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Stuart Crystal

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In August 1995 the crystal manufacturing firm of Stuart and Sons was purchased by Waterford Wedgwood plc. The company, which had been family owned since its inception, had not been profitable for some years. After the takeover, the initial focus was on operational issues. These took longer to resolve than had been anticipated. However by early 1998, Stuart and Sons had returned to modest levels of profit and the balance of focus by the new management began to move towards greater concentration on the marketplace and a market that could certainly be described as challenging.

THE HISTORY OF STUART AND SONS

The family business of Stuart and Sons had been founded by Frederick Stuart. He was an orphan who began working at the glass making Red House in Stourbridge in 1827 at the age of eleven. The Red House, a cone shaped building incorporating a furnace, is now part of the Stuart and Sons establishment and is used as a museum and to demonstrate glass making skills. Stourbridge, located some 20 miles west of Birmingham in the English West Midlands, had a long tradition of glassmaking. This had commenced in the late sixteenth century when a group of Huguenot craftsmen settled in the area, which was rich in both fireclay for glassmaking crucibles and in coal for firing the furnaces. By the 19th century, their descendants had progressed from the manufacture of window glass and bottles to fine tableware.

1 This case is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Frederick Stuart developed good business skills in a number of glassmaking establishments and eventually joined with two local businessmen in a partnership in 1853. Richard Mills, one of the partners, gradually moved focus towards chandeliers and lighting ware. Frederick Stuart concentrated on glassware and the first products marketed under the name of Stuart and Sons appeared in 1881. By this time Stuart had been joined in the business by four sons, William, Robert, Frederick Junior. and Samuel. Some of the sons became major figures in their own right as designers and innovators.

After Frederick Stuart's death in 1900, the business was carried on by his sons and was incorporated as a limited company in 1911. The business evolved and expanded. Gradually the forms shifted from elaborate coloured Victorian glass products to cut crystal. The development of acid polishing, which was perfected by the Stuarts, made cut crystal a profitable and affordable product. Crystal, when cut, is opaque. Acid polishing restores the cut section to clear, allowing for the sparkle, which is associated with cut crystal. By the late twenties, cut crystal was the major part of the output of Stuart and Sons. The trade name, Stuart Crystal, was first used in 1927. At the same time, the practice of etching the name, Stuart, on each piece of crystal produced by the company, began.

Stuart and Sons were badly affected by the economic slump of the thirties. So also were a large number of other glass producers most of whom disappeared in this period through closure, rationalization and takeover. Stuart survived, largely through the innovativeness of its designs and the development of new, cost efficient, production facilities. The second world war also had a major effect on the company with production being shifted to products such as aircraft landing lights and cathode ray tubes for military use. Robert Stuart, Frederick's last surviving son, and the dominant figure in the company for 50 years, died in 1946. Management passed to third and fourth generation members. When the world crystal market recovered in the early fifties, Stuart and Sons was in a strong position to take advantage. It was at the forefront of most technological developments in the industry. Exports resumed to markets such as Australia and New Zealand and some new markets were developed in USA, Canada and Italy. However, the UK remained, and continues to be, Stuart's largest market. Currently, some 20% of sales are exported, with Australia still the most important market. Gradually the fortunes of the company went into decline and, though still a major player in the UK market with a 14% market share of the crystal market, Stuart and Sons was unable to generate sufficient profit to maintain and develop a prominent position in the market. The ownership of the company had dissipated among the four or five generations which succeeded Frederick Stuart. At the time of the takeover by Waterford Wedgwood, there were an estimated 70 separate shareholders in what was still a privately owned family business. Recognizing that it would continue to struggle to survive as an independent business, despite its industry leading technology, the directors put it up for sale. Though other options were considered for Stuart and Sons, including a management buyout, the company was eventually sold to Waterford Wedgwood in August 1995. The new parent company quickly installed new management and commenced a thorough review of operations with a view to a rapid return to profitability.

WATERFORD WEDGWOOD PLC

In early 1998, Waterford Wedgwood consisted of three principal businesses, Waterford Crystal, Josiah Wedgwood and Rosenthal which had just been purchased by the group. Though there was close cooperation between the three businesses, particularly in logistics, each was a stand-alone business with its own management. Each had a chief executive who was a member of the main board of the company. There was no overall chief executive. Each chief executive of the operating companies reported to the board and its chairman Dr A.J.F. O'Reilly who, though not an executive, was closely involved in the management of the business. Stuart and Sons, was considered part of the Waterford Crystal operation and reported accordingly. However, its close physical proximity to the Wedgwood headquarters at Stoke on Trent ensured that there was regular contact with that business also.

Waterford Crystal had been founded by a number of merchant families in Waterford in the south east of Ireland in 1947. They had sought to revive a tradition of cut crystal manufacture which had flourished in the period up to the mid 19th century. Craftsmen were brought in from central Europe to develop new ranges, establish production facilities and train local workers. The business struggled for several years but then grew rapidly in the sixties as it developed a major presence in the US market. It went public in 1966 and subsequently acquired a number of businesses outside its core area such as department stores and a Renault Motor vehicle franchise. All these businesses were subsequently sold and the focus returned to the crystal operation. In 1985, Waterford merged with Wedgwood. Though technically a merger, the new group was dominated by Waterford, which, though smaller in scale, was more profitable. However, in the late eighties Waterford Crystal hit severe difficulties. A recession in its main market, the US, occurred at a time when Waterford's cost structure was out of line with competitors. In addition, with its tradition of mouth blown and hand cut crystal pieces, it was seen as old technology in an industry where new technologies were available. For a time in the late eighties and early nineties Waterford had reason to be pleased at the earlier merger with Wedgwood as it was the profits of the latter which helped keep Waterford afloat. New management and investors succeeded in turning around the now loss making business. Costs were cut considerably. Products were outsourced. A new, lighter range "Marquis by Waterford Crystal " was introduced at lower price points than the traditional Waterford range. New markets were sought particularly in Japan where Wedgwood was strongly placed. The key US market recovered and Waterford's share of that market grew from the low point of 23% in 1991 to 45% in 1997. As the turnaround strategy gathered momentum, Waterford felt confident in cashing in on what was perceived as a major asset, the brand Waterford. Studies had indicated that the prestige of the name was highly rated in its main markets. The US continued to take the bulk of sales (75% in 1997) with Ireland, UK and Japan as its other main markets. To capitalize on the brand name, Waterford introduced a range of products, most of which were outsourced. These included ceramic tableware (produced by Wedgwood), table linen, cutlery, Christmas decorations and a range of pens. The greatest successes were in products such as tableware, which could be deemed to be closest to the traditional crystal range. However, crystal continued to dominate Waterford's growing sales. Ranges were rationalized with new products being introduced. A particularly successful range was the millennium champagne flute, which consisted of 5 pairs of champagne glasses representing themes such as love, health and prosperity. The first set was introduced in 1995. A further set would be introduced each year until the millennium. Another major development was the introduction of a completely new range of crystal ware targeted at a younger age group. John Rocha, a well-known Irish fashion designer, was involved in the designs of the range, which featured plainer and simpler designs with small numbers of geometric cuts. The new range took advantage of new blast furnace technology installed by Waterford. The range was both a critical and commercial success when launched in Ireland in 1997. It achieved sales of IR£1 million[2] in 1997 and was projected to more than double in 1998. It was proposed to roll the range out in the UK and, subsequently, in the US. The range was branded and promoted as "John Rocha at Waterford Crystal". Rocha had some profile in the UK but was unknown in the US.

Early in 1998, Waterford Wedgwood acquired a controlling interest in Rosenthal, a German based ceramics producer. It had previously acquired a minority stake in the loss making company but now owned about 85% of the stock of Rosenthal. The purchase of Rosenthal was a much more significant one than that of Stuart for the group. Rosenthal had a turnover of over £Stg100 million as compared with Stuart's £Stg10 million It held a dominant position in the German market. Its losses appeared to have stemmed from its high cost base and economic difficulties in Germany in the wake of reunification. Raising its stake in Rosenthal from 65% to 85% had cost the

2 IR£1 = £0.82 sterling; IR£1 = $1.33; £1 sterling = $1.65.

group about £Stg15 million. The balance of stock was held by employee interests.

Josiah Wedgwood was the oldest and largest part of the group having been established in the eighteenth century. It operated a number of plants in the UK centred on Stoke on Trent. Having been the strongest part of the group during Waterford's difficulties, it had experienced its own problems in recent years as Waterford had first recovered and then grown strongly. A high cost base in a mature and highly competitive ceramics market was a major factor in its difficulties. The high value of sterling and a recession in Japan, Wedgwood's largest export market, had also contributed. Waterford and Wedgwood worked closely together particularly in marketing and logistics. In parts of the world where one part of the group was strongest, that part represented the other in that market. Thus Waterford's US subsidiary managed Wedgwood's products. Likewise Wedgwood represented Waterford in Japan. Waterford had invested heavily in the Japanese market since 1988. Sales growth had been slow but by 1997 sales had reached £IR4 million making Japan Waterford's fourth most important market. Summary figures for the various parts of the group up to and including 1996 are shown in appendix 1.

STUART AFTER THE TAKEOVER

Once the takeover was complete, Waterford moved quickly to undertake an in depth assessment of Stuart. A largely new management team was put in place. At the time of the takeover, Stuart had a product range of some 1400 different items or stock keeping units known in Waterford Crystal as SKUS. By comparison Waterford had about 2,000 SKUS. In addition, costing information on individual SKUS was weak. Such a system, and other reporting systems appropriate to a large PLC, were put in place. As a result of this analysis, a number of products were dropped. Stuart produced the full standard ranges of crystal products. It had several ranges of drinking glasses, each of which carried its own identifying subbrand. It also produced vases, bowls and other ornaments. Many of its designs had been associated with Stuart for several decades. Many central European countries such as the Czech Republic and Slovenia had a long tradition in crystal making.

As these, and other countries, had focused more on western European markets after the collapse of the Soviet Union, they represented both a threat and an opportunity to companies like Stuart as low cost producers.

Stuart had wide distribution in the UK, being available in about 700 outlets. Since the take over by Waterford Wedgwood, it had gained access to Wedgwood concession stores. There were some 150 of these and Stuart was active in about 100. In addition, it had some 30 concession outlets of its own and was also available in over 500 other independent outlets.

The company had a promotional budget of £Stg400,000. Much of this was used tactically involving promotional events and incentives to store personnel and to the trade. There was also some cooperative advertising. The corporate sector was also heavily targeted with mailings and a tele sales operation. The management of sales involved five area managers, a retail manager who concentrated on the Wedgwood concessions and a corporate sales manager.

Other major changes at Stuart saw the closure of its second plant in Wales with all activities now based at Stourbridge. Stuart also commenced manufacturing crystal for other parts of the group. Waterford was noted for its tough stance on product sourcing. When a new crystal product was introduced, it was first offered for production internally to the appropriate plant. If that plant could meet strict cost criteria, that product was sourced there. If not, it was offered to other plants within the group. If the product was still not capable of meeting the designated cost criteria, it was outsourced. Waterford operated an outsourcing team on continental Europe to identify and deal with suitable sources of supply. Stuart had particular expertise in certain products and, more importantly, had been able to meet the cost criteria imposed. As a result, the overall turnover had climbed to £Stg10 million in 1997 and the company was earning a modest profit. Stuart management acknowledged that the process of bringing operational change to the company had taken longer than they had anticipated. However, as noted earlier, gradually the focus shifted outwards towards the market. The UK market for crystal was changing rapidly as indicated by secondary sources on areas such as market size and share and by Stuart's own research.

THE UK CRYSTAL MARKET

Mintel estimated that the UK market for crystal at retail prices in 1997 was £136.2 m sterling. It also estimated that the market had declined in that year by almost 2%. It was difficult to exactly pinpoint the size of the crystal market as a number of players in the market operated their own retail outlets. Stuart dealt at wholesale level only except for sales in its factory shop in Stourbridge where it sold both first grade product and some second grade items. The factory shop had a turnover of about £800,000. Stourbridge was in a very industrial part of the English Midlands and was not close to any major tourist destination. Facilities were limited and the company had been forced to discontinue factory visits, though it was still possible to see crystal produced in the Redhouse. If it was not possible to agree on the size of the market, all agreed that the market was falling. Uniquely, all the major players in the market had been, or were, for sale by their owners in recent years with the obvious exception of Waterford. The market could be divided between traditional heavy cut products and contemporary. Traditional crystal still held the major share of the market though its share was declining.

Traditional crystal could be defined as being more formal with a heavy cut and available in an extensive range of long established designs. It typically appealed to an older audience of age 45+ though much of it was likely to be offered as gifts such as for weddings to younger age groups. Contemporary crystal was more casual, more likely to be used, had fewer cuts and a greater emphasis on shape. It was typically available in much narrower ranges and was designed to appeal to a younger audience. Dartington was the major UK producer of contemporary styles with some very simple designs which, in many cases, had no cutting at all, but relied on weight and light refraction to distinguish it from standard cheaper glassware. Standard glassware, known as soda lime, was becoming more sophisticated and could be seen, in some instances, as a competitor of crystal. Crystal prices were falling, reflecting the competitive market and new production techniques.

Other secondary research by Keynote gave further insight into the UK market. It indicated that the market for crystal was dominated by ABC[1], social classes. The UK was divided into the standard accepted model of social classes in the following proportions:

Social Class	% of total	Description
A	3	Upper
B	10	Managerial/professional
C1	24	Skilled manual
C2	30	Semi skilled
D/E	33	Unskilled/unemployed

Source: Office of National Statistics

The research indicated a high level of repeat purchase with very few new consumer entrants into the category. The market was also being driven by a rising number of wine drinkers though the majority of purchasers were regarded as gift purchasers. Other categories were for personal use or purchases by tourists. Most crystal purchases, up to 80%, were purchased in department stores. Keynote research also indicated that 33% of all wedding gift purchases were crystal, second only to small electrical appliances at 44%. However numbers in marriage age categories were declining. Other social indicators were a lower level of marriage combined with a higher level of divorce and remarriage. It was estimated that some 50% of UK marriages ended in divorce.

A result of these demographic trends was an increase in the number of households. An increase was also noted in home entertaining often in a less formal atmosphere. Tougher application of, and adherence to, drink driving legislation apeared to be influencing this trend.

On a broader economic front, the relatively high, and rising, value of sterling against other major currencies was affecting this, and other, industries. In particular, it was leading to an increase in imports. Many of these were sourced by the major brands. Others were relatively weak brands or generic products which were being promoted by retailers and were exerting an increasing influence in the market. As might be

expected, competition was relatively strong with a number of significant players. Estimated market shares were as follows:

Market Share in the UK Crystal Market at retail price

	1995		1997	
	£M	**%**	**£M**	**%**
Edinburgh	24	17.5	24	17.5
Stuart	17	12	15	11
Dartington	13	9.5	15	11
Waterford	12	9	11	8
Royal Doulton	11	8	10	7.5
Other	62	44.5	61	44.5
TOTAL	**139**	**100**	**136**	**100**

Data may not equal totals due to rounding
Source: Mintel

There is some question as to whether the Mintel data quoted above presented an accurate picture of the market. In particular, Edinburgh's position as market leader reflected the fact that virtually all its sales were at retail level through its own stores. All of the other major players had a mix of wholesale and some retail sales through, for example, concession outlets. If allowance was made for this, and all sales were compared on a wholesale basis, Edinburgh's share would drop to much closer to the other leading operators. What is not in dispute was that the market was not profitable for most participants.

As noted above, Edinburgh, the market leader, operated many of its own outlets and focussed extensively on Scottish landmarks and history. It also offered personalised products and operated wedding gift lists. It offered mostly traditional products and was at the lower price end of the market.

Royal Brierley was, like Stuart, based in the West Midlands. It specialised in mouth blown, hand cut products of traditional design. It was the longest established of the main players having being founded in 1776 and was, like many of the other market participants, a subsidiary of a ceramics company of the same name.

Royal Doulton was also established for more than a century and was also a subsidiary of a ceramics company and was based in the West Midlands close to Stuart. It appeared to be one of the more successful exporters, trading on the well known Royal Doulton name.

Dartington, as previously noted, focussed exclusively on contemporary designs with no cutting undertaken. It was based in Devon in south west England. All its products were stamped with a distinctive D on the base.

In addition there was a number of smaller companies undertaking both traditional and contemporary designs. Many of these were regionally or locally based and frequently marketed their products directly.

The larger players, with the exception of Edinburgh, marketed mostly through department and gift stores. Products were typically displayed together in a single section and rarely in a prominent position reflecting a relatively low volume/profit to floorspace ratio for the retailer.

STUART MARKET RESEARCH

In addition to relying on secondary sources of research, Stuart, with involvement of Waterford, had conducted its own market research. Much of this was qualitative and based on focus groups. Different age groups, locations and social class were the principal determinants of the focus groups chosen. Some of the results noted in the research are presented below. Headings are chosen to reflect a selection of the key issues identified in the research with reference to crystal.

- *Contemporary living:* AB focus groups saw such purchases in terms of the expression of self, as a symbol of their taste and status with a strong focus on style and a tendency to make eclectic choices. C1, C2 focus groups used terms like comfort, status, pretty and safe to describe their views on crystal.
- *Entertaining:* Living and entertaining was moving from a formal dining room setting to kitchen and/or living room in a much less formal setting. Some of the changes reflected by this included lighter and less formal stemware and ornaments which could be functional as well as decorative. Interest and "self treat" had moved towards kitchen ware with a shift to stronger colours on the one hand and to softer, more organic shapes and designs on the other
- *Selection process:* The process of selecting crystal begins well before the actual purchase. TV programmes, glossy magazines, store catalogues and recreational browsing were frequently mentioned as sources of inspiration
- *Gifts:* Gifting was seen as stressful, particularly for men, and for high ticket items such as wedding presents. Second marriages and purchasing for relations were seen as presenting particular problems. Crystal was seen as an acceptable traditional wedding gift though lacking in excitement and thought for some. As noted above with reference to social class, more sophisticated purchasers were inclined to seek individual gifts. C1 C2 social class groups were more likely to seek safe choices and were conscious of packaging and brand names and were more likely to shop in mainstream stores such as Marks and Spencer, IKEA or department stores
- *Self Purchase:* Focus groups indicated a considerable reluctance to purchase for self. The products were seen as not needed. The less the disposable income, the greater the guilt in an indulgence.
- *Collectors:* They typically started with a gift and then sought other products with the same design/pattern/ brand.
- *Barriers to Purchase:* When specifically asked to refer to possible barriers to purchases, a number were indicated in the research. These included crystal products having a low visibility due to their store position. Associated with this was limited relevance to the consumer or crystal not being at the forefront of the mind. That the products were seen as too precious and/or fragile could also be a barrier. Some consumers were concerned with whether crystal fitted with their décor. The lack of fashionability of clutter was also mentioned as was impracticality. Life styles changes also were seen by some as a barrier. Non

drinkers and those who rarely eat in a formal setting were examples of such a barrier. Some also appeared to link the products to an unhappy past or to childhood or other family memories.

- *Perceptions of Products:* When questioned on the different brands available some clear conclusions emerged. Although only fourth or fifth in UK market share, Waterford stood out above all others in image, value and expectations. Dartington also was seen as distinctive with terms like simple/modern/chunky used to describe it. For the other major brands, including Stuart, there was considerable overlap and contradictory indications. All were seen as traditional and associated with weddings. There were some limited indication of preference for British products. The name Stuart was linked to Scotland in the minds of some consumers, presumably because of name associations with the Royal House of Stuart.

LOOKING AHEAD

Waterford Wedgwood had not paid a large sum for Stuart. While the consideration was not disclosed it was widely reported at the time (e.g. Irish Times, Business and Finance on various dates in August 1995) that Waterford Wedgwood had paid less than £Stg5m for Stuart. This compared with a total value of the Waterford Wedgwood Group of some £IR300 million or £Stg250 million. Group long term debt represented less than 20% of market capitalisation. Stuart sales represented some 3% of total group sales. However, the management of Waterford Crystal, of which Stuart was now a part, would expect to see growth in turnover and profit. Waterford management was committed to a doubling of turnover and profit over a 5 year period between 1996 and 2000. This implied a 15% annual compound growth in an initiative which became known as the Chairman's Challenge. Stuart would be expected to contribute to this. The new Stuart management team was seen as having performed well in having turned the company around and prepared it for further development. Waterford management had also invested considerable valuable executive time and effort in Stuart and was expecting to see a worthwhile return on that investment.

APPENDIX 1

WATERFORD WEDGWOOD PLC
TREND OF RESULTS

IR£million **Sales**	**1989**	**1990**	**1991**	**1992**	**1993**	**1994**	**1995**	**1996**
Wedgwood	251.6	231.2	219.1	197.3	217.1	216.2	221.5	223.3
Waterford	95.8	76.7	73.0	76.3	102.1	108.8	116.8	141.2
Stuart	–	–	–	–	–	–	5.9*	11.8
TOTAL GROUP	347.4	307.9	292.1	273.6	319.2	325.0	344.5	376.3
Year over sales increase at actual rates								
Wedgwood	13.9%	–8.1%	–5.2%	–9.9%	10.0%	–0.4%	2.6%	0.6%
Waterford	14.3%	–19.9%	–4.8%	4.5%	33.8%	6.6%	7.4%	21.0%
TOTAL GROUP	14.0%	–11.4%	–5.1%	–6.3%	16.7%	1.8%	6.0%	9.2%
Year over year sales increase at constant exchange rates								
Wedgwood	13.1%	2.5%	–7.1%	–5.0%	2.0%	–1.1%	6.3%	3.2%
Waterford	8.2%	–10.1%	–6.6%	9.1%	18.9%	8.5%	13.1%	20.7%
TOTAL GROUP	11.7%	–1.0%	–6.9%	–1.4%	6.7%	1.9%	10.5%	10.9%
Operating Profit								
Wedgwood	n/a	14.8	10.3	8.6	8.7	15.3	17.8	21.2
Waterford	n/a	(4.8)	(1.2)	0.5	7.8	13.0	15.5	18.0
TOTAL GROUP	(1.1)	10.0	9.1	9.1	16.5	28.3	33.3	39.2
Operating profits are as reported in each year and have not been restated to comply with FRS 3								
Profit after taxation	(29.7)	(28.2)	(5.4)	(19.0)	9.0	20.6	24.1	29.0

*Purchased in August 1995