



The International Building Materials Group

# PERFORMANCE AND GROWTH

THE IRISH TIMES

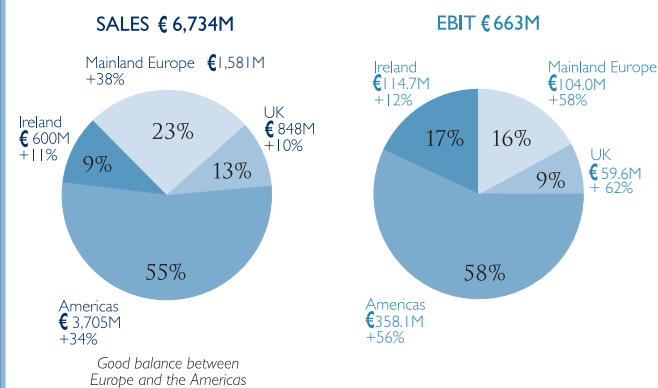
Business 2000

MILLENNIUM EDITION

CRH is one of the top four building materials groups in the world by market capitalisation. It is also one of Ireland's largest industrial companies. The CRH group is the leading producer of cement, aggregates (stone chippings), asphalt, readymixed concrete, concrete blocks, pavers, rooftiles and clay bricks.

The company operates from over 1,200 locations in eighteen countries employing more than 40,000 people in Ireland, Britain, Mainland Europe, North and South America. While the bulk of its activities are outside Ireland, CRH is still very much an Irish company. A small head office team in Dublin sets the broad strategy for the group.

## 1999 REGIONAL PERFORMANCE



The piecharts show the breakdown of sales and trading profits by geographical area during 1999. Ireland accounted for 9 per cent of sales and 17 per cent of profits during the year while 58 per cent of profits were generated in the Americas on 55 per cent of sales. The overall profit margins (profits as a % of sales) rose from 8.67 per cent in 1998 to 9.85 per cent in 1999.

There are two ways in which a company can grow – organically and inorganically. Organic growth is internal growth financed from the reserves of the company. Inorganic growth occurs when a firm acquires other companies, merges with other firms or forms alliances. CRH has expanded through both organic and inorganic growth.

CRH is a decentralised group with many subsidiary companies operating under a wide range of names. Its strategy has been to build leadership positions in regional and local markets. The organisation has done this by acquiring existing mid-sized companies, continuously improving their performance, adding to their productive capacity and efficiency and developing new products and markets. Occasionally larger companies are acquired in new geographical or product areas. These become platforms on which to build future growth.

The Group's activities fall into three broad categories:

**Primary Materials** including cement, aggregates, asphalt and readymixed concrete.

**Building Products** such as precast concrete products, concrete blocks, pavers, bricks, tiles, glass and security fencing.

**Distribution** of materials through DIY (Do-it-Yourself) stores and builders' providers or merchants.

CRH is quoted on the stock exchanges in Dublin and London and on the NASDAQ exchange in New York. Its market capitalisation – what it would cost to buy all the shares at the current share price – is about IR£6 billion (€7.4billion) at a share price of € 18.70.

In 1999 the total sales revenue of CRH was £5,303m (€6,733 m) with a trading profit of £522m (€663.4 million). By 1999, CRH had achieved sales of some 250 times its 1970 turnover of £21 million.

A shareholder who owned shares worth £78.76 (€100) in 1970 and who reinvested his dividends would have owned shares worth £28,823 (€36,598) at the end of 1999. This represents a 22.6% compound annual growth in total shareholder return, which in effect is the capital appreciation of the share value plus dividends re-invested over the period.



Pike industries is a leading aggregates and asphalt company in New England. This paving crew, with over 100 years of combined service, is laying hot mix asphalt on Route 4 in Rutland, Vermont.

## TOM ROCHE ENTREPRENEUR

Tom Roche was sixteen years of age when he and his brothers established their first business in 1932 in Inchicore, Dublin. It was a sand and coal business with three employees and a 1.5 ton truck. The business made about £24 a week and was renamed Roadstone Ltd in 1949.

In 1970 Roadstone merged with Cement Ltd which had been established in 1936 and was then the sole producer of cement in Ireland. Roadstone was mainly involved in the manufacture and supply of aggregates, sand, readymixed concrete, mortar and asphalt. The merger of the two companies created Cement Roadstone Holdings, now known as CRH.

A lifelong entrepreneur Tom Roche viewed his success in terms of his creations. Even in semi-retirement he was the prime mover behind Dublin's East Link and West Link toll bridges. But CRH was his main creation. At the time of the merger the only overseas business conducted by the new group was the export of some aggregates by Roadstone to Britain from Arklow. When Tom Roche retired as chief executive of CRH in 1974 the company had already expanded into Britain and the Netherlands. He remained a non-executive director until 1986 when he was appointed honorary President.

A shy man who shunned publicity Tom Roche was known best for his achievements. On his death in July he was described in *The Irish Times* as "one of the foremost entrepreneurs of his generation".

## CRH – A LEADING INTERNATIONAL COMPANY

The construction industry is typically a cyclical one with demand fluctuating up and down. Activity in the sector is very sensitive to changes in economic performance in any single market. In Ireland in the 1970s CRH was a big fish in a small pond. It was almost totally dependent on the fortunes of the Irish construction industry and its fortunes varied with those of the Irish economy.

During the early 1970s CRH expanded into Britain and the Netherlands. It acquired a small concrete products company in Liverpool and a Dutch builders' merchants company which also operated a DIY store. In 1977 a strategic decision was taken to expand

the existing overseas operations and to invest in similar business sectors in other countries, principally in Mainland Europe and the US. By investing in a number of countries CRH has sought to spread its risks and opportunities but it remains focussed on one industry.

CRH is a transnational organisation. A transnational is a company with its headquarters in one country and branches in many others. The Group's basic objective is to be an international leader in its field, delivering the best possible return to its shareholders. It has set a vision for itself of being "a leading international building materials group delivering superior performance and growth".

## THE ACHIEVEMENT OF INTERNATIONAL EXPANSION

A number of key elements drive the effort to achieve the objectives of superior performance and growth by CRH:

- The Group's wide spread across countries, regions and construction sectors helps to smooth the effects of industry and



Tom Roche

economic cycles. A downturn in one area is likely to be offset by an upturn somewhere else. That wide spread of activities creates opportunities for further growth. Each of the Group's diverse operations across 18 countries is seen as a platform on which to build.

- The growth process is for the most part driven by 14 development teams that operate worldwide looking for potential acquisitions and investment opportunities. The aim is to build up leadership positions in local markets by either adding to existing activities or moving into new markets. Most of the acquisitions are relatively small. They are often family businesses that fit with the Group's existing operations.
- With its deep knowledge of the construction industry CRH can bring new products, management and financial resources to help develop and expand the businesses it acquires. It is organised on a product basis with a regional focus so that it is easier to share expertise across the Group – expertise that can be tailored to suit local product or cultural needs.
- Measurement is seen as another key element in the success of CRH. It uses its wide knowledge of the construction industry to set targets and measure the performance of the businesses within the Group. In that way it seeks to standardise best practice across the Group encouraging local managers to learn from their colleagues elsewhere in the Group.



Roadstone Dublin, Ireland, supplied 260,000 tonnes of blacktop and of stonefill and 20,000 cubic metres of concrete to the Balbriggan by-pass, which comprises 13 kilometres of motorway, six kilometres of side roads, eight bridges and three interchanges. This forms part of the main route from Dublin to Belfast.

- Good internal communication is seen as essential to achieving the Group's objectives. To ease the transfer of information and expertise across the Group the top 100 managers are brought together each year to agree strategy and debate important issues. These meetings also help managers to get to know one another so that a manager can pick up a phone and call or visit a colleague if he or she has something new to teach or to learn.
- People are a key element in the Group's success. They share a common purpose and set of values and are deemed to have responsibilities both to CRH and their local companies. There is a strong mix of managers bringing a range of skills to the Group. Some are the owner-entrepreneurs who join the Group when their companies are acquired by CRH. They are used to questioning the status quo. Other managers are developed within the Group and are given the opportunity to grow with it. Yet another group of managers specialise in identifying and managing growth opportunities either by way of acquisition or by expanding existing businesses within the Group.

## HUMAN RESOURCE MANAGEMENT

*"The challenge for CRH is to be a Group that attracts and retains people not just because it is an industry leader but also because it provides a culture and working environment which creates opportunities for all employees to grow personally and professionally."*

This quote from CRH's annual report for 1999 highlights the importance it places on human resources in achieving its objectives. Operating on a highly decentralised basis means overall performance depends on the activities and decision making of a large number of people.

The management of human resources is set within a very well defined strategy that seeks to promote a high degree of local responsibility and initiative while at the same time allowing for a transfer of knowledge, expertise and resources across the Group. It recognises the wealth of experience that exists within its workforce.

While all employees are seen as important, special effort is devoted to developing future leaders within the Group. Future human resource needs are assessed and planned for. Having identified a need for a larger pool of international managers CRH now sends some of its graduate trainees abroad to work with experienced mentors for a period.

In Ireland, CRH seeks to attract the best of the current generation of graduates. With the booming economy opening up a wider range of job opportunities the Group is finding it more difficult to do so. CRH has put together a graduate recruitment brochure to raise its profile among students. Copies can be obtained from Ann Fitzpatrick, CRH, Belgard Castle (e-mail: afitzpatrick@crh.ie).



CRH workers in the Netherlands, Poland, and Chile (below).

## CONTINUOUS IMPROVEMENT AND BEST PRACTICE

Small central management teams provide overall support, financial control and strategic direction. They also provide channels through which local subsidiaries can learn from one another. Some subsidiaries will have better ways of doing things than others. The best possible way can be described as "best practice". It can apply to areas such as information technology (IT), finance, human resources, environment, health and safety etc.

CRH seeks to spread such best practices throughout the Group as a cornerstone of its constant search for improvement. It sees success depending crucially on being the best at everything it does in manufacturing, customer service and in community responsibilities and it recognises that it is people that make things happen.

An article in a recent Group magazine stressed that "our strength is in what we know". It added, "Every reader of this article has some special area of expertise. Or you may have yet unexplored ideas on how to do things better. Either way, you have valuable knowledge to contribute. For CRH to excel into the future we all must share best practice even more than before."

## COMMUNICATION SYSTEMS

CRH communicates with customers, potential customers, suppliers, employees, government agencies and the public at large through a wide range of channels. The internet or world wide web is just one such channel that CRH is making use of.

CRH is also developing an exclusive internal internet – or intranet. This allows for the dissemination of information across the Group on items such as best practice, product groups, bulletin boards and job opportunities. CRH believes an intranet has potential for linking people and information internally. Normally an intranet can only be accessed by people within the Group but it is possible to extend access to other individuals or groups such as suppliers or customers. *Note: not in our plans at present.*

Email is another means of communication widely used within CRH. The content of internal emails is being encrypted (encoded) to ensure secrecy and ensure that valuable or competitively sensitive company information doesn't fall into the wrong hands.

CRH is at the forefront of making the best use of the world wide web. The new CRH website has been up and running since May 1999 and was re-designed in May 2000. It has attracted well over a million visits during its first year. The site is providing information on the group including financial data, annual reports, and the latest news as issued in press releases and will shortly include information on principal subsidiary companies. **Look for CRH on [www.crh.com](http://www.crh.com)**

## TASKS AND ACTIVITIES

- 1 Explain:
  - a. Cyclical industry
  - b. Human resources
  - c. Subsidiary
  - d. Quoted company
  - e. Market capitalisation
- 2 Identify two examples of how CRH manages its human resources to achieve a given objective. In each case outline the objective.
- 3 Outline three ways in which CRH expands its operations.
- 4 Explain the difference between the internet and an intranet. Suggest three ways in which a company can benefit from having an intranet.
- 5 Describe three advantages that CRH enjoys as a result of being a transnational company.
- 6 Visit the CRH web site at [www.crh.com](http://www.crh.com).
  - (a) Find out the eighteen countries that the Group operates in. In what continents are there no subsidiaries?
  - (b) Read the section on Ireland in the annual report – under "Materials-Europe".

