

Organisation, costs and profits of Roneo Alcatel

History

4.1. Roneo Alcatel's business originated in 1924 when British Neopost Ltd was incorporated for the purpose of marketing a single value postal franking machine. That company was acquired by Roneo in 1930 and the following year a new subsidiary, Roneo Neopost Ltd, was formed to carry on the postal franking machine part of Roneo's business. In 1966 Roneo was acquired by Vickers Ltd. In June 1980 Vickers sold the business of its International Machines Division to Roneo Alcatel, a newly incorporated subsidiary of CIT Alcatel of France. At that time the business included reprographics as well as mailroom equipment.

4.2. When the Neopost business was acquired in 1930 it was marketing three versions of its original machine which for the next 20 years or so formed the basis of the business. During the 1950s and early 1960s a number of new machines were introduced. In the late 1960s and the 1970s the range was extended further and its current machines (with the exception of one reconditioned model) now have partly electronic meters.

Corporate structure

4.3. Roneo Alcatel forms part of the French based CIT Alcatel group and its equity share capital is now held by CIT Alcatel and Compagnie Générale d'Electronique – Alcatel Electronique, a subsidiary of CIT Alcatel. CIT Alcatel is a subsidiary of Compagnie Générale d'Electricité, the ultimate parent. The major business activities of this group consist of telecommunications, information technology and office automation. There are subsidiaries manufacturing postal franking machines in France (SATMAM) and the United States of America (Friden-Alcatel). The supply and servicing of postal franking machines forms only a small part (6.5 per cent in 1983) of the overall turnover of the group.

4.4. In addition to the manufacturing enterprises, CIT Alcatel owns companies involved in the supply and maintenance of postal franking machines in a number of countries. Two are located in France and others are in Australia, Belgium, the Netherlands, Norway, Pakistan, South Africa and Sweden. With the exception of the two French companies these were mainly acquired from Roneo Vickers in 1980. The international structure of the group, so far as it relates to office equipment, is set out in Appendix 4.1.

Management structure

4.5. Roneo Alcatel has both a statutory board and a management board; day-to-day control of the business is exercised by the latter. Following a reorganisation in 1981 the company now has two operating divisions: the industrial division is responsible for the design, development and

manufacture of the company's range of postal franking machines, and the sales division is responsible for the supply and servicing of the complete range of products supplied by the company including those acquired from third parties.

4.6. The company's postal franking machine activities are co-ordinated within CIT Alcatel's Office Equipment Group (OEG) which is based in Paris. OEG is not a separate legal entity or division of CIT Alcatel but is a grouping for management purposes of those companies within the CIT Alcatel group concerned with the manufacture and supply of postal franking machines, other mailroom products and of reprographic and related machinery.

Turnover

4.7. Roneo Alcatel's turnover for the period 1979 to 1984 is set out in Table 4.1.

TABLE 4.1 Roneo Alcatel: turnover, 1979 to 1984

1979	1980	1981	1982	1983	£'000 1984
29,702	28,874	29,870	28,930	29,974	34,045

Source: Roneo Alcatel.

Mailroom equipment is now Roneo Alcatel's principal activity accounting for 54 per cent of turnover in 1984. A breakdown of turnover for the same period showing the percentages accounted for by the supply and maintenance of postal franking machines in the United Kingdom, exports and other activities is at Table 4.2. Further financial information is at paragraphs 4.32 to 4.38.

TABLE 4.2 Roneo Alcatel: analysis of turnover, 1979 to 1984

Activity	1979	1980	1981	1982	1983	per cent 1984
Supply of postal franking machines in the United Kingdom	17.7	19.1	20.2	20.4	25.2	24.2
Maintenance of postal franking machines in the United Kingdom	7.1	8.9	9.9	11.1	11.5	11.4
Exports of postal franking machines	3.9	4.9	3.4	3.6	6.2	8.2
Other activities	71.3	67.1	66.6	64.9	57.1	56.2
Total	100	100	100	100	100	100

Source: Roneo Alcatel.

Note: Some figures may not add up to 100 per cent due to rounding.

Production

4.8. Production is the responsibility of the company's industrial division. All Roneo Alcatel's manufacturing and assembly facilities are situated in the Romford factory which is also the company's head office. Until mid-1982 the factory, which produced stencil duplicating machines as well as postal franking machines, was engaged in every manufacturing process required for the production of these goods. The decline of the stencil duplicator market and the introduction of the company's new range of machines required a

major reorganisation of the facilities, and in mid-1982 manufacturing of components ceased. Since then only limited manufacturing processes have been carried out at Romford.

4.9. Roneo Alcatel's volume of production of postal franking machines for 1979 to 1984 is set out in Table 4.3.

TABLE 4.3 Roneo Alcatel: annual production of postal franking machines, 1979 to 1984

	1979	1980	1981	1982	1983	1984
Integrated machines*	6,983	8,884	5,783	4,961	9,931	13,577
Meters	3,563	3,654	3,025	3,797	3,730	3,759
Bases	4,358	4,546	3,857	4,387	4,106	5,112

Source: Roneo Alcatel.

Note: The figures are total production volumes for both domestic and export sales.

* These figures include some re-conditioned units.

4.10. The principal activity at Romford is now the assembly of postal franking machines from bought-in components, and the testing and packing of the machines. In addition the company makes ink for postal franking machines and duplicators. Until June 1985 some duplicators were also assembled at Romford but these are now all imported from Japan. The factory was built between 1920 and 1977 and production is now being concentrated in the newest buildings. As at the end of 1984, 128 people were employed in manufacturing; of these approximately 80 were engaged in assembly of postal franking machines.

Productivity

4.11. In view of the major restructuring of its business Roneo Alcatel was not able to provide us with any data about trends in its productivity. It told us of the various steps which have been taken to improve efficiency not only in manufacturing processes but also in the use of factory and warehouse space. The company has introduced computer-based systems to control stock for production purposes and new systems in its service operation to monitor the efficiency of its machines and of its engineers. A number of administrative functions have also been centralised. The reorganisation and efficiency measures have resulted in a 53 per cent reduction in the total company workforce from 1979 to the end of 1984.

Technical development

4.12. The company and its predecessors have maintained a research and development (R & D) department since the early 1930s; its skills were predominantly mechanical until the 1970s when the need for staff with electronic skills was recognised. R & D work on the electronic meters was begun in 1979 by Roneo Vickers and to date about £4 million has been spent on design, development and their subsequent launch in the United Kingdom and overseas markets. Roneo Alcatel's R & D department employed a total of 51 people as at the end of 1984 and its expenditure for that year was £723,000. R & D work on postal franking machines is also undertaken by Roneo Alcatel's associated companies in France (SMH) and the United States of America (Friden-Alcatel). Although this work relates mainly to SMH's

and Friden-Alcatel's own ranges of machines, they are collaborating with Roneo Alcatel on some research projects and potential opportunities for co-operation are reviewed by the OEG.

Patent policy and licensing

4.13. Apart from transfers of technology within the CIT Alcatel group, Roneo Alcatel's general policy is to exploit its inventions itself although in appropriate circumstances it would license its technology if it were commercially advantageous to do so. Similarly it would be prepared to acquire licences to use other companies' technology if it were commercially advantageous to do so. Roneo Alcatel does not at present produce postal franking machines capable of interfacing with electronic mailing scales though its associated companies in France and the United States of America do so. Neither of these two companies licensed other suppliers of electronic mailing scales to use the technical information needed to interface with their postal franking machines.

4.14. As indicated in paragraphs 3.16 to 3.18, CIT Alcatel has entered into two cross-licensing agreements with Pitney Bowes Inc. These agreements, which cover both companies' world-wide patents, were entered into following actions by Pitney Bowes Inc in the United States of America and Canada alleging infringement by the CIT Alcatel group of Pitney Bowes Inc's patent rights.

Distribution arrangements

4.15. Roneo Alcatel's sales division is responsible for the supply of the company's complete range of products (see paragraph 4.26) and for maintenance. There is a separate sales force for each product group operating out of the company's six regional sales offices in Great Britain (see Appendix 2.3). There are normally three sales teams selling postal franking machines based at each regional office and from four to six salesmen in each team. The regional sales staff concerned with postal franking machines numbered 105 at the end of 1984 of which 81 were salesmen and the remainder supervisors or managers. There is a separate marketing department which is responsible for advertising, publicity, public relations and for developing price recommendations. Distribution in Northern Ireland is effected through an agent who also maintains Roneo Alcatel's machines in the province.

4.16. As indicated in paragraph 2.20, Roneo Alcatel markets its postal franking machines only by direct supply methods except in Northern Ireland. Its stencil duplicators have for many years been supplied through a large number of dealers as well as by direct supply and a range of copiers is now available through dealers.

4.17. Sales staff are paid a basic salary plus commission. Until January 1985 the basic salary was £1,000 per annum. With commission on sales, sales staff earned on average approximately £15,000 per annum. As from 1 January 1985 the structure of salary and commission was changed; the basic salary

was increased to £6,000 per annum and commission levels were correspondingly reduced.

Maintenance arrangements

4.18. Roneo Alcatel and its predecessors have provided maintenance and repair services for their postal franking machines since the inception of the business. The servicing organisation (excluding Northern Ireland) had a total of 294 staff as at the end of 1984 of whom 239 were engineers based at the regional offices. In addition to their salaries, service engineers are paid commission in respect of new business gained as a result of servicing visits. The company has an arrangement whereby certain repair estimates are forwarded to the appropriate sales manager and are sent from the servicing organisation only if an order for new equipment is not obtained.

4.19. Roneo Alcatel told us that the Post Office regulations on maintenance of postal franking machines (see Chapter 6) required it to ensure that its meters were maintained and required users to have meters maintained by the supplier. For this reason it made it a condition of supply that customers entered into maintenance contracts for meters and integrated machines. Customers who purchased bases could choose not to have them serviced by Roneo Alcatel. The company would, if requested, service bases on a call-out basis and it estimated that of its installed machines with detachable meters only 40 per cent had maintenance contracts for the bases. There was no third party maintenance of Roneo Alcatel's machines. Roneo Alcatel did not normally maintain machines supplied by other companies but had accepted responsibility for a few machines supplied by a distributor which went into liquidation.

Roneo Alcatel's terms of supply

4.20. Roneo Alcatel offers users the option of purchase, either outright or on hire purchase through a finance company, or of leasing on all its postal franking machines. The option of renting is available for its two smaller machines, the 2205R and the EFM7. Rental is offered directly by Roneo Alcatel whereas leasing is effected through third party leasing companies which purchase machines from Roneo Alcatel and then lease them on to users. Roneo Alcatel recommends two companies, Anglo Leasing Ltd (Anglo Leasing) and Lloyds Bowmaker Finance Group (Lloyds Bowmaker), but will accept any reputable or creditworthy company for this purpose. The value of Roneo Alcatel's supplies of postal franking machines in the United Kingdom by means of supply in 1983 and 1984 is set out in Table 4.4.

TABLE 4.4 Roneo Alcatel: supplies of postal franking machines in the United Kingdom by means of supply, 1983 and 1984

	1983		1984	
	<i>Value of postal franking machines supplied</i> £'000	%	<i>Value of postal franking machines supplied</i> £'000	%
Sales to end-users	2,846.3	41.1	3,596.4	47.5
Sales to leasing companies	3,974.1	57.4	3,842.1	50.7
Rental (attributed capital value)	99.3	1.4	137.5	1.8
Total	6,919.7	100	7,576.0	100

Source: Roneo Alcatel.

Note: Some figures may not add up to 100 per cent due to rounding.

4.21. As Table 4.4 demonstrates, leasing is a major form of supply for Roneo Alcatel. Paragraph 2.27 explains the types of leasing arrangements used in the supply of postal franking machines and gives an indication of the differing conditions attaching to such arrangements. Both Lloyds Bowmaker and Anglo Leasing offer Roneo Alcatel customers lease rental for a fixed term of usually six years though three- and five-year leases are available. Neither company now offers the option of a secondary period although Anglo Leasing did so until a year or two ago. The rental for the secondary period is fixed at one-twelfth of the rental for the first period and this option is still available on leases arranged with Anglo Leasing before it was agreed that Anglo Leasing should offer only closed-end agreements. Anglo Leasing also offers lease-purchase terms.

Second-hand equipment

4.22. Roneo Alcatel acquires or repossesses a number of postal franking meters, bases and integrated machines from users. Some are taken in part exchange for new equipment, some are returned after the expiration or termination of rental agreements, a few are obtained from the liquidation of bankrupt firms or companies and some are re-purchased from leasing companies at the termination of the lease period.

4.23. Roneo Alcatel's policy is to rebuild machines when they complement the company's range of new machines and its 2205R model is currently supplied as a refurbished machine. Roneo Alcatel told us that this machine supplemented its range at the bottom end of the market below its EFM7 machine. The company explained that it would not be consistent with its production or marketing objectives to offer any other refurbished machines. New 2205 machines are produced only for the export market. No other second-hand machines are at present offered for sale by the company and any used machines, other than 2205s, which are acquired are usually destroyed.

Spare parts

4.24. Roneo Alcatel does not supply meters or integrated machines to customers who wish to make their own arrangements for servicing but it will supply customers who wish to make their own arrangements for servicing the bases. Roneo Alcatel considers customers or third parties would have no cause to use spare parts for meters (including integrated machines) otherwise than in circumstances which would amount to a breach of the Post Office's conditions of use. Spare parts are available to customers who wish to service their own bases, but Roneo Alcatel rarely receives such requests and assumes that customers usually arrange for the company to carry out repairs.

Imports and exports

4.25. Until the end of 1982 Roneo Alcatel imported some postal franking machines from Francotyp-Postalia. The company also has a considerable export trade in postal franking machines amounting to about 50 per cent of its production. Exported machines are sold to Roneo Alcatel's associated companies in France, the United States of America, Sweden, Norway, Pakistan, South Africa, the Netherlands, Australia and Belgium and through its authorised distributors in other Western European countries and elsewhere.

Other products

4.26. In addition to its range of postal franking machines, Roneo Alcatel supplies the following other products in the United Kingdom:

- stencil and offset duplicating machines;
- plain paper copiers;
- weighing scales;
- cheque signers;
- facsimile equipment supplies;
- letter openers; and
- folders and inserters.

Practically all this equipment is purchased by Roneo Alcatel from associated companies within the group or is made for Roneo Alcatel and sold under its name. Some of the equipment is exported, some is sold on the home market by the direct sales force or to office equipment suppliers for retail sale.

Pricing policy

4.27. Roneo Alcatel maintains an internal price list which includes details of the prices and, where applicable, rental terms with maintenance charges of all machines and ancillary supplies. As explained in paragraph 2.32, Roneo Alcatel does not provide price lists but some information on prices is occasionally available in trade magazines. All postal franking machine sales in Great Britain are made by the company's own sales representatives. Price information can be obtained directly from the company if specifically requested.

4.28. Roneo Alcatel told us that the principal factors taken into account in determining prices are the price of competitive products, having regard also to customers' perception of the relative attractions of competitive machines, and the need to recover total costs of sales. Prices are kept under constant review but detailed reviews are conducted annually, between July and October, with a view to planning any price increases for the following financial year. The company stated that, in view of its objective of ensuring that its machines were competitively priced, there was no price increase in January 1984. Prices and discounts are the responsibility of a United Kingdom sales division management committee which has full authority. We were told that the authority of the board of Roneo Alcatel or the OEG is neither sought nor required. When new machines are introduced the factors taken into account are:

- (a) price of the old machine which is being replaced;
- (b) added features of the new machine;
- (c) the estimated value of those new features to the marketplace;
- (d) prices of competitors' machines; and
- (e) costs.

4.29. Roneo Alcatel's standard list prices for its postal franking machines as at April 1985 are set out in Appendix 2.1. Appendix 2.1 also indicates yearly rentals and annual contract maintenance charges. Roneo Alcatel's price trends are set out in Table 2.10 and are discussed in paragraphs 2.36 to

2.39. The company's new range of electronic postal franking machines was launched in 1983 at higher prices than the machines they replaced. A small stock of the company's previous range of electro-mechanical machines is still being sold (405, 505 and 605 models). Over the last ten years prices of these have either increased in line with inflation or, like the 2205R reconditioned machine, have fallen in real terms. Contract maintenance charges for the company's old range of electro-mechanical machines (with the exception of the 2205) have risen substantially more than the RPI as has the minimum call-out charge.

4.30. Export prices take account not only of Roneo Alcatel's own production and selling costs and the need to provide a reasonable return on capital but also of the following factors:

- (a) the distributor's costs;
- (b) the need to set prices at a level which enables the distributor to compete effectively;
- (c) the volume of business with the distributor; and
- (d) in major markets with a particularly strong domestic supplier, the need to maintain a presence in the market.

4.31. The company has separate price lists for most major export markets and a standard export price list for other markets. Export prices to its independent distributors are usually similar to transfer prices to its associated companies although in some cases competitive conditions and volume requirements result in independent distributors paying less for their machines than associated companies. Wholesale prices to overseas distributors are significantly below United Kingdom retail prices but, where data are available, above the cost of production in the United Kingdom, before allowing for marketing, administration and R & D costs.

Accounting system

4.32. Roneo Alcatel told us that it believed its computerised accounting system was typical of most businesses. The basic system is designed to provide accurate records in accordance with generally accepted accounting principles.

4.33. The company described its annual budget process as a key financial control mechanism, not only in controlling and evaluating performance but as a means of communicating strategy and motivating personnel. The budget is prepared by divisional management but is reviewed by the company's management board. The review focuses on all important aspects of the business, including sales, revenue and capital expenditure, cash flow and R & D.

4.34. There is a monthly management reporting procedure which compares actual performance against budget. This is circulated to and approved by the managers responsible and reviewed by the board.

Exceptional features of period reviewed

4.35. Roneo Alcatel was formed in June 1980 as a subsidiary of CIT Alcatel for the purpose of acquiring part of the office products business of Roneo

Vickers. The first eighteen months of the period we have examined fell before the business and its accounting records came under the control of its present management. Consequently there were difficulties in tracing adequate accounting information for this period. Substantial changes were made by the new management and are still in progress, including not only alterations to the accounting system, but organisational changes resulting from the decline of the stencil duplicator business and the need to put the company on to a stable footing.

4.36. The directors and staff of Roneo Alcatel were helpful and co-operative in the task of providing the most realistic and relevant financial information available in the circumstances. So far as it was possible, the financial value of redundancy payments, unutilised factory space and other reorganisation costs together with income in the form of subsidies from the parent company have been segregated from operating results.

4.37. The operating results of Roneo Alcatel Ltd are shown in Table 4.5. A summary of the source and application of funds for the period from 1 July 1980 when the company was formed and which is taken from the audited accounts is given in Appendix 4.2.

TABLE 4.5 Roneo Alcatel Ltd: return on sales and capital employed

<i>All reference and non-reference products</i>						
	1979	1980	1981	1982	1983	£'000 1984
<i>Historical cost basis</i>						
Revenue	29,702	28,874	29,870	28,930	29,974	34,045
Factory or import cost	(19,707)	(20,271)	(19,154)	(18,015)	(19,101)	(21,428)
Gross profit	9,995	8,603	10,716	10,915	10,873	12,617
Gross profit as a % of revenue	34	30	36	38	36	37
Research and development, marketing, administration and other costs	(10,954)	(11,916)	(12,823)	(11,858)	(12,641)	(12,581)
Operating profit/(loss) before special items, interest and taxation	(959)	(3,313)	(2,107)	(943)	(1,768)	36
Average capital employed	19,182	19,492	21,060	24,623	25,869	23,567
Operating profit/(loss) before special items, interest and taxation as a % of revenue	(3)	(12)	(7)	(3)	(6)	—
Return on capital employed (%)	(5)	(17)	(10)	(4)	(7)	—

Source: MMC study from Roneo Alcatel information.

Note: Roneo Alcatel Ltd does not prepare current cost accounts.

The profitability of the reference products and services

4.38. Roneo Alcatel co-operated in carrying out an illustrative exercise to allocate profits between reference and non-reference activities and to compute returns on capital invested in those activities. The company expressed reservations about the accuracy of information derived from allocating substantial elements of common costs between its reference and non-reference activities and in differentiating between the financial results arising from the maintenance of reference products and from the supply of reference products. The company regarded the subjects of the two references as a single business and

was especially concerned that the allocation of selling and administration expenses between the two produced an over-statement of the profitability of the supply of reference products. This view was based on the fact that in fixing maintenance charges, no allowance is made for the recovery of such indirect expenses. We felt it was more correct to make an allocation to maintenance for all overhead expenses and Tables 4.6 to 4.8 which show the results of the various activities have been prepared on that basis.

TABLE 4.6 Roneo Alcatel Ltd: illustrative return on sales and capital employed
All reference products supply (and consumables)

<i>Historical cost basis</i>	1979	1980	1981	1982	1983	£'000 1984
Revenue	5,249	5,521	6,021	5,907	7,544	8,235
Standard factory or import cost	(2,452)	(2,493)	(2,674)	(2,378)	(3,048)	(3,214)
Gross profit	2,797	3,028	3,347	3,529	4,496	5,021
Gross profit as a % of revenue	53	55	56	60	60	61
Research and development, marketing, administration and other costs	(2,272)	(2,763)	(2,638)	(3,444)	(3,097)	(3,671)
Operating profit/(loss) before special items, interest and taxation	525	265	709	85	589	1,350
Average capital employed	3,319	3,289	3,741	4,501	5,089	5,123
Operating profit/(loss) before special items, interest and taxation as a % of revenue	10	5	12	1	8	16
Return on capital employed (%)	16	8	19	2	12	26

Source: MMC study from Roneo Alcatel information.

Note: Roneo Alcatel Ltd does not prepare current cost accounts.

TABLE 4.7 Roneo Alcatel Ltd: illustrative return on sales and capital employed
All reference products - maintenance

<i>Historical cost basis</i>	1979	1980	1981	1982	1983	£'000 1984
Revenue	2,113	2,567	2,958	3,203	3,444	3,871
Standard cost	(1,711)	(2,070)	(2,084)	(2,235)	(2,408)	(2,637)
Gross profit	402	497	874	968	1,036	1,234
Gross profit as a % of revenue	19	19	30	30	30	32
Marketing, administration and other costs	(759)	(953)	(1,037)	(1,666)	(1,629)	(1,792)
Operating profit/(loss) before special items, interest and taxation	(357)	(456)	(163)	(698)	(593)	(558)
Average capital employed	107	93	209	358	352	357
Operating profit/(loss) before special items, interest and taxation as a % of revenue	(17)	(18)	(6)	(22)	(17)	(14)
Return on capital employed (%)	—	—	—	—	—	—

Source: MMC study from Roneo Alcatel information.

Note: Roneo Alcatel does not prepare current cost accounts.

TABLE 4.8 Roneo Alcatel Ltd: illustrative return on sales and capital employed

All non-reference products including exports

						<i>£'000</i>
<i>Historical cost basis</i>	<i>1979</i>	<i>1980</i>	<i>1981</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>
Revenue	22,340	20,786	20,891	19,820	18,986	21,939
Standard factory or import cost	(15,544)	(15,708)	(14,396)	(13,402)	(13,645)	(15,577)
Gross profit	6,796	5,078	6,495	6,418	5,341	6,362
Gross profit as a % of revenue	30	24	31	32	28	29
Research and development, marketing, administration and other costs	(7,923)	(8,200)	(9,148)	(6,748)	(7,105)	(7,118)
Operating profit/(loss) before special items, interest and taxation	(1,127)	(3,122)	(2,653)	(330)	(1,764)	(756)
Average capital employed	15,756	16,110	17,110	19,765	20,428	18,088
Operating profit/(loss) before special items, interest and taxation as a % of revenue	(5)	(15)	(13)	(2)	(9)	(3)
Return on capital employed (%)	—	—	—	—	—	—

Source: MMC study from Roneo Alcatel information.

Note: Roneo Alcatel does not prepare current cost accounts.