

Boots Contract Manufacturing

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Boots Contract Manufacturing (BCM) sales grew 21.3 per cent to £314.9 million – boosted by a full year's contribution from Roval, acquired in March 1997. Like for like growth was 10.6 per cent. Operating profit rose 25.4 per cent to £24.7 million before exceptional items. The underlying profit increase, excluding Roval and currency effects, was 14.6 per cent. Sterling's strength against other currencies had some impact on sales and profits; but, although BCM has substantial sales in continental Europe, flexible use of its manufacturing operations in France, Germany and Spain enabled it to keep exchange effects within acceptable limits.

Strategy BCM has a twin-track growth strategy based on its two customer groups: internal Boots customers – Boots The Chemists (BTC) and Boots Healthcare International (BHI) – and third party customers in the UK and continental Europe. It is working to build deeper partnerships in new product development with BTC and cost effective manufacturing with BHI, helping them to develop and produce innovative new products that differentiate them from competitors. It aims to grow its third party business by providing reliable technical support to major European and multinational companies, focusing on long term relationships with larger businesses that require the highest standards of service and quality.

Sales Sales to BTC were particularly buoyant, driven by a succession of innovative new products and ranges. These included Kyusu toiletries, the Spa haircare range and the ACT teenage skincare range. Business from BASF, resulting from BASF's purchase of Boots Pharmaceuticals, continued to reduce as planned. The decline in this business has been more than offset by growth in sales to BHI – up 36.9 per cent in two years. By contrast third party sales were constrained to some extent by currency factors but more significantly by BCM's strategic decision to forego low margin business and focus on major blue chip customers.

Overseas companies In France, Roval increased sales ahead of plan and maintained market share but profits reflected tightening margins in highly competitive conditions. BCM Cosmétique performed well, increasing sales and profits. BCM Kosmetik completed a dramatic turnaround since its acquisition by BCM two years ago and showed a good profit.

Capital investment BCM's confidence in the future was reflected in a record level of investment in new manufacturing, packing and quality control capacity. Excluding the previous year's spending on the £19 million energy centre like for like capital investment grew 24.4 per cent to £26 million.

Outlook As well as investing in new capacity, marketing and support systems, BCM is re-engineering its supply chain in a major project to improve service and bring further reductions in costs. Combined with increased innovation from more effective product development, this will result in continued sales growth, with profits enhanced by driving higher volumes through existing infrastructure.

Boots Contract Manufacturing	
Managing Director, John Watson	
Sales £m	314.9
Increase %	21.3
Profit £m (before exceptionals)	24.7
Increase %	25.4
Sales split	
	%
Boots The Chemists	47
Boots Healthcare International	14
Third party	39



Innovative products and packaging developed by BCM include the Kyusu range and the relaunch of 17 cosmetics.