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## BUSINESSCLUB

### CASE STUDY

# Stonemason seeks to carve a new niche

It made its name restoring historic landmarks, but CWO is now setting its sights on luxury new-builds. Philip Smith reports

**S**USSEX-based stonemason CWO is looking to boost its income by 50pc over the next three years. The firm, which made a name for itself restoring some of the nation's top landmarks, wants to grab a bigger slice of the £3.5bn a year that managing director Bernard Burns says is spent on restoring and conserving the nation's famous, but crumbling, buildings and historic monuments.

It will mean casting its net wider than just the South East of England, from where the bulk of its business currently comes. But geographic diversification will bring its own challenges: whether to increase its highly skilled but expensive direct labour force or subcontract.

CWO is also looking to pick up more work in the booming sector of high-value, new-build housing: the multi-million-pound palatial homes of the new super-rich flocking to the UK. "There's a lot of money about," said Burns. "Some of these homes cost millions to build – and the biggest expense is usually the stonework."

CWO was formed in 1965 by the Dean and Chapter at Chichester Cathedral to undertake restoration work. With its skilled workforce, Cathedral Works Organisation, as it was then called, began to take on other contracts to finance the



**Precious stones:** CWO's Bernard Burns wants a slice of the high-value new-build sector – 'The biggest expense is usually the stonework,' he says

massive 40-year project. But when the firm found itself in financial difficulties, cathedral trustee Geoffrey Osborne took it, and its £1.7m of liabilities, into his growing construction and civil engineering business.

Lack of investment meant that this new stonemasonry section was never to go to achieve its full potential while being part of the bigger group, said Burns, 49. "It needs constant investment to keep up with competitors," he added.

So the former carpenter, who had risen through the Osborne ranks, ending up heading CWO, recommended a management buyout (MBO) of the £5.3m income and, at the time, loss-making concern. The MBO was

completed in October 2006.

Today Burns holds 34pc of the shares, chairman Malcolm Diamond 17pc and the remaining 49pc by six senior managers. CWO has since spent £150,000 on a state-of-the-art computerised saw and improving health and safety. Burns is now turning his attention to growing sales.

Income this year is £7.9m, creating pre-tax profits of more than £300,000 from prestige projects such as restoring St George's Chapel at Windsor Castle and The Queen's Gallery at Buckingham Palace (it has a Royal Warrant) to a major £3.5m, 18-month refurbishment of the Monument in the City.

"We do 350 jobs a year," said Burns.

“The average price is £22,000, so it’s not a question of us only doing big projects. We’ll take a job for as little as £50, such as repairing a front step.” Burns expects CWO to reach its first three-year target of a £10m turnover ahead of schedule, but the challenges for the Chichester-based business are only just starting if he is to realise his next milestone: income of £15m in the next three years.

“The question is do we grow around the skills we have and expand through acquisition or do we expand our skills into areas where we don’t currently work?”

CWO has satellite offices in London, Kent and Dorset. “We want to move further into Devon and Wiltshire and have a bigger push in Kent.”

Opening in the Midlands or the North is another option but that, said Burns, will most likely mean acquisition – a costly strategy not least because CWO has still to settle up with previous owners Osborne, following the MBO.

“We still have to finish paying for the

business. We paid one third as a lump sum and then had the rest interest-free for two years. We are currently trading on our own cash – we don’t use invoice discounting – and in the next six months I want to use that to release all our

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**“We’ll take a job for as little as £50 such as repairing a front step”**

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charges from Osborne and the bank. That will allow us to take the business forward.”

With wages being the biggest cost – the stone being bought by the client and stored by CWO while it is shaped – employing an expanded workforce will have a big impact on the finances. Of the current 94 staff, more than 75 are skilled

craftsmen, many having risen from CWO’s internal apprenticeship scheme.

“It costs £90,000 to train an apprentice over three years and with three to five in training at any one time, it’s a big challenge keeping them all busy,” he said. “But our reputation has been built on the quality of our staff, so we are not keen to start subcontracting work.”

Burns is also considering expanding those skills – the firm currently specialises in sandstone and limestone – into the likes of granite and marble, allowing it to pick more commercial work.

But the biggest push will come from the new-builds. “We are seeing a massive rise in the very large, high-value residential properties and we are currently used as subcontractors to carry out the external facade work. But why can’t we become the main contractor? We have all the project and site management skills here. We would then subcontract the roofing and scaffolding. That’s one area where I can see we can grow.”

## EXPERT VIEW



### Gerard Burke

Director of business growth and development programme, Cranfield School of Management

CWO should be competing on quality, not price. It should have the best people since the craftsmen must be proud of working on these high-profile projects and, through effective marketing and PR, CWO should be clear leader in its niche. Given this position, I’d expect profit to be much more than the current 3.3pc.

Growing the top line, without first improving profitability, simply creates a bigger business which is more difficult to run and still doesn’t generate enough profit. The first place to look would be pricing. Price is highly unlikely to be the deciding factor in the very prestigious projects. Is CWO charging enough given its supreme quality? Is it charging for all the work done and is it estimating projects accurately? CWO should also look at the mix of work. I’d be surprised if it makes any money on the £50 jobs so it should up prices or stop doing them. Once the profitability has been improved, Bernard Burns has a fantastic opportunity. He needs to articulate where he wants to take CWO and develop a robust plan of how to get there.



### Ian A Legg

Regional commercial director, HSBC

Managing expected growth will clearly be a challenge for CWO. Pricing new work, agreeing sensible contract terms and collecting in a range of debtors are all crucial to achieve its aim of paying off residual debt from the MBO and freeing up funds for investment.

Invoice finance may be an appropriate part of that package, given that the business has a well spread ledger and less contractual arrangements in place. There is access the next working day to up to 85pc of eligible invoices with the balance available when the customer pays in full.

By employing an invoice financier to manage/chase its debtor book and to insure against bad debts, CWO will free up time now spent on collecting money and instead make a decision on how much or how little risk it will want to take on each individual debtor. Debtor insurance will also protect the balance sheet when the company is looking to enter new markets. CWO may also be able to use the target company’s own debtor book to fund the purchase price, a plus in funding acquisitions.



### David James

Director, School of Growth, Innovation and Enterprise, Henley Management College

The list of projects worked on reads like a who’s who of Britain’s greatest buildings. But no matter how well respected the company may be and how high the standard of its work, funding growth into other regions is likely to be tricky.

Moving towards being a main contractor seems a great idea and builds on their core competence of stone masonry. This will need CWO to scale up on management skills but should not be too onerous bearing in mind the current competitive climate. This should build them scale and allow the company to release resources to be ploughed into taking their core business into other regions across the UK. They can then use these as flagship projects for additional contracting work in the luxury end of the market.

Finally, for a bit of fun and superb for PR, I think they should open their HQ at Chichester into an experiential architecture/ masonry design emporium to showcase all that is best in British historic building design and position CWO as leaders in the field.