CHAPTER 3

Rockware Group Limited

65. The turnover of Rockware for the year 1977 totalled £89·2 million, including £5·3 million exports. Profit before interest charges amounted to £9·0 million and profit before tax to £7·8 million.

66. In 1976 (the latest period for which published information is available) the company had an average of 6,238 employees (including directors), their aggregate remuneration amounting to £21·5 million.

67. The principal activity of Rockware is the manufacture of glass containers through its subsidiary company, Rockware Glass Limited (Rockware Glass), which in 1977 accounted for some 90 per cent of both turnover and profits. Other subsidiary companies produce plastic containers, moulds for the glass industry and handling and processing equipment for containers. In addition another subsidiary, Rockware International Limited, provides technical assistance to overseas companies in the manufacture and marketing of glass containers. The Group owns 20·4 per cent of the equity of The Irish Glass Bottle Company Limited which manufactures glass containers in the Irish Republic.

History and development

68. The Rockware Glass Syndicate Limited, the original company of the Group, was incorporated in 1919 to manufacture glass containers on a site at Greenford, Middlesex. The manufacturing facilities were subsequently enlarged to meet the increasing demands for the company's products and a second factory was opened at Doncaster, South Yorkshire, in 1934.

69. In 1955 the company acquired Fountain Glass Works of Liversedge West Yorkshire to provide additional manufacturing capacity. In 1958 it acquired the Portland Glass Company of Irvine, Ayrshire which was used to serve the needs of its Scottish customers in the spirits, soft drinks, dairy and food industries.

70. Rockware expanded further by acquiring the Garston Bottle Company and Forsters Glass Company, both situated in Merseyside, in 1966, and Jackson Brothers (of Knottingley) Limited, West Yorkshire, in 1968. A new factory was built at Doncaster to replace the works there and started production in 1969. The company subsequently ceased production at Liversedge in 1969, at Garston in 1970, and at Greenford in 1973.

71. The company extended its interests beyond the manufacture of glass containers in 1960 by purchasing Blewis and Shaw (Plastics) Limited which was subsequently renamed Rockware Plastics Limited. In 1964 it acquired Burwell, Reed and Kinghorn Limited, the Leeds mould-makers. The company's interests in plastics were extended in 1969 by the purchase of the Marrick Manufacturing Company Limited, now known as Rockware Plastics (Reading) Limited and in

1977 by the acquisition of Stalcon Plastics Limited of Norwich. It acquired a 20·4 per cent shareholding in The Irish Glass Bottle Company Limited of Dublin in 1976. In 1977 Rockware purchased Kingston Conveyers Limited of Hull, manufacturers of handling and processing equipment for all types of containers. To reflect the wider interests of the company its name was changed to the Rockware Group Limited at the end of 1966.

72. In 1972 Rockware approached Redfearn with the suggestion that the two companies should consider the possibility of a merger. Rockware's views on the advantages of a merger were, first, that it would produce considerable benefits in, for example, more efficient production runs, savings in the costs of warehousing and distribution and in being able to undertake research and development work more economically; secondly, the merged companies would also be in a better position to reduce manning levels, particularly at the cold-end where rationalisation would give increased opportunities for mechanisation; thirdly, there would be more scope for increasing prices of glass containers against those of competitive materials and thus opportunities for improving the existing low levels of profitability, once the temporary over-capacity in the glass container industry has ceased. The Board of Redfearn, however, did not consider that the proposed merger was in the interests of their company and, in the face of this decision, Rockware did not pursue its proposals further.

73. Pilkington Brothers Limited holds approximately 19·5 per cent of the equity share capital of Rockware which it purchased from Slater Walker Securities Limited in 1975. The announcement made on 21 September 1977 of Rockware's intention to make an offer for the share capital of Redfearn indicated that Redfearn shareholders would be offered the choice of a share exchange (plus cash) and a cash alternative. The arrangements for the cash alternative included the underwriting by Pilkington Brothers Limited of such number of Rockware shares as would increase its holding in the new company to a maximum of 25 per cent. Pilkington Brothers Limited has recently told Rockware that in the absence of major changes in circumstances it would not seek to acquire control of Rockware for at least five years and that at present it has no intention of doing so after that time.

Rockware Glass

Capacity and sales

74. Rockware Glass is by sales value the second largest United Kingdom manufacturer of glass containers. Its total, home and export sales and share of the home market in millions of containers since 1972 are given in the following table:

Year	*Total sales* m units	*Home sales* m units	*Share of home market**	*Export sales* m units
1972	2,024	1,930	29.8%	94
1973	2,239	2,139	30.1%	100
1974	1,987	1,922	26.2%	65
1975	1,791	1,741	27.0%	50
1976	1,945	1,850	27.7%	95
1977	1,898	1,771	25.8%	127

Details of the company's share of the constituent sections of the market in 1977 are given in Appendix 2.

*The share of the home market is calculated from data in the table in paragraph 50.

75. Furnace capacity has been increased by 12 per cent since the end of 1972. The efficiency of furnaces and other production plant had also been increased thus enabling production to be further increased (see paragraphs 92 and 93). Appendix 3 gives details of the forming machines operated at the end of each of the years 1972 and 1977. With the installation of higher speed machines and the withdrawal of older machines there has been little change in Rockware's basic machine capacity. However, the company has been able to achieve a general improvement in the running speeds of machines over the period thereby significantly increasing their potential output (see paragraph 92).

76. Rockware Glass has five factories producing glass containers. Their present production range is as follows:

> Knottingley (Bagley)—five furnaces producing green and white containers for wines and spirits, foods and other beverages; it also produces very large containers and cosmetics ware (both coloured and white).
>
> Knottingley (Headland)—three furnaces producing white containers for foods, spirits and other beverages.
>
> Doncaster (Wheatley)—five furnaces producing white containers for foods, spirits and other beverages; it also produces opal glass containers.
>
> St Helens—six furnaces producing amber and white containers for beers and ciders, soft drinks, foods and spirits.
>
> Irvine—three furnaces producing white and green containers for spirits, other beverages and foods; it also produces half-white (ie pale green) spirits bottles.

77. The company normally holds stocks of bottles representing up to eight or nine weeks' production, the actual level varying according to seasonal and other fluctuations in demand. In 1977 the level of stocks ranged from 170 to 288 million units representing respectively a sales value of £7·4 million to £12·5 million at current average selling prices.

78. The company owns storage facilities at its factories and also at outside warehouses. These are supplemented by additional rented space when stocks are abnormally high. Its own vehicles deliver about 30 per cent of its sales to customers, the remainder being transported by hired vehicles.

Management

79. A diagram of the management structure of Rockware Glass is at Appendix 11.

Employment and labour relations

80. Employment in Rockware Glass has fallen overall in recent years as can be seen from the following table:

Year	No. of employees (including group head office) at year-end
1972	6,872
1973	6,634
1974	6,161
1975	5,343
1976	5,727
1977	6,021

81. Process workers are represented by the Transport and General Workers' Union and the National Union of General and Municipal Workers. The craft unions, ie the Amalgamated Union of Engineering Workers, the Electrical, Electronic Telecommunication and Plumbing Union and the Union of Construction Allied Trades and Technicians, are recognised at all factories. The Association of Scientific, Technical and Managerial Staffs and the Amalgamated Union of Engineering Workers represent certain staff.

Dealing with customers

82. The company enters into annual contracts with customers which it regards as an indication of the quantities of containers likely to be required but not as being legally binding. The customers then review their requirements monthly or quarterly and finally give call-off instructions which can still be amended at any time. Prices for non-standard containers are negotiated on the basis of the costs of production. For standard bottles the company has an unpublished list of prices (which include a standard delivery charge). There are some reductions in these prices for large customers, and some increases for very small customers which the company considers reflect the increased cost of meeting their needs. An extra charge is made for non-standard packaging.

83. Four large customers accounted for about 25 per cent of Rockware Glass's sales in 1977. However, it also has a number of small customers; in 1977 about 38 per cent of the company's customers each purchased less than £5,000 of containers.

Technical

84. The company's technical division is located at the Knottingley factory site. It has a staff of 65 which is expected to be increased to about 100 during the next year. The total cost of its research and development work, including in-factory development work amounted in 1977 to about 1 per cent of the company's turnover.

85. The company purchases know-how as required from outside sources. Examples of this are the agreement with Wheaton Industries Incorporated of the USA in 1955, which has enabled the company to manufacture small high-quality ware for the toiletry and cosmetics markets, and a recent agreement with the German Heye company for the manufacture of light-weight containers.

Financial information

(a) Trading performance 1972 to 1977

86. Appendix 4 shows figures of Rockware's average capital employed (at book values), sales and profits, from 1972 to 1976 (and interim figures for the

six months to June 1977) for its activities as a whole, ie the glass (container manufacture and Rockware International), plastics, and engineering divisions combined; and separately for glass containers. The glass division accounted for 93 per cent of group capital employed, sales, and operating profit in 1976. The division's sales in 1976 totalled £67·7 million of which glass container sales were £67·5 million and Rockware's overseas technical advice service the remaining £0·2 million[1]. The results for glass containers were as follows:

		Year ended December				*Half year to June*
	1972	1973	1974	1975	1976	1977
(i) Sales value index	100	114	122	157	201	235
(ii) Profit index	100	110	149	257	311	354
(iii) Volume produced indices:						
Good tonnes‡	100	104	100	95	101	110*
Units	100	104	99	87	92	99*
(iv) Profit rate of return:	%	%	%	%	%	%
On capital employed	11.0	11.2	13.3	18.0	19.9	(not available)
On sales	6.9	6.8	8.6	11.4	10.7	10.4†
(v) Average return on capital employed for quoted companies in manufacturing industry	14.7	16.8	16.1	14.5	17.5	(not available)

*Estimates for a full year.

†Rockware's preliminary results for 1977 show for the glass division as a whole a profit rate of return of 9.0 per cent of sales compared with 10.3 per cent for 1976.

‡See footnote page 6.

87. Rockware's return on capital employed in the whole of the group increased in each successive year from 11·2 per cent in 1972 to 19·5 per cent in 1976[2] but until 1975 was somewhat lower than the average return for quoted companies in United Kingdom manufacturing industry which, like that for Rockware, is also shown on a book value basis. Capital employed includes, in the case of Rockware, freehold and leasehold properties which have been revalued, amounting to £12·8 million out of the total group capital employed of £39·0 million at end–1976. If the surpluses arising on revaluation were excluded, Rockware's return on capital employed in 1976 on a historic cost basis would be increased by about 1 percentage point to about 20·5 per cent.

88. The value of glass sales doubled over the years 1972 to 1976 but the glass container production volume indices shown in the table in paragraph 86 indicate a lack of growth in terms of the numbers of containers produced. Rockware has, however, told us that there has been an increase in the average size of containers (see paragraph 92).

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[1]Rockware's preliminary results for 1977 show glass division sales of £80.8 million, representing 91 per cent of group sales of £89.2 million.

[2]These figures are based on the average capital employed although in Rockware's published accounts the returns on capital employed are shown for the group, and for each operating division, by reference to closing capital employed.

89. Rockware told us that between 1972 and 1976 its selling prices for glass had risen proportionately less than the costs of materials, labour and services. The company attributes its ability to absorb part of its cost increases and yet to raise its profit margins, despite various difficulties experienced by the industry during the period (see paragraph 52), to a number of factors of which the following are the principal:

(i) lower labour costs due to a reduction of its labour force, following the introduction of 8-section double-gob machines;

(ii) an increase of 18 per cent in output of glass per unit of furnace fuel consumed;

(iii) savings in annual fixed costs arising from closing the Greenford factory in 1973 and from cost-saving projects; Rockware estimated these savings at £3·6 million in terms of 1972 cost levels, equivalent to 15 per cent of 1972 operating costs.

(b) *Capital investment*

90. Rockware's capital investment for glass between 1972 and 1976 is given in the following table:

	Year ended December					*Total*
	1972	1973	1974	1975	1976	1972-6
	£m	*£m*	*£m*	*£m*	*£m*	*£m*
Capital expenditure	3.1	4.2	6.4	6.4	4.9	25.0
Expressed as a percentage of sales	9.3%	11.0%	15.6%	12.2%	7.3%	

Nearly half of this expenditure was on furnaces (repairs and rebuilds at existing or increased capacity) with general replacement expenditure accounting for most of the remainder.

(c) *Source and application of funds and sources of capital employed*

91. Appendix 7 shows that over the five years ended 1976 Rockware Group has financed capital expenditure totalling £27·2 million largely from its internal cash flow (retained profit plus depreciation). Appendix 4 also shows the sources of capital employed at end–1976. There were ample funds available to finance capital expenditure committed but not provided for in the 1976 accounts and the ratio of total borrowing to shareholders' interests and deferred tax liabilities, of 14 per cent[1], was well below the average of 46 per cent for quoted companies in manufacturing industry.

(d) *Glass operating ratios*

92. These ratios are set out in Appendix 10.

The unit cost of glass containers reduces with increases in machine speed (the time taken to produce an equivalent number of containers), the average length of run (see paragraph 34) and in the proportion of the output which is of a satisfactory quality. Compared with 1972 Rockware's forming machine productivity indices in 1976 were 138 in terms of tonnes of good output per machine/day, and 123 in terms of numbers of containers per machine/day, reflecting a 12 per cent increase in the average weight of container and a 21 per cent increase in the average volume per container.

(1) Before taking into account loans of £7.4 million, corresponding to bank balances of £7.4 million excluded from capital employed.

93. Production capacity (including that attributable to better furnace utilisation) increased from 1972 to 1976 by 17 per cent by tonnage (see paragraph 75) and by 6 per cent in terms of containers.

(*e*) *Future plans for glass*

94. Rockware provided us with financial details of its five year long-range plan for the glass division, as revised to June 1977, covering the years 1977–81 and before taking into account any effects of a merger with Redfearn. This plan has the following main features:

(i) capital expenditure to be applied to cost-saving projects, increases in capacity, rebuilds of furnaces, and other normal replacements;

(ii) continuing improvements in manpower productivity;

(iii) installation of higher-speed machines, coupled with some reduction in the number of machines; continued improvement in the efficiency of operating machines.

95. Rockware expects that carrying out its five year plan would lead to:

(i) an increase in its sales of containers at a rate marginally higher than that at which it expects home demand to grow;

(ii) increased profit margins with a higher return on capital employed;

(iii) significant increases in the value added per employee.

(*f*) *Merger proposals*

96. Rockware's offer to acquire Redfearn's 6,069,292 25p ordinary shares, 75,000 £1 preference shares and 96,480 £1 second preference shares involves a consideration totalling approximately £19½ million. This would be discharged, subject to underwriting arrangements[1], to the extent of £13.6 million by issuing to Redfearn shareholders 9,862,599 new Rockware 25p ordinary shares (an increase of 45 per cent in the total number of Rockware's issued ordinary shares) on the basis of 13 new Rockware ordinary shares for every 8 ordinary shares held in Redfearn, with the balance of £5.9 million payable in cash.

97. The financing by Rockware of the £5.9 million cash element of the offer to Redfearn's shareholders would be from additional medium-term loans. Rockware estimated that, after taking into account such borrowing, the borrowing ratio for the merged company would slightly exceed Rockware's own ratio of borrowing of 14 per cent at end-1976 (see paragraph 91).

98. Rockware planned to enlarge the merged company's capacity and would increase its sales substantially by replacing imports, increasing exports and by taking sales from other forms of packaging.

[1]The underwriting arrangements provide for a cash alternative to the issue of Rockware shares to Redfearn's shareholders (see paragraph 73).

99. Rockware produced forecasts of what it considered the merged company might achieve. These indicated that it should be possible to generate a cash flow adequate for the capital expenditure necessary for the increase in capacity while allowing a part of the savings in costs due to the merger to be passed on to customers.

100. Rockware accepted that the economies to be gained from merging the two companies' order books would impose additional demands on the management which it considered it could meet.