting value for money after that," he says.

Sports sponsorship has become a central part of ICI Fibres' efforts to promote new man-made fibres. The company backs skiing, tennis, golf and water sports.

Says Payne: "We want to associate tactel [ICI's "breathing" fibre which is now dominant in ski-wear] with the up-market yuppie sports."

Embassy serves as another model for sponsors to follow. Through its years of persistence with what was once seen as a parlour sport, snooker today enjoys an annual sponsorship of over £5m a year and accounts for more hours of viewing on TV than any other sport.

Inspired by that success, James Capel is now considering sponsorships in the the relatively unknown world of competitive chess.

Football, despite its popularity, is not a big sponsorship industry. The 92 league clubs have revenues totalling just over £30m, of which a third comes from sponsorships

Top of this league is Sharp Electronics, which pays Manchester United £333,333 a year. Holsten Lager and Crown Paints pay £250,000 a year to Tottenham Hotspur and Liverpool, respectively.

Inevitably, premium events are now harder to come by. Companies that have been able to get hold of one will go to enormous lengths to protect their exclusivity.

Another trend has been towards sponsoring individual sports stars. Puma, the West German sportswear company, is reported to have paid the 1986 Wimbledon tennis champion, Boris Becker, £15.5m for a six-year contract.

ICI Fibres sponsors Nigel Mansell as an individual. Not only does he wear the ICI logo, but guests of ICI also get the thrill of meeting him at Grand Prix events. ICI also sponsors Martin Bell, the English skier, and the English squash team.

Riches are in store for Nick Faldo, after winning this year's British Open golf tournament. Last year's winner, Gregg Norman of Australia, has since landed more than £10m worth of sponsorship contracts that run over a three-year period. They include £1m to promote Swan & Castlemaine XXXX lagers, £2m from a Japanese hotel and leisure group and £7m from Hertz, McDonald's, Spalding, Reebok, Qantas and others.

Even amateurs are starting to fare well. The British runner Sebastian Coe now has his shorts and vest emblazoned with the logo for Sunzest, the citrus fruit division of Polly Peck, which is sponsoring Coe's north London club, Haringey Athletic, to the tune of £50,000 over the next two years.

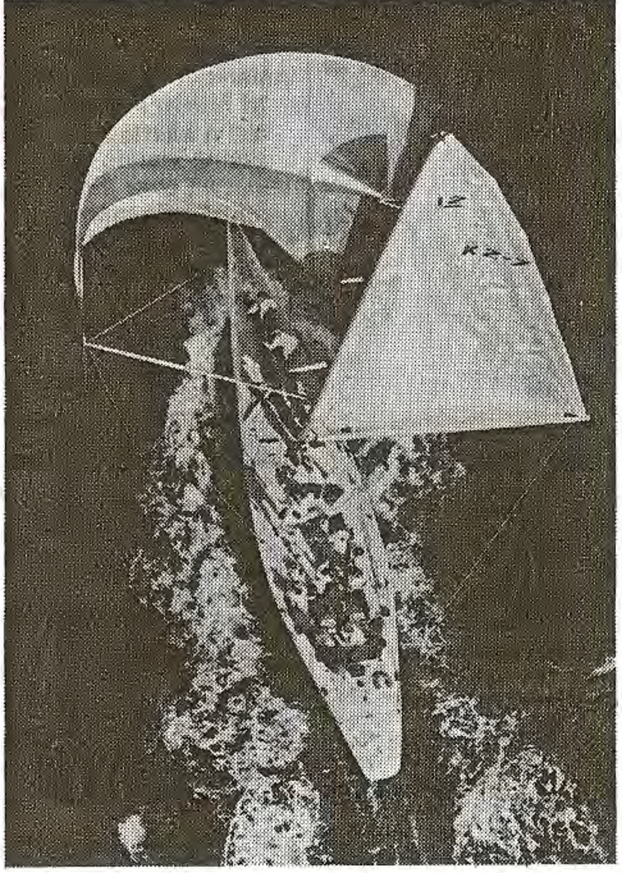
Can sponsorship continue to grow at the present rate? "It is becoming increasingly difficult to find cost-effective sponsorships," says Payne. But he sees possible openings: "There will be opportunities with the pressure on cigarette companies to withdraw from from advertising."

THE SUNDAY TIMES 30 NOVEMBER 1986

Kiwi sails towards riches

● Current bookies' favourite in the America's Cup challenge races is KZ7, New Zealand's "plastic fantastic". SAM PASOW describes the man who raised the money (right)

Nick Rains



Fibreglass ticket to 14,000 jobs? New Zealand's KZ7

NEW ZEALAND hardly has a reputation as a great seafaring nation. So nearly everyone was startled by its meteoric rise in the challenger series of the America's Cup yacht races being held in Western Australia. Everyone, that is, but Michael Fay, the merchant banker who almost single-handedly has organised his country's assault for the famed silver trophy.

Fay is co-partner with David Richwhite in the Fay Richwhite Merchant Bank, based in Auckland. To him the America's Cup is more than a boat race; it's an opportunity to launch New Zealand business on to the international stage.

In all, there are 17 challenges from seven countries competing for the Cup, with a total operating budget estimated at around £128m. It is by far the most expensive sporting contest ever staged. Yet as one visiting international banker noted, "The Cup is really 95% business and only 5% sport. We only see that 5%, we live on the rest."

"The prize is not just the trophy, the winner walks away with the America's Cup industry," says Fay. "I believe the Cup is worth 14,000 new jobs in New Zealand. I can't send back that many jobs if I just buy an American company. All I can send back is a dividend cheque."

With patriotic fervour, Fay contends that the financing of the New Zealand boat, officially titled New Zealand but more popularly known as KZ7, is a manifestation of an attitude that is sweeping the country's business community.

"Three years ago, we believed that we would never beat 132 years of American experience; now we have developed a new technology in boating, and all you have to do is look at the points table to see that the New York Yacht Club has to catch up to us."

Fay concedes that when he enlisted the support of eight lead sponsors (Bank of New Zealand, Steinlager, Air New Zealand, Jebsen Line, Freightways, ICL, Epiglass and Subaru NZ) as well as over 40 other corporate contributors "few came in because they thought we could win the Cup. They came in because they believed us when we said that it was a good marketing opportunity."

"So far it's paid off for them. Companies like the BNZ are using the publicity of the challenge to capture 40% of the domestic banking market in a newly deregulated market. Steinlager is now selling like a rocket in Western Australia, just because it's the beer of the challenge."

After accepting the revolutionary all-fibreglass design of a 12 metre boat from the design team of Laurie Davidson, Bruce Farr and Ron Holland, Fay then committed NZ$6m (£2.2m) to build three identical versions of what is now called the "plastic fantastic".

Fay, aged 37, went into the merchant banking business 15 years ago, after finding the legal profession which he had studied not to his taste (despite the fact that he was the grandson of the chief justice of New Zealand.) Fay says his start in banking was even less illustrious, as he was fired from his first job after only 18 months with the new defunct Security Merchant Bank for being "a disruptive influence".

Unbowed, he set up his own merchant bank the next day. Six months later he enlisted his friend and former colleague, David Richwhite, and the pair have worked in an unwritten partnership for the past 12 years.

Today the bank, which last week announced a major expansion in London, employs over 200 people in three countries (New Zealand, Australia and England), and its capital markets division accounts for over half of all the government securities traded in New Zealand.

"The skills gained in running this type of organisation are better than an MBA at Harvard," Fay says of the challenge. I came out to Fremantle for a three-week trip last January to find that the man I had hired to run the operation had left and I have been here ever since."

Fay has now raised over £5.5m from sponsors to outfit and run their three boat challenge and has long recouped his bank's initial investment. In one evening alone he raised NZ$1m (£365,000) for the challenge by auctioning off silver America's Cup replicas.

The bottom line for Michael Fay is that, not only will his outlook on life be different when the challenge is finally over in February, but his bank is sure to prosper.

It's already happening: a few weeks ago, the New Zealand challenge defeated the American boat Stars and Stripes. Before the close of trading, the bank's share price had shot up by 50 cents.

SPORT

Conner lies in ambush

America's Cup

by Keith Wheatley

THE WORLD of sailing is in turmoil after New Zealand's victorious challenge for the right to race the America's Cup next August in a unique 130ft superboat.

But, as the vast hull will be hoisted right-side-up for fitting out in Auckland this week, there is mounting evidence from California that it could be the Kiwis who are about to be turned over.

San Diego Yacht Club's refusal to allow other challengers is stage one of a ruthless legalistic programme to retain the cup for a traditional international 12-metre regatta in 1991. Major cup players like Peter de Savary and Alan Bond meet in New York on Thursday to try to find a way in for their planned superboats. It will be tough.

"In fairness to the other 20 syndicates who want to sail for the America's Cup, we figure the thing to do is honour this challenge — and deal with it surgically and quickly," said Tom Ehman, the executive director of the defence. "We look at it as an incident along the way to the next regatta."

San Diego has complete choice of venue and the challenger does not have to be notified until 90 days before the race. Hawaii is a real possibility. Its big seas and high winds would probably overwhelm New Zealand's lightweight flier. More importantly, the Deed of Gift, the Victorian document governing the cup, does not require the defender to use a yacht identical to the challenger. Few doubt that Ehman's men could legitimately choose a multihull.

Rodney Pattisson, the British helmsman who twice won Olympic golds in the Flying Dutchman, said of the issue: "I wouldn't be surprised to see the Kiwis pull out before they get their arse kicked. What they've built is essentially a high-speed skiff such as they have on Lake Garda. A trimaran will beat one of those any day of the week."

Ehman confirmed that his side will exploit any rule to get this embarrassment out of the way. If they ignored multihulls and built a two-masted yacht they could go to 115ft waterline. At 30% longer, it would certainly be faster than the Kiwi boat.

Michael Fay, the multi-millionaire head of the New Zealand syndicate, has been accused this week of wrecking the world's greatest sailing event. "There's always been plenty of action off the water in the America's Cup and this is just part of that tradition," he said en route to San Diego.

In Britain, the Blue Arrow syndicate headed by De Savary is keeping its options as open as possible. Tank testing for a superboat is under way and a construction programme that would get a finished boat to California by August is rolling. A building shed is ready at Falmouth and materials are being sourced.

In California they have yet to secure funding for a boat, and design work is not believed to be very far advanced. Officials at San Diego admit they are starting already snookered. But there is massive capability there.

"The US is like a sleeping giant in some respects," said Ehman. "But once someone rattles its chain, watch out." Even if it's not the America's Cup, it looks like being the grudge match of the century.

● Additional reporting by Sam Passow.

RPYC AMERICAS CUP 1987

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