HOTELIERS AND HOTELS: CASE STUDIES IN THE GROWTH AND DEVELOPMENT OF U.K. HOTEL COMPANIES 1945 - 1989

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ABSTRACT

The aim of this thesis is to establish the characteristic features of hoteliers and hotels in the main sectors of the U.K. hotel industry, and to demonstrate, through case studies, patterns of growth, development and performance in hotel companies in the period 1945 - 1989. The year 1945, which marked the end of the Second World War, is a natural start point for such a work whilst by 1989 the U.K. hotel industry had established a standard of hospitality combined with general management skills at least equal to and in many cases superior to that offered on the Continent of Europe and throughout the New World.

Subsequent to outlining the economic context of the industry in the introductory chapter, the thesis demonstrates the growth and development of the industry by charting the progress of twelve separate hotel companies. These are divided into three groups - hotels in the independent sector, hotel companies which operate throughout the U.K. and whose basis for growth has been the underlying asset value of their property portfolio linked to their ability to operate in a specialised retail environment and hotel companies which have grown principally as a result of international expansion and diversification.

The final chapter is directed towards an evaluation of the case studies and to factors which have been central to the growth and development of each company.

INTRODUCTION

Although hotels and inns have existed for centuries it is only in recent times that the hotel industry has come to feature as a principal component of the service sector of the economy. This is as a result of the growth and development of the industry in the post-Second World War period and it is this expansion which is the subject of the thesis. The purpose of the thesis, therefore, is to trace and analyse the reasons for the growth and development of the U.K. hotel industry since 1945.

Traditionally, the hotel industry in the U.K. was dominated by independent hotels, often family controlled, which sought to provide accommodation, food, liquor and latterly leisure to their various markets (Ch. 2). The post war period, however, has seen the emergence of a number of large firms which operate groups of hotels and it is these firms to which much public attention is now paid, particularly those which operate as Public Limited Companies. Furthermore, other large firms, especially national brewers, have sought to diversify into the hotel industry and have built up chains of hotels which form separate divisions within their organizations (Ch. 3). Initially these developments were related principally to internal structural changes in the British business sector. More recently, the international dimension in the hotel business has increased and is considered in Chapter 4.

Although independent hotels have lost their dominance and in recent years have declined in number by at least 10,000, they still form an important part of the industry. A study of such hotels was deemed, therefore, to be essential. One exemplar was chosen from England, Scotland and Wales together with one from central London.

Of special importance is the management style adopted by typical hoteliers in this sector. This is detailed in each instance and the profiles have been constructed in the form of case studies which demonstrate not only how successful hotels operate but what common factors can be identified.

Turning to larger firms within the U.K. market, companies which have made a major impact on the post war growth and development of the U.K. hotel industry were identified. Each of these firms recognized the property aspect of hotel ownership together with the potential of owning freeholds and long leaseholds with regard to their appreciation in value. The growth and development of each was recorded, attention being paid to the various management techniques which were employed in order to improve profitability.

The third group of companies to be studied represented those firms whose operations carried an international dimension, usually subsequent to building a U.K. portfolio.

These firms represent the largest in the U.K. industry and, by the end of the period under review, some of the largest in the world.

There is a total of twelve case studies, each one of which not only profiles the growth and development of an individual firm but also indicates the common strands which help form a successful hotel operation. The conclusion identifies the factors which form the basis for success in the hotel industry. These include a consideration of the importance of property assets, the importance of location, the methods and timing of acquisitions together with the significance of professional advice.

Clearly, in order to develop such case studies, access at proprietor, chairman and senior director level was essential. This was achieved in all twelve studies and indeed the willing cooperation of those at all levels within the industry was most heartening and has resulted in a thesis more credible than one conducted merely as a desk based study. Interviews usually lasted for about an hour, in some cases two hours or more and in the independent over a period of three days each. A note of the methodology and selected biographical details is contained in Appendix 1.

In two instances video recordings, each of some 45 minutes duration, were made and these are available for inspection and study.

An unrivalled commentary of the affairs of the period proved to be the library of The Financial Times to whom acknowledgement has already been made. The voluminous press cuttings files on the individual companies provided an accurate backdrop to the text and served as a useful cross reference to other sources.

CHAPTER 1 THE DEVELOPMENT OF THE UK HOTEL INDUSTRY

In the period 1945 to 1989 the U.K. hotel industry changed considerably. Change, however, tended to be gradual, mirroring the upward trend in disposable incomes and the growing use of hotels by businesses and business people in general. Apart from the Hotel Proprietors Act of 1956, the formation of the Hotel and Catering Economic Development Committee and the Hotel and Catering Industry Training Board, both established in 1966, there was little government legislation which was industry specific.

It is clear, however, that The Development of Tourism Act (1969) is a watershed on either side of which the general environment for, and consideration of, the UK hotel industry changed quite significantly. Before the Act the industry attracted little government attention or support, and the incentives to hoteliers to improve their facilities were limited. After the Act the industry embarked on a notable phase of expansion and improvement.

Although this expansion was temporarily slowed by the recessions of 1973 - 1975 and 1980 - 1981, the industry made major strides during the nineteen-eighties and by the end of the decade could be considered a mature industry in which major companies such as Trusthouse Forte, Bass and Ladbroke each controlled large groups of hotels in worldwide locations.

1. The Industry at the End of the War

The Second World War, 1939 to 1945, had a dramatic effect on the U.K. hotel industry. The majority of hotels were requisitioned by the government and even by November 1945, 2,699 hotels remained under government control. [1] Three quarters of these were subsequently released in the following nine months, most of them having suffered various degrees of dilapidation. Little or no refurbishment of buildings and contents had been possible during the war and the principal aim of the industry in the period 1945 to 1950 was a gradual return to normality and the rehabilitation of buildings and equipment. This had to be achieved against a background both of large increases in allied military personnel stationed in the U.K. and the even more formidable problem of severe shortages both in goods and building materials essential to the efficient operation of hotels. Added to this was an increasing tendency for central government intervention in the affairs of the industry.

Indications of the severity of shortages may be seen from the following examples. Under a government order of March 1946 it became an offence for an hotelier to serve bread with a main meal except at the specific request of the customer. The severity of this restriction was followed, in January 1947, by bread rationing, a measure that had not been necessary throughout the entire war years. [2]

At the end of the war equipment for accommodation was in such short supply that in March 1946 the government announced a scheme of allocation of sheets, blankets and mattresses which would allow at least some hotels to open for the summer season. Furthermore, hotels had to comply with rigidly enforced allocations of fuel and power. It was not until 1950 that hotels were allowed to display illuminated signs overnight. It was not until September 1950 that soap was de-rationed and food rationing did not end until June 1954. [3] These restrictions, which forty years on seem scarcely credible, give an indication of the exigences to which the industry was subjected in the immediate post-war period.

It has to be stressed that in the immediate post-war years the hotel industry still displayed the heterogeneous nature that had prevailed in previous centuries. Hotel groups did exist but were very much in their infancy. The three best known were the Savoy Hotel Group, Trust Houses and the

British Transport Hotels. The Savoy Hotel Group was small, but owned and operated four of the leading hotels in London. It operated at the top end of the market and, despite a relatively poor profit performance, was regarded almost as a national institution. In contrast, Trust Houses, formed originally in 1903, was well known and had grown to operate around 200 hotels throughout the U.K. by 1949. These, however, tended to be of a relatively modest standard without the trappings of affluence common in today's luxury establishments. [4]

The major influence on the development of the industry, and especially influential for hotel groups at this time was the 1947 Transport Act, which created the British Transport Commission. This subsequently brought into public ownership 54 hotels which had previously belonged to the principal railway companies in the U.K. British Transport Hotels came to the forefront of U.K. hotel development, and at that time introduced training schemes considered to be the best in the industry, which generally paid scant heed to training and staff development.

Yet apart from these developments the industry was mainly composed of independent hotels, often family controlled, which served local communities throughout the year and attracted holidaymakers during the summer months. At this stage in the development of the U.K. hotel industry international firms had yet to penetrate the market. For the most part these organisations were at a formative stage of development in their country of origin (in most cases this being the United States of America). Simultaneously the major brewing firms in the U.K. were concentrating their efforts on the rehabilitation of their core businesses. It was not until the 1960's that they perceived the hotel industry as a useful vehicle for expansion and diversification.

Consequently the hotel industry, partly because of its fragmented and heterogeneous nature, was generally perceived by central government as being of peripheral importance to the national economy. This was despite various reports presented to the Minister of Labour in the period 1944 to 1945. These reports, which stemmed from the Catering Wages Act of 1943, drew attention to the need for the rehabilitation of the hotel and catering industry, the development of catering, holiday and tourist services and the need for training throughout the industry. It is interesting that these highly perceptive reports were commissioned and produced, but regrettably there is little evidence to suggest that they were implemented with the vigour they deserved. [5]

What the Catering Wages Act did do was to lay down minimum rates of pay for a wide range of operative and supervisory jobs within the hotel and catering industry. Moreover, establishments within the industry were classified according to whether they were licensed or non-licensed, residential or non-residential with an additional category given over to industrial and staff canteens. The main objective of this legislation was to prevent unscrupulous employers exploiting staff. Staff who lived on the premises and who were given full board and lodging were particularly vulnerable to such exploitation and statutory amounts were laid down for deductions in relation to board and lodging. [6]

All the evidence of the late 1940's and early 1950's point to an industry trapped in apparent inertia, lacking a public profile, and failing to attract interest and support from government. Not surprisingly, the evidence also suggests rapid turnover in ownership of establishments and probably some decline in total hotel stock.

One indication of the decline in the stock of hotels, and therefore bedrooms, may be judged from the fact that in 1955 The Daily Telegraph suggested that only 11 London hotels survived from the 110 listed in Baedeker 1900. [7] Moreover, it is clear that there was little new building activity and the nineteen-fifties was a bleak decade for hotel construction in the U.K. Indeed, practically the only new hotels of note that were built in the post war period to 1960 were The Leofric in Coventry and The Westbury in Mayfair, London. [8]

2. Trends in the Market to 1969

There are four main elements in the growth of demand for hotel services; domestic holidays, foreign visitors, business usage and the catering for functions such as lunches and dinners for social occasions for U.K. residents. At the end of the war hoteliers naturally had to rely mainly on domestic usage, and this sector remained the core business, expanding by 22% in volume by 1969, but virtually doubling in value from £320M to £600M (Tables 1 - 1 and 2).

In regard to catering we have no direct evidence but between 1966 and 1969 (Table 1 - 3) the data suggest expenditure on catering and accommodation represented £1,427M, some 4.9% of total consumer expenditure. Since we have already seen from Table 2 that £600M of this was spent on U.K. holidays, the balance of £827M must give some approximation of the size of the catering industry in the

TABLE 1 - 1

**British Residents' Holidays of Four or More Nights Away From Home
1951, 1955, 1965-1969
(million)**

	1951	1955	1965	1966	1967	1968	1969
In Britain	25	25	30	31	30	30	30.5
Abroad	1.5	2	5	5.5	5	5	5.75
Total	26.5	27	35	36.5	35	35	36.25

Source: British National Travel Survey 1951 - 1969

TABLE 1 - 2

British Residents' Expenditure[a] on Holidays of Four or More Nights Away from Home
1951, 1955, 1965-1969
(£ million)

	1951[b]	1955	1965	1966[c]	1967	1968	1969
In Britain	320	365	460	550	560	570	600
Abroad	60	100	265	320	300	320	390
Total	380	465	725	870	860	890	990

Source: British National Travel Survey

[a] Holiday expenditure includes the cost of travel to and from the holiday.
[b] 1951 figures include expenditure on day trips.
[c] Figures from 1966 onwards represent a new series.

TABLE 1 - 3

Consumers' Expenditure on Meals and Accommodation 1966-1969
(£ million at current prices)

	1966	1967	1968	1969
Catering (meals and accommodation)	1,250	1,275	1,346	1,427
+/-% over previous year)		2.0	5.6	6.0
Total consumers' expenditure	24,211	25,428	27,338	29,102
Catering as % of consumers' expenditure	5.2	5.0	4.9	4.9

Source: Department of Employment Family Expenditure Survey

U.K. In turn much of this £827M must represent business as opposed to private expenditure on accommodation and catering.

The other major segment is that of foreign visitors where the growth is shown in Table 1 - 4. There was a very vigorous recovery of such visitors in the first 10 years after the war with expansion being more than fivefold in the period 1946 to 1956. The level of growth slowed somewhat towards the end of the 1950's but accelerated during the 1960's when total numbers grew from 1.6 million in 1960 to 5.8 million in 1969 - an increase of some 350%. Expenditure in the same period moved from £169M to £359M - an increase of some 220%. It will be noted that the £359M is some 25% of the total expenditure of £1,427M by U.K. residents shown in Table 1 - 3 and compares with the £600M which was spent on holidays by U.K. residents.

Whilst the foregoing data are neither as accurate nor as sector specific as one might wish, (problems relating to data are outlined in the statistical note at the end of this chapter) it would seem that total expenditure on hotel and catering services in the U.K. in 1969 was in the order of £1,786M; £1,427 by U.K residents and £359 by foreign visitors.

TABLE 1 - 4

OVERSEAS VISITORS TO BRITAIN (LEISURE AND BUSINESS)
NUMBERS AND EXPENDITURE 1946 TO 1970

YEAR	NUMBER OF VISITORS ('000)	TOTAL EXPENDITURE (£million)	YEAR	NUMBER OF VISITORS ('000)	TOTAL EXPENDITURE (£million)
1946	203	12	1959	1,395	143
1947	396	21	1960	1,669	169
1948	504	33	1961	1,824	176
1949	563	43	1962	1,956	183
1950	618	61	1963	2,159	188
1951	712	75	1964	3,257	190
1952	733	80	1965	3,597	193
1953	819	88	1966	3,967	219
1954	902	95	1967	4,289	236
1955	1,037	111	1968	4,828	282
1956	1,107	121	1969	5,821	359
1957	1,180	129			
1958	1,259	134			

Source: Department of Trade and Industry
Britain and International Tourism

3. Overview: The Industry at the end of the 1960's.

The period 1945 to 1969 saw many changes in the UK hotel industry, but none of them had a major impact on its structure, conduct or performance. Rather, these changes may be viewed as factors which gradually saw the industry emerge from the ravages of the Second World War and latterly, from 1960 onwards, saw the emergence of an industry in which well organised, professionally managed groups began to have a considerable influence. These groups, such as Grand Metropolitan, had a different perception of the industry compared with the more old fashioned organisations such as The Savoy Group. The new groups marketed their properties with specific regard to the differences between accommodation, food and drink; they sought economies of scale in purchasing; they targeted additional properties for acquisition and they responded more quickly to the changing demands of their customers - in particular, their business customers, who formed an increasing share of the market.

For its part, the U.K. government gradually came to realise the potential of the U.K. hotel and related industries both in terms of employment opportunities and foreign exchange earnings. The increasing interest of government led both to the formation of the Hotel and Catering Industry Training Board in 1966 and latterly, to The Development of

Tourism Act 1969. Few, however, at that time, could have forecast the very rapid growth of the following twenty years or the increasing importance of the industry to the national economy.

B. <u>The Industry in the 1970's and 1980's</u>

1. (i) The Significance of The Development of Tourism Act 1969

During the 1960's the U.K. government came to realise both the growing importance and economic potential of activities associated with leisure, recreation and tourism. In an effort to increase tourist capacity the labour administration, led by Harold Wilson, brought in The Development of Tourism Act 1969, which came into effect on 1st January 1970. In turn this led to the Hotel Development Incentive Scheme which provided for grants and loans from public funds for buildings and fixed equipment for work commenced before April 1971 and completed by April 1973. The maximum grant was £1,000 per bedroom which, at at that time, represented approximately 25% of the capital cost. During the life of the scheme grants marginally in excess of £50M were awarded to the industry.

The scheme was administered by the three statutory Tourist Boards in England, Scotland and Wales. Although no precise figures are available, it has been reliably estimated that prior to the Hotel Development Incentive Scheme the number of bedrooms added to the total stock was in the order of 2,000 per annum. Investment during the period 1970 to 1973, however, showed a sixfold increase. [9]

(ii) Problems and Opportunities Caused By The Development of Tourism Act 1969

The Act provided a much needed shot in the arm for the industry, and in particular encouraged companies to proceed with schemes of renewal and refurbishment which had hitherto been classed as marginal. Indeed, such was the number and variety of schemes initiated by both operators and property developers that there was a temporary over supply of accommodation, even in London. One short term problem that emerged was that inexperienced property developers, financiers and hoteliers tried to cash in. In London especially, properties were built that were neither soundly financed nor operated. This temporary over supply was exacerbated by the quadrupling of oil prices late in 1973 and by the subsequent recession which lasted until mid 1975.

2. The Changing Market

(i) Income, Expenditure and the Standard of Living

As a major service industry the hotel sector is heavily dependent on growth in real income and consumer expenditure and equally on an increase in disposable income being directed to consuming its services. Between 1945 and 1990 income per head increased about threefold, as did total consumer expenditure, an average of about 2% per year. [10] Most of the gains came after 1970, with 60% of the increase in real consumer expenditure occurring in the period 1970 to 1989 and two thirds of that concentrated in the 1980's. Consequently, the gains in real consumer expenditure did not favour a rapid expansion of usage of hotel facilities before 1970. Nevertheless, expenditure on services did increase from about 16% of all consumer spending in 1948 to 23% in 1970 (Tables 5 and 6). [11]

Thereafter the growth was more rapid, and by 1988 some 31% went on services, about twice the level prevailing immediately after the war. Perhaps even more striking was the fact that food attracted about 24% of all consumer spending in 1948 but only 20% in 1970 and a mere 12% in 1988. [12] These changes and the huge growth in such spending reflect the growth in affluence and the

TABLE 1 - 5

Sources of Household Income [1]

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978
Number of households supplying data [2]	7,184	7,008	6,313	7,239	7,017	7,126	6,695	7,203	7,203	7,198	7,001
Average weekly houeshold income by source (╗)											
Wages and salaries	22.33	23.92	26.32	28.43	32.36	36.33	42.25	54.51	60.23	66.92	76.10
Self-employment	2.08	2.26	2.28	2.80	2.57	3.34	4.38	4.03	4.38	5.47	5.29
Investments	0.99	1.31	1.40	1.40	1.28	1.70	1.97	2.57	2.51	2.81	2.95
Annuities and pensions (other than social security benefits)	0.62	0.75	0.90	0.83	0.99	1.24	1.43	1.70	2.15	2.29	3.03
Social security benefits	2.63	2.87	3.06	3.42	3.92	4.45	5.45	7.00	8.68	10.57	12.50
Sub-letting and imputed income from owner/rent-free occupancy	0.94	0.99	1.08	1.19	1.34	1.92	2.24	2.44	3.46	3.93	4.93
Other sources	0.35	0.36	0.35	0.41	0.39	0.42	0.60	0.64	0.89	0.99	1.33
Total	29.98	32.47	35.40	38.48	42.85	49.41	58.33	72.87	82.30	92.98	106.13

[1] Information derived from the Family Expenditure Survey
[2] in 1970 and 1974 data were not collected for a few weeks at the time of the General Elections

Source: Department of Employment

TABLE 1 - 6

Sources of Household Income[1]

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Number of households supplying data[2]	7,198	7,001	6,777	6,944	7,525	7,428	6,973	7,081	7,012	7,178	7,396	7,265	7,410
Average weekly household income[3] by source (£)													
Wages and salaries	66.92	76.10	86.27	104.78	114.22	118.50	121.56	131.00	141.26	150.32	162.70	176.78	189.36
Self-employment	5.47	5.29	5.63	8.16	10.24	10.59	12.26	12.07	14.65	17.96	21.53	29.59	32.39
Investments	2.81	2.95	3.28	4.49	6.35	6.94	6.77	7.07	8.42	9.78	12.44	13.26	13.98
Annuities and pensions (other than social security benefits) ...	2.29	3.03	3.14	3.79	5.20	5.26	7.39	7.72	9.58	10.14	11.87	13.78	14.43
Social security benefits[3]	10.57	12.50	14.88	17.60	21.87	24.58	28.03	27.45	28.90	30.30	31.09	31.58	32.65
Imputed income from owner/rent-free occupancy[4]	3.93	4.93	5.65	6.75	7.79	8.57	9.70	10.23	11.86	12.57	12.95	15.83	16.56
Other sources[5]	0.99	1.33	1.59	1.61	1.93	2.24	2.15	1.84	2.21	2.61	3.72	3.04	4.46
Total	92.98	106.13	120.45	147.18	167.60	176.67	187.86	197.37	216.86	233.68	256.31	283.86	303.84

1 Information derived from the Family Expenditure Survey (FES).
2 In 1979 and 1983 data were not collected for a few weeks at the time of the General Elections.
3 Because of the introduction of the Housing Benefit Scheme figures for 1983 and 1984 are not on a comparable basis, nor are those for 1983 consistent with earlier years.
4 Imputed income is the weekly equivalent of the rateable value: this is adjusted to allow for general increases in rents since date of valuation, and is also included in income of households living rent-free. From 1976 the method of calculating this adjustment is changed. 1985 assessments of rateable values in Scotland were used from 1 April 1985 in the calculation of imputed income and housing expenditure of owner-occupiers and those living rent-free (1987 FES Report definitions 14(h), (g).
5 From 1982 'Other Sources' includes very small amounts of income previously classified under self-employment.

expenditure on leisure, a critical feature underlying the expansion of the hotel industry since the Development of Tourism Act 1969.

(ii) The Domestic Holiday Market

One indication of increasing affluence in the nineteen-seventies was the increase in expenditure on meals and accommodation. Between 1970 and 1975 this increased by 80% (Table 1 - 7), while expenditure on extended holidays grew by 60% (Table 1 - 8). This was a very vigorous growth of the domestic market, even though the trend to holidays abroad was beginning to rival domestic holidays in total expenditure (Table 1 - 8). Even in the 1980's when the overseas holiday market effectively doubled in scale, the domestic holiday market continued to provide a sizeable core business for the hotel sector (Table 1 - 10). While this market held relatively steady, that for overseas visitors to the U.K. displayed a very substantial gain.

(iii) Overseas Visitors

In 1970 6.7 million overseas visitors spent £434 million in Britain. That was about half the value of British residents' expenditure on holidays at that time. By 1980, the number of overseas visitors had nearly doubled to 12.4 million, while expenditure rose to £2.9 billion. By 1988

TABLE 1 - 7

Consumers' Expenditure on Meals and Accommodation 1970-1975
(£ million at current prices)

	1970	1971	1972	1973	1974	1975
Catering (meals and accommodation)	1,568	1,700	1,892	2,153	2,452	2,832
+/-% over previous year)	9.9	8.4	11.3	13.8	13.9	15.9
Total consumers' expenditure	31,644	35,165	39,716	45,044	51,832	63,673
Catering as % of consumers' expenditure	5.0	4.8	4.8	4.8	4.7	4.5

Source: Department of Employment Family Expenditure Survey

TABLE 1 - 8

British Residents' Expenditure on Holidays of Four or More Nights Away from Home 1970-1975 (£ million)

	1970	1971	1972	1973	1974	1975
In Britain	790	810	920	n.a.	1100	1270
Abroad	470	630	830	870	740	1080
Total	1260	1440	1750	n.a.	1840	2350

Source: British National Travel Survey 1976

Holiday expenditure includes the cost of travel to and from the holiday.

TABLE 1 - 9

British Residents' Holidays of Four or More Nights Away From Home
1970-1975
(million)

	1970	1971	1972	1973	1974	1975
In Britain	34.5	34	37.5	40.5	40.5	40
Abroad	5.75	7.25	8.5	8.25	6.75	8
Total	40.25	41.25	46	48.75	47.75	48

Source: British National Travel Survey 1970

TABLE 1 - 10

Trends in Holidays by UK Residents

LEVEL OF HOLIDAY TAKING BY UK RESIDENTS 1965 - 1989

All Taking Holidays in:	YEAR 1965	1975	1980	1985	1987	1989
GB Only	48	46	42	34	28	29
GB and Abroad		4	6	6	8	8
Abroad Only	9	10	15	17	21	22

HOLIDAYS TAKEN BY GB RESIDENTS LASTING 4+ NIGHTS
1980 - 1989

YEAR
(Number in Millions)

TREND	1980	1983	1985	1987	1989	CHANGE
In Britain	36.5	33.5	33.0	28.5	31.5	- 14%
Abroad	12.0	14.5	15.75	20.0	21.0	+ 43%

Source: British National Travel Survey

foreign visitors reached 15.6 million, a further gain of about one third and expenditure more than doubled to £6.2 billion (Table 1 - 11).

By the end of the 1980's this tidal flow of visitors was impacting significantly on the available accommodation. The British Tourist Authority estimated that Britain could absorb a maximum of 20 million overseas visitors per year. [13] With such visitors by this time being in excess of 15 million, the capacity margin available was not large. Even so, there is little or no evidence to suggest that the British hotel industry responded by seeking to build new hotel capacity specifically for the overseas market. Given the high capital cost of hotels, such a course of action would have carried excessive risks. Consequently, the hotel sector plans its development to cater simultaneously for overseas visitors, domestic customers and business users. Seasonally, of course, the market segments differ in importance - between spring and autumn there is a significant expansion of overseas clients, while in the winter months the business and domestic markets provide most of the business.

TABLE 1 - 11

OVERSEAS VISITORS TO BRITAIN: (LEISURE AND BUSINESS) NUMBERS AND EXPENDITURE 1970 TO 1988

YEAR	NUMBER OF VISITORS ('000)	TOTAL EXPENDITURE (£million)
1970	6,730	434
1971	7,131	500
1972	7,459	576
1973	8,167	726
1974	8,543	898
1975	9,490	1,218
1976	10,808	1,768
1977	12,281	2,352
1978	12,646	2,507
1979	12,493	2,764
1980	12,400	2,961
1981	11,400	2,970
1982	11,600	3,188
1983	12,400	4,003
1984	13,600	4,614
1985	14,400	5,442
1986	13,800	5,553
1987	15,500	6,260
1988	15,600	6,215

Source: Department of Trade and Industry
British Tourist Authority

(iv) Business Usage

The available data on the hotel industry does not readily or systematically disaggregate the business user. Table 1 - 12, however, provides some insight to the importance of this sector. The domestic and overseas business market segments display quite different patterns. As far as U.K residents are concerned, four fifths of all bed nights in British hotels are taken up by the business user. In contrast, business usage represents only 40% of bed nights taken up by overseas visitors. Taken together, the business market now represents two thirds of all bednights in the U.K. hotel industry, this suggesting that either the tourist has to be satisfied with the standard of provision for the business market or has to seek facilities that have been developed in niche markets.

The growth in consumer expenditure and the expansion of the market segments indicate a very large growth in demand for hotel services. The obvious question is how effectively did the industry respond?

TABLE 1 - 12

UK HOTELS PLC: ROOM NIGHTS USED (MILLIONS)

Demand Category	UK Residents				Overseas Visitors				Total			
	1979	%	1989	%	1979	%	1989	%	1979	%	1989	%
Business Travellers	5.7	72.2	14.0	84.3	2.8	38.3	4.7	40.9	8.5	55.9	18.7	66.5
Holidaymakers	2.2	27.8	2.6	15.7	4.5	61.6	6.8	59.1	6.7	44.1	9.4	33.5
Total	7.9		16.6		7.3		11.5		15.2		28.1	

Source: Kleinwort Benson Securities, 1990 UK Hotels plc: The Decade Review, 1990.

3. The Response of the Industry

(i) Hotel Capacity in the mid 1970's

As there is no system of state registration of hotels in the U.K. it has always been difficult to ascertain accurately the number of units operating at any one time. Best estimates of units in operation in the immediate post war period are put at around 30,000 - licensed and unlicensed. [15]

What would appear to be an accurate picture of hotel capacity in the U.K. is shown in Tables 1 - 13 to 15 which formed part of a report commissioned by the National Economic Development Office for the Hotels and Catering Economic Development Committee. The tables show the total number of hotels in the U.K. in 1974 to be 33,659. This total is broadly in line with other estimates. The tables also show that of this total only 384 hotels had more than 100 bedrooms, while no fewer than 27,405 had 15 or fewer rooms. These figures are a clear illustration of the fragmented, and small scale nature of the industry. A similar pattern emerges when licensed and unlicensed hotels are considered separately.

TABLE 1 - 13

Distribution of hotel capacity, Great Britain, 1 January 1974 - licensed hotels

Location	Establishments							Bedrooms						
	Size of hotel (no of bedrooms)						All Hotels	Size of hotel (no of bedrooms)						All Hotels
	4-10	11-15	16-25	26-50	51-100	Over 100		4-10	11-15	16-25	26-50	51-100	Over 100	
England														
Seaside	1140	895	836	765	317	57	4010	8758	11583	17214	26969	21760	7482	93766
Countryside	1105	254	158	85	19	6	1627	7615	3210	3020	2897	1360	660	18762
Small towns	1788	484	365	308	151	43	3139	12672	6107	7143	10487	10500	5705	52614
Large towns *a*	274	135	83	130	95	82	799	2013	1691	1691	4679	6663	13015	29752
London	51	62	21	69	107	135	445	350	791	433	2711	7576	40873	52734
TOTAL	4358	1830	1463	1357	689	323	10020	31408	23382	29501	47743	47859	67735	247628
Scotland														
Seaside	330	157	155	92	38	9	781	2451	2034	3148	3242	2602	1023	14500
Countryside	512	126	91	60	17	3	809	3410	1614	1836	1989	1195	351	10395
Small towns	480	137	102	75	35	10	839	3397	1753	2013	2643	2393	1610	13809
Large towns	52	37	18	46	18	16	187	429	434	340	1668	1217	2719	6807
TOTAL	1374	457	366	273	108	38	2616	9687	5835	7337	9542	7407	5703	45511
Wales														
Seaside	120	88	102	84	22	3	419	922	1126	1989	3005	1494	433	8969
Countryside	176	48	42	9	2	1	278	1200	619	821	271	155	115	3181
Small towns	167	48	46	33	11	1	306	1117	608	906	1052	718	138	4539
Large towns	4	3	10	6	4	2	29	33	39	197	210	319	227	1025
TOTAL	467	187	200	132	39	7	1032	3272	2392	3913	4538	2686	913	17714
Great Britain														
Seaside	1590	1140	1093	941	377	69	5210	12131	14743	22351	33216	25856	8938	117235
Countryside	1793	428	291	154	38	10	2714	12225	5443	5677	5157	2710	1126	32338
Small towns	2435	669	513	416	197	54	4284	17186	8468	10062	14182	13611	7453	70962
Large towns *b*	381	237	132	251	224	235	1460	2825	2955	2661	9268	15775	56834	90318
TOTAL	6199	2474	2029	1762	836	368	13668	44367	31609	40751	61823	57952	74351	310853

Source: Based on information supplied by F J Bull Esq Hotels and Catering Economic Development Committee by Business and Economic Planning Ltd (Management Consultants)

a Excluding London b Including London

TABLE 1 - 14
Distribution of hotel capacity, Great Britain, 1 January 1974 - unlicensed hotels

Location	Establishments							Bedrooms						
	Size of hotel (no of bedrooms)						All Hotels	Size of hotel (no of bedrooms)						All Hotels
	4-10	11-15	16-25	26-50	51-100	Over 100		4-10	11-15	16-25	26-50	51-100	Over 100	
England														
Seaside	8534	2441	525	134	11	2	11647	62935	30397	10717	4281	799	244	109373
Countryside	414	119	15	4	-	-	552	2574	1458	292	128	-	-	4452
Small towns	1379	408	74	12	5	1	1879	9427	5023	1430	385	284	145	16694
Large towns *a*	756	373	69	28	-	2	1228	5526	4574	1377	991	-	370	12838
London	163	488	92	68	26	10	847	1132	6304	1756	2336	1729	1347	14604
TOTAL	11246	3829	775	246	42	15	16153	81594	47756	15572	8121	2812	2106	157961
Scotland														
Seaside	706	120	56	5	1	-	888	4363	1486	1056	162	55	-	7122
Countryside	299	28	5	1	1	-	334	1689	346	93	26	80	-	2234
Small towns	434	51	8	2	-	1	496	2580	626	150	58	-	205	3619
Large towns	327	57	24	6	-	-	414	2196	710	466	215	-	-	3587
TOTAL	1766	256	93	14	2	1	2132	10828	3168	1765	461	135	205	16562
Wales														
Seaside	757	92	39	12	-	-	900	4536	1168	735	462	-	-	6901
Countryside	315	16	3	2	-	-	336	1733	186	54	55	-	-	2028
Small towns	330	21	5	2	-	-	358	2032	272	94	57	-	-	2455
Large towns	94	10	6	2	-	-	112	649	118	117	58	-	-	942
TOTAL	1496	139	53	18	-	-	1706	8950	1744	1000	632	-	-	12326
Great Britain														
Seaside	9997	2653	620	151	12	2	13435	71834	33051	12508	4905	854	244	123396
Countryside	1028	162	2	7	1	-	1222	5996	1990	439	209	80	-	8714
Small towns	2143	480	87	16	5	2	2733	13839	5921	1674	500	284	350	22568
Large towns *b*	1340	928	191	104	26	12	2601	9503	11706	3716	3600	1729	1717	31971
TOTAL	14508	4224	921	278	44	16	19991	101172	52668	18337	9214	2947	2311	186649

Source: Based on information supplied by F J Bull Esq Hotels and Catering Economic Development Committee by Business and Economic Planning Ltd (Management Consultants)

a Excluding London b Including London

TABLE 1 - 15

Distribution of hotel capacity, Great Britain, 1 January 1974 - total hotels

Location	Establishments							Bedrooms						
	Size of hotel (no of bedrooms)						All Hotels	Size of hotel (no of bedrooms)						All Hotels
	4-10	11-15	16-25	26-50	51-100	Over 100		4-10	11-15	16-25	26-50	51-100	Over 100	
England														
Seaside	9674	3336	1361	899	328	59	15657	71693	41980	27931	31250	22559	7726	203139
Countryside	1519	373	173	89	19	6	2179	10189	4668	3312	3025	1360	660	23214
Small towns	3167	892	439	320	156	44	5018	22099	11130	8573	10872	10784	5850	69308
Large towns *a*	1030	508	152	158	95	84	2027	7539	6265	3068	5670	6663	13385	42590
London	214	550	113	137	133	145	1292	1482	7095	2189	5047	9305	42220	67338
TOTAL	15604	5659	2238	1603	731	338	26173	113002	71138	45073	55864	50671	69841	405589
Scotland														
Seaside	1036	277	211	97	39	9	1669	6814	3520	4204	3404	2657	1023	21622
Countryside	811	154	96	61	18	3	1143	5099	1960	1929	2015	1275	351	12629
Small towns	914	188	110	77	35	11	1335	5977	2379	2163	2701	2393	1815	17428
Large towns	379	94	42	52	18	16	601	2625	1144	806	1883	1217	2719	10394
TOTAL	3140	713	459	287	110	39	4748	20515	9003	9102	10003	7542	5908	62073
Wales														
Seaside	877	180	141	96	22	3	1319	5458	2294	2724	3467	1494	433	15870
Countryside	491	64	45	11	2	1	614	2933	805	875	326	155	115	5209
Small towns	497	69	51	35	11	1	664	3149	880	1000	1109	718	138	6994
Large towns	98	13	16	8	4	2	141	682	157	314	268	319	227	1967
TOTAL	1963	326	253	150	39	7	2738	12222	4136	4913	5170	2686	913	30040
Great Britain														
Seaside	11587	3793	1713	1092	389	71	18645	83965	47794	34859	38121	26710	9182	240631
Countryside	2821	591	314	161	39	10	3936	18221	7433	6116	5366	2790	1126	46052
Small towns	4578	1149	600	432	202	56	7017	31225	14389	11736	14682	13895	7803	93530
Large towns *b*	1721	1165	323	355	250	247	4061	12328	14661	6377	12868	17504	58551	122289
TOTAL	20707	6698	2950	2040	880	384	33659	145539	84277	59108	71037	60899	76662	497502

Source: Based on information supplied by F J Bull Esq Hotels and Catering Economic Development Committee by Business and Economic Planning Ltd (Management Consultants)

a Excluding London b Including London

As may be seen from Table 1 - 13 licensed hotels in 1974 numbered 13,668. Of this figure over 6,000 were hotels with 10 or fewer bedrooms. Equally relevant is that more than 12,000 hotels had fifty or fewer bedrooms whilst 1,204 had more than fifty and only 368 had more than 100 bedrooms. These hotels, however, provided 74,351 (24%) out of a total of 310,583 bedrooms.

As might be expected the total number of unlicensed hotels, 19,991, as shown in Table 1 - 14, is greater than the total of licensed hotels. As also might be expected, by far the greatest proportion is made up of small units, 14,508, having between 4 and 10 bedrooms. Only 60 unlicensed hotels have more than fifty rooms and only 16 more than 100. Again these figures demonstrate the highly fragmented nature of the industry. In addition, the total number of bedrooms in this sector is 186,649, indicating an average of only 9 rooms per unit. Small wonder that statistics for the industry in general tend to be unreliable, since they have to be supplied by such a large number of small businesses.

Tables 1 - 13 to 15 also show the preponderance of hotels in London compared with the rest of the U.K. This is particularly noticeable for large hotels where 145 out of a total of 384 hotels are located in the capital. These figures may be compared to those shown in Table 1 - 16.

From these it will be noted that the number of establishments with fewer than 15 rooms fell from 20,700 in 1971 to 9,500 in 1981, a principal contributory factor being the implementation of the Fire Precautions Act which led to the closure of many hotels whose proprietors could not afford to implement the requirements of the Act.

It will also be noted that in the period 1971 to 1981 the number of hotels with more than 200 bedrooms increased from 115 to 190. Essentially, this represents the building programme of the main companies within the industry, a programme sparked by the Development of Tourism Act 1969.

Whilst the structure and distribution of hotel capacity throughout the U.K. remained fairly stable in the period under review, the number of units and number of bedrooms fell markedly. The Fire Precautions Act was the trigger for the decline in the number of small hotels the changing pattern of holidaymaking, in particular the progressive move towards foreign holidays, was a further major cause.

The outline changes in the provision of hotel services are summarised in Table 1 - 16. Generally speaking the most significant changes occurred at the extreme ends of the business. The biggest loss of roomstock was concentrated in very small private hotels with fewer than fifteen rooms, while the greatest increase came in large hotels with more

TABLE 1 - 16

1. U.K. HOTEL ROOMSTOCK 1971 - 1981

Size of Unit	1971	ROOMS %	1981	%	% Change
>15 Rooms	191,800	33.1	96,100	18.9	-49.90
15-50 Rooms	223,600	38.6	200,000	39.4	-10.55
50-200 Rooms	124,200	21.4	141,000	27.8	13.53
<200 Rooms	39,200	6.8	70,000	13.8	80.87
TOTAL	578,800		508,000		-12.23

2. U.K. HOTELS 1971 - 1981

Size of Unit	1971	UNITS %	1981	%	% Change
>15 Rooms	20,700	64.7	9,500	48.1	-54.11
15-50 Rooms	9,600	30.0	8,400	42.5	-12.50
50-200 Rooms	1,550	4.8	1,650	8.3	6.45
<200 Rooms	115	0.4	190	1.0	65.22
TOTAL	31,965		19,740		-38.24

3. AVERAGE UNIT SIZE 1971 - 1981

	AVERAGE UNIT SIZE		
Size of Unit	1971	1981	% Change
>15 Rooms	9.27	10.12	9.17
15-50 Rooms	23.29	23.81	2.22
50-200 Rooms	80.13	85.45	6.65
<200 Rooms	340.87	373.16	9.47
TOTAL	18.11	25.73	42.12

Source: The Management of Hospitality Operations, Chapter 1.
Jones P and Lockwood A - Cassell (1990).

than 200 rooms. This change reflects a growing concentration of quality and capital in the hands of large hotel groups who are better placed to respond assertively and flexibly to market change. This concentration of scale is also reflected in the increasing emphasis placed on property values from the mid 1970's.

(ii) Property Values in the U.K. Hotel Industry - 1976 to 1988

The almost continuous rise in property values has enabled hotel groups to become more financially secure from an asset viewpoint but has had a detrimental effect on the rate of return on capital invested. Examples from the 1980's would include The Dorchester in Park Lane, London W1 which was sold to an Arab consortium in 1976 for £10M, resold eight years later to the far eastern group Regent International for £45M, only to be sold in 1985 to the Sultan of Brunei for a reputed £60M. This sum was all the more surprising as the property was in need of major refurbishment. A further example was The Churchill Hotel in Portman Square, London W1 which was sold in 1987 to a Hong Kong consortium for £110M, with a further £15M to be spent on refurbishment. Whilst the operating profits of each hotel increased in absolute terms in the period 1975 to 1985, they did not increase in proportion to the purchase price. [15]

Clearly, if the value of an hotel doubles it does not follow that the operating profit of the property will do likewise. What will happen is that the increased value will result in a lower rate of return on capital investment especially where, subsequent to the sale of the property, the operation becomes more highly geared. These examples highlight some of the problems associated with hotel valuation.

There was a significant increase in hotel property values in the period 1985 to 1988 which mirrored the rise in house prices generally, and in the south of England in particular. Prices for top quality hotel property in central London by the middle of 1988 exceeded £250,000 per bedroom, as was shown by the acquisition of a medium sized west end hotel, The Londonderry by Kennedy Brookes (subsequently taken over by Trusthouse Forte) for £45M. One course of action considered by Trusthouse Forte subsequent to acquisition was to put the hotel on the market with an asking price of £60M. Whilst the increases in the provinces were not so marked, many well run properties doubled in value in the period 1982 to 1988. Although this state of affairs clearly suits vendors, it makes entry into the industry that much more difficult, especially for first time buyers. Also, it makes it more difficult to trade up as moderate sized properties generally rose at a faster rate than smaller properties throughout the 1980's. [16]

The high level of prices paid for existing properties also made matters difficult for property developers who included an hotel in a major property development. As a result of land and construction costs, it is now becoming increasingly difficult to build hotels at a cost which will attract hotel operators. The projected capital costs can result in potential operators withdrawing from developments when they realise that the prices they would have to charge for accommodation in order to earn a satisfactory rate of return on capital invested would be beyond the budgets of their business, let alone tourist clients.

The Nature of the Hotel Business

It may be seen, therefore, that essentially an hotel has two values:

i) as a going concern based upon its level of turnover and operating profit

ii) as a purely property asset based upon its rental value which in turn will be affected by its location and its profitability.

It has been a feature of the groups which have been successful in the post war period that they have recognised this dual nature of hotel property. They have purchased hotels in good locations (or have purchased property that has been capable of conversion into hotels) at a time when turnover, profitability and therefore asking prices have been modest. Thereafter via improved management, particularly in the marketing of accommodation, they have greatly increased the turnover of such properties. This has had the effect of increasing the profitability and thereby the capital value on a going concern basis. The major bonus, typified by the years 1985 to 1988, has been the steady appreciation of property values. This combination has made established hotel companies that much more secure with the result that the industry is viewed more favourably by the investment community than heretofore.

Major groups that benefited in this way were Grand Metropolitan thoughout the post war period and from 1977, Mount Charlotte, Norfolk Capital and Queens Moat Houses. [17]

(iii) Position of Major Groups in Period Under Review

The growth of new firms and groups in the U.K. hospitality industry in the period 1960 - 1980 was, to a significant extent, initiated by the formation of Grand Metropolitan Hotels Ltd in July 1962. This company represented the bulk of an extensive hotel portfolio controlled by the chairman Maxwell Joseph. This was followed in the mid 1960's by the formation of the Crest Hotel Group, at that time a subsidiary of Bass Charrington. Around this time other major breweries started to diversify into hotels - Scottish and Newcastle with its Thistle Group (initially formed in 1965 and expanded steadily throughout the decade) and Vaux Breweries, based in Sunderland, with its Swallow hotel division. In all three cases the rationale was to provide additional retail outlets for food and liquor, together with a desire to enter the related retail field of accommodation.

In 1970 came the important merger of Trust Houses with Forte Holdings. The marriage of an old established hotel company and a relatively recently formed catering company is later described in some detail. The stated rationale for the merger was to form a group which could successfully and simultaneously retail accommodation, food and liquor. The early 1970's and the recession of 1973 - 75 saw general retrenchment throughout the industry, but the latter half of that decade witnessed the emergence of two important groups, Queens Moat Houses and Mount Charlotte, each built on the basis of clever property transactions. The latter company eventually bought the Thistle Group in 1989. Queens Moat Houses was to enjoy rapid growth both in the U.K. and on the Continent of Europe during the nineteen-eighties. In the same period Mount Charlotte grew to become the second largest operator, by bedrooms, in the U.K. with a particularly strong emphasis on the London market. Other groups such as Stakis, Norfolk Capital, Gleneagles and Friendly also grew during the nineteen-eighties, but were significantly smaller, by sales and market capitalisation, than the larger groups.

Table 1 - 17 shows the major operators in the U.K. in 1976, the year in which Trust Houses merged with Forte Holdings to form the largest company in the industry. This company was still the largest in 1989 - Table 1 - 18. In fact, there

TABLE 1 - 17

Leading Hotel Operators in Britain 1976

	Organisation	Bedrooms	Hotels	Location	Notes
1	Trust Houses Forte	16,600	199	National	Includes Ireland, also hotels abroad
2	Grand Metropolitan	9,500	81	National	24 in London, 31 County Hotels 26 Steak House division
3	J Lyons	7,900	38	National	Strand Hotels and Falcon Inns, also hotels abroad
4	Bass Charrington	7,000	104	England & Wales	Crest Hotels including Europe and some smaller hotels
5	Centre Hotels	5,300	24	National	Includes Holland
6	Scottish & Newcastle Breweries	3,600	66	National	41 Thistle Hotels and 25 Ofer House Inns
7	British Transport	3,500	28	National	British Rail
8	Rank Organisation	3,000	12	National	Also hotels abroad
9	Imperial London Hotels	2,400	6	London	Private company
10	Allied Breweries	2,200	42	England & Wales	Ind Coope Hotels also some smaller hotels
11	Norfolk Capital Hotels	2,200	18	London & provinces	
12	De Vere Hotels and Restaurants	1,800	16	England	
13	Whitbread	1,800	98	England & Wales	Includes tenanted and leased hotels
14	Cunard	1,700	4	London & Cambridge	
15	Reo Stakis Organisation	1,700	26	National	
16	Vaux Breweries	1,700	48	N England & Scotland	Includes Lowlands of Scotland hotels
17	Adda International	1,600	7	London	Also one in Amsterdam and one in Paris
18	EMI Hotels and Restaurants	1,600	17	London, Birmingham & Scotland	Royal London Hotels
19	Mount Charlotte Investments	1,500	22	England	Nuthall and Ocean Hotels
20	North Hotels	1,300	12	London & South	Unlicensed

Source: S. Medlik (1978) Profile of Hotel and Catering Industry

TABLE 1 - 18

Top 20 Hotel Operators 1989/90

			Hotels in UK	5-star	4-star	3-star	2-star	1-star	Lodges	Not listed	Rooms in UK	Rooms in '89
1	1	Trusthouse Forte Hotels	265	3	39	123	25		12	63	23 843	24 157
2	2	Mount Charlotte Thistle Hotels	102		15	46	1	1		39	13 787	9 053
3	3	Queens Moat Houses	94	1	15	52	1			25	9 061	6 948
4	4	Hilton United Kingdom	33	1	4	13				15	6 658	6 455
5	5	Crest Hotels	49		2	43				4	5 641	5 581
6	7	Holiday Inns	20		12	2				6	4 242	4 042
7	8	Swallow Hotels	34		5	26				5	3 856	3 696
8	9	Mecca Leisure Hotels	52		3	13	3			33	3 788	3 411
9	10	Stakis Hotels & Inns	27		4	11				12	3 257	3 293
?	11	Embassy Hotels	41		3	33	2			3	3 153	3 140
10	13	Imperial London Hotels	7							7	2 803	2 794
11	12	De Vere Hotels	25	2	6	14				3	2 772	3 025
12	18	Baron Hotels & Leisure	23			5	1			17	2 380	1 631
13	14	Rank Hotels	6	1	3	1				1	2 234	2 234
14	25	Crown Hotels	25		2	4	1			18	2 201	1 387
15	15	Metropole Hotels	5		1					4	1 941	1 936
16	16	Copthorne Hotels	8		4	2				2	1 924	1 778
17	17	Novotel UK	12			11				1	1 879	1 726
18	30	Edwardian Hotels	9		1	1				7	1 766	1 140
19	23	Friendly Hotels	15			4	2			9	1 534	1 408
20	24	Toby Hotels	48			9	8	1		30	1 444	1 389

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is relatively little difference in the two tables, the major feature being the No 2 position of Mount Charlotte Thistle, which came about as a result of the sale of Thistle to Mount Charlotte by Scottish & Newcastle Breweries in the autumn of 1989, for £645 million.

It may be seen from the latter table that the top twenty operators owned/operated a total of 900 hotels out of an estimated total of some 20,000 (5%), but these units accommodated 98,964 bedrooms, nearly 20% of the estimated U.K. total. From these calculations it may be seen that the average size of hotel operated by the major groups was some 110 rooms. At the end of the 1980's it was estimated that nearly half the hotels in the country still had less than 15 rooms, and nearly 40% had less than 50 rooms.

These figures show that although some powerful hotel groups have emerged in the post war period, the industry is still dominated by small units and therefore highly fragmented. The major groups wield an influence disproportionate to their percentage of the total of units, and of bedrooms. This is especially true in the area of marketing.

4. The Shape of the Hotel Industry in the 1980s

a. The Growth of Business Travel

The structural theory of international business travel was promulgated by Paul Slattery of Kleinwort Benson Securities in "1990 UK Hotels plc: The Decade Review". In this, Slattery sought to show that the demand for business travel internationally is determined by the structure of an economy, rather than simply by the growth in the GDP. [18]

The structural theory identifies three distinct phases or stages of growth in an economy. The first relates to developing economies dominated by single site companies in extractive and manufacturing industries. In such economies there is little local demand for hotel services and the demands of international travellers may well be serviced by a few international hotel groups such as Hilton or Holiday Inn.

According to Slattery economies will sooner or later enter a second phase of expansion where there is growth in companies serving national and international markets, rather than local and regional markets. In addition, there is a concurrent growth in multi-site companies as the economy moves from primary to secondary to tertiary industries. As a consequence there tends to be a marked growth in the number of corporate jobs and in peripatetic employees, both of whom require hotel accommodation and hotel services. Slattery suggests that the U.K. economy was generating this type of hotel business need from the 1960's and this syndrome encouraged the growth of larger hotel groups specifically targeted at the business market.

Slattery then identifies a third and final phase of the structural theory of business travel as being one where there is only a marginal increase in demand for hotel services as a result of the bulk of the business having been satisfied by the stockbuilding of hotels which characterised Phase 2. Slattery suggests that the majority of advanced economies will enter Phase 3 in the 1990's. In turn this will mean that in the U.K., for example, owing to the highly capital intensive nature of the hotel industry, existing hotels will be refurbished, sometimes extensively, rather than new hotels being constructed from scratch.

The U.S.A. is a further example of a Phase 3 economy where not only is there a wide range of service industries and strong indigenous demand for hotel services but only marginal growth available in terms of achieved daily rates and occupancy levels. Tangible indications of this mature market are the vigorous introduction of sales promotion strategies such as frequent user programmes and high-specification hotel facilities like suites, executive floors and hotel clubs at prices marginally above standard rooms.

To a large extent the theory may be considered valid. One addition not mentioned is the replacement of old hotel stock - pre 1960 - by modern stock. This is already happening in London in a manner not dissimilar to the replacement of office accommodation.

An important link between business travel on the one hand and domestic and overseas visitors on the other is incentive travel, whereby business executives are rewarded for superior performance by foreign holidays. For the U.K. the markets of the U.S.A. and Japan have particular significance in this respect.

b. Growth of Employment in Service Industries in Post War Period

The greatest single change in the composition of labour markets in advanced industrial nations in the post war period has been the rise in employment in the service industries.

Writing on the growth of employment in service industries some writers, notably Gershuny and Miles in the U.K., together with James Heskett in the U.S.A. have drawn attention to the underlying reasons for such changes and have highlighted the future employment prospects of various sectors within the service industries. [13] Clearly the hotel and catering industry is an important component within the service sector and has been identified as one which is likely to increase further both by volume and by standards.

c. Composition of Labour Force of U.K. Hotel and Catering Industry

In the U.K., in common with other major industrial countries, the large increase in employment in the hotel and catering industry has to be treated with a degree of caution. A very high proportion of jobs, typically between 60% and 70%, at the operative and supervisory level are part time with the hours worked being less than 20 per week. The majority of these jobs, such as waiters and waitresses, chambermaids, barmen and barmaids are filled by females and, as such, despite the Sex Discrimination and Equal Pay Acts, tend to offer low rates of pay. Currently (1989) these vary from as little as £1.20 per hour to around £3.00 per hour. [20]

As a consequence of the fragmented nature of the industry with a preponderance of small retail businesses - public houses, restaurants, cafes and family run hotels - there is markedly little trade unionism and with approximately 2.5 million unemployed, upward pressure on wage rates tends to be minimal.

The single craft category in which rates of pay have risen significantly is that of chefs. Although the rates of pay during and immediately after training tend to be low, once a chef has more than three years' post qualification experience rates of pay tend to show a marked increase. This will be particularly so if a major part of his training and post qualification experience has been in the kitchen of one of the growing number of "celebrity" chefs, of which the Roux brothers, who own among others Le Gavroche in Mayfair, London W.1 and The Waterside Inn at Bray in Berkshire, are typical. Subsequent to such tutelage a young chef in his mid twenties can command a premium on his salary, taking it to £15,000 to £20,000 and significantly further in later years.

Pay levels for managerial staff within the industry in the U.K. vary considerably. Even bearing in mind that to a significant extent the industry has been dominated by relatively young staff - under forty - the rates of pay tend to be modest. In 1989 2% of managers earned below

£5,000 per annum, 27% between £5,000 and £10,000, 32% between £10,000 and £15,000, 20% between £15,000 and £20,000, 10% between £20,000 and £25,000, 4% between £25,000 and £30,000, with the remaining 4% in excess of £30,000. [21]

It may be seen, therefore, that the hotel industry in the U.K. is not particularly well paid. Indeed, it often faces charges of exploitation of labour, in some cases with considerable justification, especially with regard to operative and supervisory staff. Only two groups earn really substantial amounts i.e. in excess of £50,000 per annum. One is established owner managers who may have had to struggle many years to achieve a position of relative financial security - the other is directors and senior executives of large companies who, in many cases, are not hoteliers in the technical sense of the word, but professionally qualified accountants, lawyers or surveyors.

d. Developments In The 1980's

Table 1 - 19 shows a summary of Overseas Travel and Tourism statistics for the period 1980 to 1989. By the latter date 17.3 million visitors came to the U.K. and spent £6.9 billion. Against this, however, U.K. residents made 31 million visits overseas and spent £9.3 billion. The highest favourable balance, £1.2 billion was in Jubilee

TABLE 1 - 19

OVERSEAS TRAVEL AND TOURISM: SUMMARY

	...............Number of visits..................								
	To the UK by .....overseas visitors....		Overseas by ....UK residents......		....Earnings....		....Expenditure....		Balance
	Thousands	Percentage increase on previous year	Thousands	Percentage increase on previous year	£ million	Percentage increase on previous year	£ million	Percentage increase on previous year	£ million
1980	12,421	-0.5	17,507	13.2	2,961	5.9	2,738	29.8	+223
1981	11,452	-7.8	19,046	8.8	2,970	0.3	3,272	19.5	-302
1982	11,636	1.6	20,611	8.2	3,188	7.3	3,640	11.2	-452
1983	12,464	7.1	20,994	1.9	4,003	25.6	4,090	12.4	-87
1984	13,644	9.5	22,072	5.1	4,614	15.3	4,663	14.0	-49
1985	14,449	5.9	21,610	-2.1	5,442	18.0	4,871	4.5	+571
1986	13,897	-3.8	24,949	15.5	5,553	2.0	6,083	24.9	-530
1987	15,566	12.0	27,447	10.0	6,260	12.7	7,280	19.7	-1,020
1988 R	15,799	1.5	28,828	5.0	6,184	-1.2	8,216	12.9	-2,032
1989	17,338	9.7	31,030	7.6	6,945	12.3	9,357	13.9	-2,412

Source: Business Monitor
Overseas Travel and Tourism
MA 6 1989
Central Statistical Office - Published HMSO 1991

year, 1977. The period 1986 to 1989, which coincided with a phase of unrestrained economic expansion in the U.K., saw the unfavourable balance nearly double from £530 million in 1986 to £1.02 billion in 1987, double again to £2.03 billion in 1988 with a further increase to £2.4 billion in 1989.

There is no doubt that the U.K. hotel industry made significant progress in the 1980's to the point where, by 1989, it was generally regarded as a mature industry. Among the principal developments of the decade, two unrelated events sparked a major series of property transactions which had a marked effect on the composition of property portfolios of the main groups within the industry. The first was the acquisition in 1981 by Grand Metropolitan of the Intercontinental Group from Pan American World Airways for U.S. $500 million (£260 million). In turn this led Grand Metropolitan to dispose of all but four of its U.K. properties. The majority was sold to Queens Moat Houses in 1982 for £26 million. This transaction transformed the latter company and paved the way for its further expansion. Other sales by Grand Metropolitan had important effects on those companies. [22] The Mount Royal was sold to Mount Charlotte, the Piccadilly to Gleneagles and St Ermin's to Stakis.

The second was the sale, at the instigation of the government in one of its initial forays into privatization, of the 29 hotels which had been in state control since the Transport Act of 1947. The sale of these hotels started in 1981 with the setting up of Gleneagles Hotels PLC and ended some four years later with the sale of The Queen's Hotel in Leeds to Trusthouse Forte. In all, these sales realized the target figure of £40 million. [23]

The growing strength of the U.K. hotel industry was best demonstrated a few years later when, in the autumn of 1987 Bass acquired Holiday Inn International in a deal worth U.S. $575 million. This gave Bass control, via a mixture of ownership, leases, management contracts and franchises of 13 hotels outwith the U.S.A. and 13 further hotels in the southern states of that country. [24]

This was followed in September 1987 by Ladbroke who, in a deal valued at no less than U.S. $1.07 billion, acquired the 91 properties that formed Hilton International. Together with the Grand Metropolitan acquisition of Intercontinental six years earlier, this resulted in three of the leading international brand names in the industry coming under British ownership and control. For the industry in general this represented growth to the point of maturity. [25]

Each acquisition was a carefully planned opportunistic strike. Pan American Airways were in considerable financial difficulty when approached by Grand Metropolitan. Holiday Corporation was in a vulnerable position consequent to a somewhat dubious scheme of capital reconstruction which resulted in a heavy level of debt on its balance sheet and the company exposed to predators. [26] Hilton International had only been owned by the vendor United Airlines for six months when it was put on the market, having been previously owned by Trans World Airlines. [27]

Each acquisition benefited the British purchasers in different ways. Grand Metropolitan sold Intercontinental in 1988 for £1.35 billion, thus realising a profit after all expenses and taxes in excess of £500 million - a handsome return for seven years' ownership. The deal allowed the company to develop its corporate strategy as specialist manufacturers and retailers of food and liquor. [28]

For Bass the Holiday Inn deal put it squarely in the forefront of the international hotel industry. With a worldwide roomstock of 57,000, backed by the goodwill inherent in the Holiday Inn brand and its marketing expertise, Bass was well placed for further advances both in the U.K. and overseas.

The Ladbroke deal was widely regarded as the deal of the decade and a personal triumph for Cyril Stein, the Ladbroke chairman. His company came as a late player to the hotel business but the impressive strides since made may well be a sign of greater things to come. In the short time that Ladbroke has been in control of Hilton International the profitability of the operation has significantly improved which, taken with the increase in property values in the period 1987 to 1989, indicates an increase in the value of assets acquired of at least £250 million. [29]

5. CONCLUSION

The U.K. hotel industry has undergone radical change in the post war era. In particular, the emergence of large companies within the industry has paved the way for major improvements in the quality of management throughout the industry. This professionalisation of management has enabled companies large and small to adopt a much more businesslike and profit oriented approach to the operation of hotels. Aided by specialists in finance, marketing and personnel, hotel operators have been able to bring a wide variety of management techniques to their businesses and in so doing have simultaneously improved the quality of service and facilities to clients, as well as returns to shareholders through improved profitability. The combination of improved management, operational profitability and substantial appreciation in value of hotel property has resulted latterly in investors, both institutional and private, taking a more positive attitude towards investment in the U.K. hotel industry. This syndrome has been clearly in evidence since the recession of 1980-1981.

As a result of progress made it is reasonable to suggest that the hotel industry in the U.K. has come of age. As service industries continue as the main employers of labour compared with manufacturing industry, it would appear that the hotel and catering industry may gradually move towards the forefront of the nation's economy, and that by its own efforts its status and importance will win increasing recognition.

It is in the light of the foregoing economic context that the growth and development of the U.K. hotel industry is reflected in a series of 12 case studies which form the principal part of the thesis. The case studies are divided into three distinct groups. The first deals with independent hotels which, as shown, still account for the major part of the roomstock of the industry. The second deals with U.K. groups which identified the property aspects of the hotel industry as being those which represent the optimum route to growth and increased profitability. The third group reflects the efforts of U.K hotel groups who have expanded abroad.

The case studies also show the contribution made by the founders of each organisation - in most cases the chairman or managing director, or both, in each company. Especially in the case of the independent hotels, the success of the operation is clearly linked to the personality of the proprietor. Equally the large groups would not have grown but for the ability of the founder directors to act in an entrepreneurial and acquisitive fashion.

FOOTNOTES

1. History of the British Hotels and Restaurants Association, p 63. Published in the BHRCA Journal, 1957.
2. ibid p 65.
3. ibid p 69.
4. Jean Wakeman, <u>Trust House Britain</u> (1963, Hodder & Stoughton, London), p 9-22.
5. The Rehabilitation of The Catering Industry, Report to the Minister of Labour and National Service on an Enquiry by the Catering Wages Commission under Section 2 of the Catering Wages Act 1943, HSMO, 1946.
6. ibid.
7. D. Taylor & D. Bush, <u>The Golden Age of British Hotels</u> (1974, Northwood Publications Ltd, London), p 159.
8. ibid, p 160.
9. S. Medlik & D. W. Airey, <u>Profile of the Hotel and Catering Industry</u> 2nd Edition (1978 Heinemann, London), p 129.
10. A. Cairncross, <u>The British Economy since 1945</u> Institute of Contemporary British History (1992, Blackwell, Oxford), p 282.
11. ibid p 283.
12. ibid p 283.
13. Hotels Prospects to 1985, National Economic Development Office Report, 1976, p 2 - 7.

14. S. Medlik & D. W. Airey, Profile of the Hotel and Catering Industry 2nd Edition (1978, Heinemann, London), p 250.

15. Weatherall, Green & Smith, Chartered Surveyors, Annual Property Review, 1988, p 41.

16. ibid p 42.

17. U.K. Hotels PLC: Summer 1988, 3rd Annual Review, Kleinwort Grievson Securities Limited (Paul Slattery, Analyst) p 6 - 15.

18. U.K. Hotels PLC - 1990, The Decade Review, Kleinwort Benson Securities Limited (Paul Slattery, Analyst) p 29 - 30.

19. James L. Heskett, Managing in the Service Economy (1986, Harvard Business School Press, Boston) p 182-184.

20. J. Gershuny & I. Miles, The New Service Economy (1983, Frances Pinter, London) p 199-218.

21. Hotel Catering and Institutional Management Association Salary Survey 1989. Published in Hospitality, February 1990, p 8 - 9.

22. See text on Grand Metropolitan PLC.

23. See text on Gleneagles Hotels PLC.

24. See text on Bass PLC.

25. Ladbroke Group Annual Report and Accounts 1988.

26. See text on Grand Metropolitan PLC.

27. See text on Bass PLC.

28. See text on Grand Metropolitan.

29. Ladbroke Group Annual Report and Accounts 1989.

Problems Relating to the Compilation of Statistics of the U.K. Hotel Industry

1.

Cogent statements of the difficulties surrounding the accurate compilation, interpretation and evaluation of statistics dealing with hotels and catering in the U.K. is contained in a document published by the reference division of the Central Office of Information in January 1972. The document states that

a) "Because no national system of hotel registration or grading exists in Britain there are no official figures in existence of the number and capacity of establishments offering accommodation."

b) "Accurate statistics of the total number of people employed in the tourist industry (including hotels) are impossible to obtain for the same reasons which make figures of the number of accommodation establishments difficult to assess. Additionally, the work-force in the tourist industry is split up into different categories of employment by the Department of Employment so that workers in travel agencies, for example, are placed in the category of "other services" in the "miscellaneous services". Workers from other industries, and employees engaged in both internal and international tourist transport, are placed in the "transport and communications" section. The separate category of employees in catering and hotels includes many employees in this field not involved with the tourist industry, such as workers in industrial canteens, schools and hospitals.

These problems and inconsistencies in classification, and the very general and fragmented nature of the industry, the high proportion of part time staff employed in the various sectors, plus the seasonality, volatility and very nature of the industry mean that statistical material (certainly up to 1972) should be viewed with extreme caution. In addition, so long as there is no comprehensive system of registration, such issues are likely to be clouded in obscurity and the present difficulties are likely to remain for the foreseeable future.

Britain and International Tourism
Central Office of Information
Reference Pamphlet - No 102 - 1972
P 28.

2.

The situation had improved but little by 1992. Twenty years on from the C.O.I. statement, estimates of the size of the U.K. hotel industry ranged from 27,000 (British Tourist Authority) to 14,000 (Central Statistical Office). On the former, broader definition, about 70% of all hotel rooms (as distinct from hotels) were independently operated. The major hotels (with 100 plus rooms) constituted only 2% of hotel stock but 23% of all hotel rooms.

Quoted in Hospitality, October 1992
The Medium Term Outlook for the U.K. Hotel Industry.
Nigel Healey. Leicester University Management Centre.

3.

Cairncross also reminds us of the fallibility of statistics.

> 'Readers should be warned that statistics are not, in principle, any more accurate and reliable than other 'facts' about the past and that official statistics may be

> changed, sometimes quite radically, both shortly after and long after publication.'

A. Cairncross, The British Economy since 1945, Institute of Contemporary British History (1992, Blackwell, Oxford), p316.

Note to Preface Chapter 2

Video Recordings

A video recording of some 45 minutes duration was made with the co-operation of Arthur Neil, The Open Arms, Dirleton. The dialogue is indicative of the role of the individual proprietor and his contribution to the effective management of an independent operation and to profitability.

A further video recording, again of some 45 minutes duration, was made with the co-operation of Peter Tyrie, managing director of Gleneagles Hotels PLC. In this case the dialogue vividly illustrates the importance of the dual perception of the industry as an investment in property as well as a retail operation.

Regrettably, cost and distance precluded a third video recording to illustrate aspects of the growth and development of international groups.

Nevertheless, the recordings made, and which are available, represent a most useful insight to the operation of the independent and property sectors.

CHAPTER 2 THE INDEPENDENT SECTOR

Introduction

Despite the many changes that have taken place in the U.K. hotel industry since 1945, independent hotels still form by far the largest single sector. In 1971 it was estimated that there was a total of 31,965 hotels in the U.K. of which 9,600 had less than 50 rooms and 20,700 had less than 15 rooms. By 1981 the total had fallen to 19,740 of which 8,400 had less than 50 rooms and 9,500 had less than 15 rooms. [1]

The vast majority of these independent hotels are family controlled and operated, as in the case of The Goring in London and The Metropole in Llandrindod Wells in Wales each of which was purpose built. The Lygon Arms in Broadway, Worcestershire is a very old building which was extensively refurbished and enlarged throughout the post war era. As the standard of the property improved the operation of the hotel moved up market until it became one of the best known tourist hotels outside London.

The success in marketing the property abroad, especially in the United States of America, was one of the principal achievements of the proprietor. Many independent hotel buildings were originally private houses which were extended to provide additional facilities for the retailing of accommodation, food, liquor and latterly, leisure. The Open Arms at Dirleton, near Edinburgh is a good example of this syndrome and the particular skill of the proprietor has been to operate an outside catering business in conjunction with the hotel.

The examples chosen, reflecting differing geographical areas of the U.K., all display the principal characteristics of independent hotels and in particular demonstrate many of the criteria necessary for commercial success.

The examples selected for detailed study from the independent sector are:-

1. The Goring Hotel, London

   Proprietor George Goring

2. The Lygon Arms, Broadway, Worcs.

   Proprietor Douglas Barrington

3. The Metropole, Llandrindod Wells, Powys

   Proprietor David Baird-Murray

4. The Open Arms, Dirleton, East Lothian

   Proprietor Arthur Neil

Examples 1 to 4 also illustrate typical ways in which independent hotels have developed in the post war era through the personality of the respective proprietor.

1. **The Goring Hotel, London**

Proprietor George Goring

The Goring Hotel, a privately owned and operated freehold property, is located in London SW1 being midway between Buckingham Palace and Victoria Station. Mr. O.R. Goring (1869-1948), the grandfather of the present proprietor, financed and had constructed to his personal specification the original building which opened on 1st March 1910. By that time O.R. Goring had had nearly twenty years experience of the hotel industry in England and was a prosperous man.

The hotel was the first in England to have a private bathroom for each bedroom, a trend which was not followed by other major London hotels until the 1920's. Original and innovative, O.R. Goring brought his understanding of engineering to good use. The hotel featured central heating throughout, together with systems of ventilation and centralised vacuum cleaning which were well in advance of their time.

During World War 1 the hotel was requisitioned for the army of the United States of America shortly after their entry into the war in 1917. It was one of the first hotels to be de-requisitioned in 1919 and generous compensation was paid. In 1922 and 1926 the hotel was extended to its present size of 88 letting bedrooms with a sleeping capacity of 135. The hotel was not requisitioned by the services throughout World War 2 and adapted to the rigours and restrictions of those times with both alacrity and ingenuity. .[2]

During the immediate post-war period demand for hotel accommodation in central London greatly exceeded supply. Provisions and materials of all kinds were, however, desperately short. O.G. Goring (1901 - 1974), the father of the present proprietor, alleviated the problem of the shortfall of provisions in an entrepreneurial yet stylish fashion. He purchased a large country house in Kent. Although the building was in very poor condition the property included a large walled garden with mature fruit trees and soil ideal for growing a wide variety of vegetables. The hotel was thus assured of a steady supply of fruit and vegetables at a time when competing establishments were not able to offer such produce on their menus. Moreover the excess fruit was canned and used during the winter months. The garden also yielded a fine range of flowers which helped brighten the hotel. In addition O.G. Goring successfully raised Rhode Island chickens on the property to ensure a plentiful supply of poultry and eggs for the hotel. Such were the stratagems employed to surmount the problems of the day. The alternative would have been to resort to the black market - a course of action fraught with risk.

Furnishing and equipment were also in very short supply during the immediate post-war years and O.G. Goring was forced to adopt many economies which went against the grain of hoteliers keen to please their clients e.g. replacing worn areas of bedroom carpeting with carpeting from the area under the bed. Such economies persisted for the decade after the war and might have continued but for the intervention of his wife, Mrs. E. Goring. She was instrumental in implementing the interior refurbishment of the hotel in the period 1955/1965. It was her insistence on top quality linen, curtaining, carpeting and upholstery that enabled the hotel to recapture the elegance it enjoyed in pre-war days. These factors, added to the upgrading of china, glass and cutlery, resulted in the hotel being able to offer genuine value for money to the rising demands of a widening yet discerning clientele.

In 1948 O.G. Goring acquired the Coburg Court Hotel in Bayswater, London W2. It had approximately 150 bedrooms, only a small minority of which had private bathrooms. The fabric of the building was in a very poor state of repair, the hotel had but a very modest income from the sale of food and beverages and was able to let the majority of bedrooms only because of the excess of demand over supply of accommodation. During the next few years considerable amounts of expenditure were applied to the hotel in an effort to upgrade it to a standard comparable with the Goring. Similar efforts were made to improve the quality of management throughout the hotel. To a certain extent this course of action proved successful but the profitability of the Coburg Court could not rival that of the Goring, the principal reason being the undeniably superior location of the latter. In 1958 O.G. Goring sold the property to Myddleton Hotels consequent to their attractive offer. [3]

Realising that it would be virtually impossible to create another hotel of the same standard and style as the Goring in London, O.G. Goring determined to find a country property that would complement his metropolitan operation. Subsequent to a four year search the 90 bedroom Spa Hotel at Tunbridge Wells "fell into his lap" in 1962. He was easily able to finance this acquisition with the proceeds of sale from the Coburg Court together with the profits of a transaction on a house in Victoria. [4]

As with the Coburg Court extensive schemes of refurbishment and modernisation were necessary. These proceeded rapidly and culminated in the construction of a health and leisure centre together with additional bedrooms at a combined cost of nearly £1m in 1985. By that time the number of original bedrooms had been reduced significantly as a result of the installation of private bathrooms. The hotel is now mainly geared to conference business and overseas visitors together with the local trade. The financial performance of the hotel is shown in Table 2 - 1. As with all long-established hotels - the original building dates from 1776 with major additions during the Victorian era (the property commenced trading as an hotel in 1880) - very large sums of money are required to maintain the fabric, furnishings and equipment. In years where the expenditure has been particularly heavy the hotel has operated at a loss; when such expenditure has been less severe the hotel has produced useful trading profits - the figures from 1984 and 1985 illustrate this clearly. The hotel is constituted as a subsidiary of the London hotel and, as such, has been financed by the parent company.

Subsequent to the purchase of the Spa, O.G. Goring arranged for nearly all of his assets to be placed in family trusts. He took a less active part in the running of the hotels and spent an increasing amount of his time either travelling abroad, mainly on the Continent of Europe, in connection with his activities in the International Hotel Association, or within the UK serving on the numerous committees of the hotel and catering industry and related bodies of which he was a member. His health subsequently deteriorated and after a long illness he died in 1974 at the age of 73.

Undoubtedly one of the leading figures within the UK hotel industry in the immediate post-war period, he had a notable career not only with regard to the success of his own operations but more importantly from an historical viewpoint in his role, together with very few others, of gaining professional recognition for the industry in the eyes of both the public and the government. An extract from the obituary in the Caterer and Hotelkeeper is worth recall.

> "The Goring has been described as an unofficial annexe to Buckingham Palace and over the years has housed many distinguished guests who were accompanying official state visitors."

An hotelier who has the wit to operate an hotel in such a location deserves recognition in the annals of the industry. It was indeed sad that severe ill health and lack of mobility prevented him from enjoying a well-earned retirement. [5]

The present proprietor George E. Goring was born in 1938. He commenced work at the family hotel in December 1961 having had a classical training at the Lausanne hotel school followed by extensive experience on the Continent of

Europe culminating in a sojourn at the family owned yet internationally renowned Hotel Vier Jahreszeiten in Hamburg. [6]

Gradually he took over the running of the hotel from his father and evolved his own management style, primarily with regard to the provision of accommodation, food and drink then latterly to the specialist areas of personnel, marketing and finance. This management style evolved over a considerable number of years and is worth examining is some detail.

Accommodation

Over the years the Goring has enjoyed a sound reputation for value for money especially with regard to accommodation. In an average year just over 60% of total turnover comes from this area and is the key to the profitability of the hotel. The strategy adopted by George Goring has been concerned therefore with maintaining the standard of accommodation offered to guests, simultaneously ensuring that the room rates represent good value for money compared with competing London hotels.

The Goring is fortunate in owning property, both freehold and long leasehold, near the hotel. This allows nearly 40 out of the total staff complement of 125 (full and part time) to "live in". The "live in" staff are mainly chambermaids, receptionists, cashiers and secretaries. Having these staff on call is a considerable advantage and helps ensure that the maintenance and cleanliness throughout the hotel are of a consistently high standard. Nothing is more likely to upset guests than dirt or untidiness in bedrooms for which they are paying considerable amounts of money. A further aid to consistently high standards in bedrooms and public areas is the maintenance staff whose remit is to keep all the mechanical and electrical services in good working order. Having one's own staff to carry out this function also carries significant advantages when compared to reliance on outside contractors, particularly when they are required at short notice.

Linked to the servicing of the rooms is the work of the receptionists and the advance reservations office. Long practice over the years allied to long-serving and experienced staff has resulted in the letting of bedroom space being brought to a fine art. The proof of the expertise may be seen in the high proportion of hotel turnover attributable to rooms, allied to the annual number of sleepers and the bed occupancy figures.

Food and Drink

The principal points of sale for food and liquor are the five banqueting rooms and the hotel dining room. Banqueting, especially liquor, is an important contributor to food and beverage turnover and profitability. The hotel dining room, although busy, shows but a small margin of operating profit. Unlike accommodation there are substantial direct material costs for food and beverage. The labour costs are also significantly higher (often accounting for 40% of turnover) and once additional departmental expenses such as laundry are taken into account the margin of operating profit tends to be less than 10%. Nevertheless it is a vital part of the hotel operation. Usually a client's first dealing with the hotel will be a meal in the dining room. Satisfaction in this area will often lead to enquiries and bookings for accommodation. In addition to the cuisine, which is essentially French with an emphasis on fish and seafood, a major attraction for the discerning guest is an extensive wine list particularly strong on claret. The Goring is now one of only a very few hotels that are in the enviable position of being able to buy wines to lay down for future consumption five to ten years hence. Even allowing for the opportunity costs involved and the costs of stockholding this practice can pay handsome dividends and allows the hotel to present a list which offers the client significantly better value for money than other leading London hotels.

Personnel

Whilst it is a truism that no hotel can be better than its staff the Goring has again been fortunate over the years in the quality of its management and staff. A family run business in a service industry will naturally have a greater ability to attract and retain staff over a long number of years. Whilst hotels belonging to major chains may have special attractions these tend to be ephemeral especially as staff within large groups tend to be moved around to a greater or lesser extent. The policy at the Goring has been to carefully interview, induct and train staff with the result that a large proportion remain with the hotel for many years. In 1980 there were 8 who had more than thirty years service, 15 who had more than twenty, while no fewer than 24 had been with the hotel for more than ten years. When one considers that there are only 125 full and part time staff the length of service becomes all the more remarkable in an industry where staff turnover of 100% or more in one year is not uncommon.

During the last twenty years in particular the hotel has been able to build strong links between management and staff. In a relatively small hotel most staff tend to know one another. Essentially the management team comprises three people - the proprietor, the general manager and his deputy. In addition there are three posts at assistant manager level together with six posts at head of department level. The remainder are at either supervisory or operative level. Under such conditions i.e. a working proprietor, a straightforward management structure and clear lines of communication for supervisory and operative staff, it is not difficult to enable all grades of staff to participate in the decision making processes within the hotel and to promote motivation and morale at all levels. The outward manifestation of this situation are various staff and management meetings which take place on a monthly basis and represent a forum for discussion. George Goring freely admits that some of the most productive suggestions for improving the operation of the hotel have emanated from these meetings - often at the instigation of supervisory and operative staff.

Among the major benefits of a low rate of staff turnover is that the guests and staff can get to know one another. One of the particular attractions of hotels such as the Goring is that the guests can return on numerous occasions reasonably certain that they will receive a warm welcome, have their car hire and theatre tickets arranged, their favourite table in the dining-room and the same bedroom as before and all of this carried out by staff whom they know and trust. Taken together these attractions add considerably to the goodwill generated by the hotel. Furthermore they are extremely difficult to emulate in hotels that are merely part of a chain or group. There can be little doubt that the success of the Goring over the years is attributable to the abilities of the staff.

A profit participation scheme has been in force since the 1960's and although the rates of pay throughout the hotel tend to be above not only the Catering Wages Act but also the average for competing London hotels, substantial sums are distributed to all grades of staff via the scheme - to the extent of £70,000 in 1985. In essence George Goring's approach to staff management is one of enlightened paternalism. Although to many this may seem somewhat old-fashioned the profitability of the hotel is sufficient vindication. [7]

Marketing

It is not easy to evaluate the marketing function within the hotel. Prior to World War 2 the marketing was linked to two factors - the personality of the proprietor O.G. Goring and the location. There was relatively little marketing as we understand the meaning of the word today other than bookings made through travel agents, the commission on which was a bone of contention even in those days. In the immediate post war period the excess of demand over supply ensured upsurge in world tourism and the gradually increasing disposable income of the British clients maintained the status quo. It was not until the implementation of the Development of Tourism Act 1969, which brought in its wake the various development incentives, that independent hoteliers perceived that in order to retain their share of the market more time and effort would have to be deployed in the marketing of their products.

The Goring still retained the inbuilt advantages of an exceptionally good location, a strong following in the United States of America dating back to World War 1 when the hotel had been requisitioned for the American army, and the unique connection with Buckingham Palace and the Comptroller of the Royal Household. Furthermore, the hotel enjoyed a loyal following in the UK for accommodation, functions, weddings and restaurant business. Nevertheless the hotel building boom of the early 1970's and the recession of 1973-1975 caused the balance between supply and demand for hotel accommodation of all grades throughout central London to undergo radical change. Discounting of room rates was rife, group and tour business was accepted by even the most prestigious hotels and hoteliers in the capital became desperate to fill rooms which were empty even in the traditionally peak times of the year.

Against this background George Goring resolutely refused to join in the practice of discounting room rates. He preferred to let the room at the rack rate, which he correctly saw as offering sound value for money vis a vis his competitors, or not let it at all. In the long run he was able to maintain this policy, although the period 1974 to 1976 saw a significant fall in the number of sleepers as was the case later on in the period 1981 to 1983.

Like his father and grandfather before him he had fought a long-running battle with travel agents over the matter of commission. For many years he refused to pay the travel agents their customary 10% commission on room sales. Likewise he would not accept credit cards. The events of the 1970's, however, caused him to rethink his policies. Eventually the major credit cards were accepted in 1978 and commission to travel agents was paid from 1981. Nevertheless he was able to make a considerable marketing ploy out of the latter and was able to attract nationwide attention throughout the United States of America via the columns of the New York Times. [8]

The hotel is now serviced by an extensive network of travel agents throughout the United States and regular personal contact is maintained with them in order to secure a steady stream of clients. Overall the approach to marketing is conducted insofar as is possible on a person to person basis with the Goring name and the personality of George Goring projected to the full. This, however, does not imply a high profile technique, but more of a widening of the circle and the ripple effect of the Goring name in the many locations in which it is recognised throughout the Continent of Europe and the New World.

Finance

Although not overtly interested in financial matters, as is the case with many genuine hoteliers, George Goring is sufficiently aware of the financial necessity of hotel profitability. To a certain extent his apparent lack of interest may be attributed to the strong financial position from which he operates. This happy state of affairs is neatly encapsulated in the family motto - e viribus servi - serve from strength. As shown in Table 2 - 1 and 2 the combined turnover of the two hotels is approximately £4 million per annum. With both properties freehold this would indicate a conservative combined valuation in the region of £7 million. Even this figure does not mean very much as it is highly unlikely that either hotel will ever be put on the market.

The year to year profitability is linked primarily to room occupancy and room rate and secondly to the level of repairs and renewals written off against revenue and charged to the profit and loss account. As may be seen this latter amount tends to be significant and is the principal reason for the pre-tax profits being restricted to their present levels. In George Goring's words "old hotels tend to be thirsty brutes". The room rates in the period under review have been determined by a combination of competition and inflation. In 1960 a single room with bathroom per night was £2.25, in 1970 £4.50, in 1980 £40 and in 1985 £60. In the recession of 1981 to 1983 there was again a marked decrease in turnover as Table 2 - 1 shows and it was not until 1985 that business returned to its previous levels. These figures clearly illustrate the cyclical nature of the hotel industry. Usually it is linked to business cycles in general and to specific external factors such as the strength of sterling against the major foreign currencies.

The sales mix is especially favourable with the marginal profitability of the food and beverage operations being more than offset by the volume of accommodation business. Indeed the figures for 1978 and 1985 indicate a bed occupancy of 85%, a high figure even by London standards. It may be seen therefore that the Spa and especially the Goring are in an enviable financial position compared to the vast majority of independent hotels in the U.K. The combination of long established freehold properties in sound location enjoying a considerable degree of goodwill is a potent recipe for success.

Wisely George Goring allows himself sufficient time for leisure and recreation. Having been a keen horseman since his youth he has maintained a keen interest in this field and over the years his success has grown considerably. Generously he ascribes this more to the quality of the horses than his prowess as a rider. Although he originally intended his riding to act as a diversion from the hotel, events have paradoxically resulted in the recreation becoming a marketing tool. His three-day eventing team which is known as the Boring Gorings is sponsored by the hotel. The "Boring" epithet was given to him by travel agents in the United States, tired of his one time insistence not to grant them commission.

In essence his management style could be termed that of a professional amateur. With 75 years and three generations to assist him he can make the hotel portray the style and appearance of a private house rather than the highly profitable business it is. One small example may serve to typify this style and contrast it to that generally found in large group hotels. In such establishments the guests' hearing is often assailed by discordant piped music. When guests dine at the Goring it is to the accompanient of, for example, a Chopin polonaise played on a Zimmerman grand by students from the Royal College of Music. Small touches such as this are indicative of the advantages that independent hotels can generate to their benefit.

During this century the Goring has carved for itself an unique niche in the U.K. hotel industry and after 75 years of service is genuinely regarded with considerable affection by generations of guests and staff alike.

FINANCIAL COMMENTARY

The schedules of The Goring Hotel Limited and The Spa Hotel (Goring) Limited illustrate two principal features of hotel profitability - the importance of a high level of accommodation in the sales mix and the impact of revenue repairs and renewals on operating profit levels. In these areas the Goring is especially fortunate in having such a large proportion of its turnover in accommodation, which in turn allows the property, externally and internally, to be maintained in sound condition. It may be noted that by 1985 the expenditure on repairs and renewals for the Goring alone was running at the rate of £1,000 per day.

Nevertheless the Goring and the Spa attest to the principal determinant of success in the hotel industry, insofar as they display the dual nature of the business as an investment in property, linked to a retail business with inherent added value characteristics. The expert matching by professional management of the inherent and potential value of the property to the retailing of accommodation, food, liquor and leisure results in a situation where near optimum profitability can be achieved.

TABLE 2 - 1

THE GORING HOTEL LIMITED - LONDON

FINANCIAL SUMMARY - 1976-1985

	Year to 31.3.76	Year to 31.3.77	Year to 31.3.78	Year to 31.3.79	Year to 31.3.80	Year to 31.3.81	Year to 31.3.82	Year to 31.3.83	Year to 31.3.84	Year to 31.3.85
Number of Sleepers	34,051	40,429	42,611	41,795	37,400	31,060	31,547	32,511	37,953	42,249
	£	£	£	£	£	£	£	£	£	£
Total Turnover	583,898	770,215	945,187	1,152,195	1,273,534	1,363,595	1,570,810	1,776,464	2,191,111	2,633,601
Provision Receipts	179,238	226,149	273,606	311,807	332,321	367,755	439,466	502,252	600,197	693,362
Liquor Receipts	65,853	85,394	94,434	111,240	126,368	149,273	182,430	213,771	242,003	293,051
Cigar/Cigarette Receipts	4,403	4,599	5,208	5,431	6,410	7,003	8,569	10,278	10,528	10,449
Gross Profit	454,650	601,985	757,429	931,557	1,033,949	1,102,090	1,247,717	1,406,268	1,777,593	2,159,842
Gross Profit % Provisions	47.7	45.3	49.2	49.0	48.2	49.0	47.7	47.7	51.7	50.9
Gross Profit % Liquor	51.7	52.5	53.1	48.8	50.6	54.0	52.6	53.8	52.6	57.5
Gross Profit % Tobacco	16.6	14.0	14.2	12.7	19.3	18.7	18.5	13.1	15.5	13.3
Repairs & Renewals	£51,006	£78,859	£121,311	£157,345	£158,411	£88,323	£196,247	£216,649	£239,314	£365,150
Net Pre-Tax Profit (Loss)	£54,650	£89,225	£102,226	£114,359	£55,470	£88,341	£(15,577)	£1,685	£200,096	£203,545

Note: Gross Profit = Total Turnover - Cost of Sales of Food, Liquor and Tobacco

Source: Audited Accounts - The Goring Hotel Limited - London

TABLE 2 - 2

SPA HOTEL (GORING) LIMITED

FINANCIAL SUMMARY - 1976-1985

	Year to 31.3.76	Year to 31.3.77	Year to 31.3.78	Year to 31.3.79	Year to 31.3.80	Year to 31.3.81	Year to 31.3.82	Year to 31.3.83	Year to 31.3.84	Year to 31.3.85
Number of Sleepers	22,378	23,176	23,491	25,003	23,832	19,898	22,300	21,879	22,289	22,213
	£	£	£	£	£	£	£	£	£	£
Total Turnover	374,558	447,263	574,705	715,190	825,377	838,546	986,604	1,060,840	1,223,611	1,329,955
Provision Receipts	150,385	195,644	267,501	327,561	380,189	385,976	432,901	480,375	526,438	604,621
Liquor/Tobacco Receipts	73,137	86,579	103,811	128,649	154,653	161,501	195,284	210,193	243,732	258,476
Gross Profit	239,089	273,330	370,194	482,538	549,783	573,068	680,341	713,254	839,762	924,038
Provisions Gross Profit	36.5	35.2	44.5	48.8	49.3	47.9	49.3	48.0	49.2	51.8
Liquor/Tobacco Profit	43.9	43.5	43.9	47.3	52.4	51.6	52.4	51.6	52.2	53.4
Repairs & Renewals	£54,864	£25,738	£57,739	£106,781	£130,319	£82,025	£91,482	£143,365	£103,241	£191,330
Net Pre-Tax Profit (Loss)	£(18,182)	£(2,728)	£15,404	£30,835	£(21,897)	£19,097	£63,655	£(6,644)	£95,718	£(34,488)

Note: Gross Profit = Total Turnover - Cost of Sales of Food, Liquor and Tobacco

Source: Audited Accounts - Spa Hotel (Goring) Limited

2. **The Lygon Arms, Broadway, Worcester**

Proprietor Douglas Barrington

The Lygon Arms is situated in the picturesque village of Broadway, Worchestershire, some 90 miles from London. The original buildings date from the 14th century. From as early as 1532 it was known as the White Hart Inn. Both Charles 1 and Cromwell were guests of the inn which was the property of the Trevis family from 1620 until 1770. In 1830 a veteran of the Napoleonic wars, General Lygon, acquired the buildings and surrounding land. His butler took over the inn and renamed it The Lygon Arms.

At the beginning of the twentieth century inns and hotels throughout England tended to be in a poor state and The Lygon Arms was no exception. In 1903 Sydney Bolton Russell (1866-1938) acquired the property and set about restoring it to its former glory. When one of the principal function rooms, The Russell Room was opened on 28th June 1957 the then chairman of the British Travel and Holidays Association Sir Arthur Morse said of the founder of the modern Lygon

> "Sydney Russell was a man of vision with a knowledge and love of architecture and a passion to create the perfect English inn and his two interests have borne splendid fruit in The Lygon Arms". [9]

Sydney Russell had three sons - Sir Gordon Russell and Professor Richard Russell were both prominent industrial designers and owned a furniture factory which they operated from Broadway. The middle son Don Russell (1894 - 1970) was, together with his father, responsible for greatly improving the standards of the inn before and after World War 2.

In the period 1939 to 1945 the hotel was frequented by many groups of servicemen. In one was a young Australian naval gunnery officer by the name of Douglas Barrington. An accountant in his native Perth he had come to the U.K. in 1941 as a naval recruit. Towards the end of the war Don Russell offered him the job of manager at the Lygon Arms and subsequent to obtaining his discharge in England he accepted the challenge, became a director in the following year, managing director in 1956 and chairman in 1983. The continuing success of the hotel in the post war era is inextricably linked with his name.

When Douglas Barrington came to the hotel it had only 26 bedrooms. Subsequent to an initial decade when the property underwent rehabilitation to restore the fabric and furnishing to pre war standard a series of extensions was planned and executed. The first major extension was in 1957 when completely new kitchens were built. The area formerly occupied by the kitchens and the ancilliary premises was converted to form The Russell Room which is now used as a relaxation area for residents and occasionally for private functions.

In 1960 the land adjoining The Russell Room was utilised to create a bedroom extension of 14 rooms, all with private bathrooms, overlooking the hotel gardens. Consequently this area was named the Garden Wing. A second wing was completed in 1968. This comprised a further 19 rooms, again all with private bathrooms. In addition a comprehensively equipped conference room, The Edinburgh Room, was incorporated into what was named the Orchard Wing. These two modern wings attracted much architectural acclaim - Sir Nikolaus Pevsner remarking in his Buildings of England

> "A perfect twentieth century extension just to show that such a thing can be done and should be done." [10]

Additional refurbishment then took place in some of the older parts of the building. The number of rooms declined from a peak of 72 to the current 63 as a result of the provision of private bathrooms in all the original bedrooms. The principal function/conference area, the Torrington Suite, was incorporated into this phase of development.

Whilst the series of extensions and accompanying renovations produced an enlarged hotel offering superior facilities to discerning guests it must not be assumed that these improvements represented a passport to profitability.

The Lygon Arms does in fact serve as an excellent illustration of the principal economic problems that confront innkeepers and hoteliers. It will have been perceived that the bulk of hotel investment is of a capital nature, being tied up in land, stone, bricks and mortar, together with fixtures, fittings and equipment. As a consequence there is a high incidence of fixed costs, particularly in establishments where standards are as high as those at The Lygon Arms. Not only are the costs (repairs and renewals, rates, insurance and depreciation) of maintaining the fabric and furnishing considerable but the single greatest cost - that of labour - is essentially fixed and therefore has to be borne irrespective of the level of turnover.

The result is that the break-even point of the operation, in terms of room and bed occupancy, as well as food and beverage turnover, is high. Because of the fixed location of the premises and the perishability of the principal product, accommodation, and to a lesser extent food and liquor - allied to seasonality and a propensity towards volatile patterns of turnover, it is difficult for proprietors to earn significant levels of profit or satisfactory rates of return on capital investment. It is against this economic background that the importance of marketing becomes crucial. The latter day success of The Lygon Arms can be largely attributed to the marketing expertise that the management of the hotel has acquired and consolidated during the period under review.

It has already been noted that the major post-war expansion of the U.K. hotel industry dates from the early 1960's. At that time Douglas Barrington anticipated the upsurge that was about to take place. Simultaneously he realised that in order to attain satisfactory levels of turnover in the three principal revenue producing areas of the hotel - accommodation, food and drink - it would be necessary to widen his market and to attract a substantially greater number of visitors from overseas. He identified the United States of America as a prime marketing target and made his first foray there in 1964. This visit was to prove a great success and the following year saw a 30% increase in the business from the U.S.A. Such is the importance of this market to the Lygon Arms that Douglas Barrington visits it every other year in order to consolidate his relationships with the many travel agents who send him valued clients. [11]

At the time it was made, it was very much a pioneering trip for an independent hotelier to undertake. Very few independent hotels had direct relationships with travel agents outwith the Continent of Europe and of the major groups only Grand Metropolitan had by that time an established sales and marketing team.

Since that initial visit Douglas Barrington has made numerous other overseas trips principally to Australia and Japan. By 1985 only 46% of the hotel's turnover came from U.K. residents, an equal percentage from clients from the United States of America together with 2% each from Australia and Japan. Effectively this means that the hotel now earns more than £1m in foreign currency. The outward manifestation of this considerable marketing success was marked both in 1971 and 1985 by the Queen's Award to Industry for export achievement, the first independent hotel to gain this honour.

Douglas Barrington also foresaw the need for independent hoteliers to act together in the field of marketing and sales promotion. The Lygon Arms was one of the founder members of Prestige hotels, a marketing consortium which now numbers some 30 hotels in the U.K. all of which are independent and the vast majority of which are in the country house style. Membership of Prestige has brought useful benefits to all members of the consortium and has enabled them to tap markets which otherwise would have been prohibitively expensive. Furthermore they have been able to extend their activities into the field of purchasing thereby making additional savings. The success of the Prestige venture encouraged Douglas Barrington to participate in another international consortium, that of Relais & Chateaux. This is an organisation founded in France some thirty years ago with the aim of promoting hotels of excellence, situated in tranquil rural areas and dedicated to providing relaxation, comfort and fine cuisine for guests. It is now a worldwide organisation with some 17 members in the U.K. and the standard is perhaps even higher than that of Prestige.

Because the marketing of the hotel projects an image of exceptional comfort and fine cuisine, located in an area of outstanding natural beauty surrounded by historical and cultural attractions, it is imperative that the operational standards are maintained at a consistently high level. The higher the standard of an hotel the greater attention must be paid to ensuring that the expectations of the guests are satisfied. A guest will tend to remember one or two small matters that were not exactly to his or her liking rather than the majority which may have been faultless.

The key to high standards is a management structure that enables a high degree of customer contact and direct staff supervision. Allied to this is the high degree of social and technical skills of staff at all levels. Ideally a chambermaid, porter or waiter should be able to converse with guests with a degree of fluency similar to that of the proprietor. To facilitate all this the management structure comprises the proprietor, the managing director and the general manager as the top tier supported by a conference manager, a food and beverage manager and an accommodation manager as a second tier. Thereafter 120 staff of whom 100 are full time exist to fulfil the expectations of the guests. In addition and somewhat unusually for an independent hotel there is a wide range of consultants in such fields as wine, interior decor, fire precautions and energy conservation whose specialist expertise complements the technical skills of the management team.

As has been indicated the proprietor is essentially concerned with the external projection of the hotel both through his own efforts and via the many committees on which he serves related to tourism, hotels and catering. The managing director Kirk Ritchie has been with the hotel since 1975.

Having had a classical five year training with the Savoy Hotel Company, preceded by a year in France in the wine trade and the post Savoy training with an international group in London, he is ideally placed to evaluate the requirements of an increasingly discerning clientele. In practice this means that all guest accommodation must be constantly maintained in impeccable condition. When guests may be paying in excess of £100 for a twin room for one night (which approximates to London West End prices) there has to be unceasing attention to detail allied to the provision of accommodation that is simultaneously aesthetically pleasing, comfortable yet functional. [12]

In the case of an essentially old building such as The Lygon Arms this can be achieved only by a high level of skill and significant, often heavy, expenditure on repairs and renewals to the fabric and furnishings. Indeed, the cost of repairs and renewals is one of the main limiting factors in the determination of profitability. The aesthetic standards of the Lygon Arms accommodation are greatly enhanced by the wide use of numerous pieces of antique furniture which are to be found in the individual guest bedrooms as well as public areas. It is a pleasant surprise, especially for overseas visitors, to find the modern fittings of their room such as a hairdrier and colour television set complemented by, for example, a

Georgian bow fronted chest of drawers or a Victorian writing table.

Arriving in the middle of the 1973 - 1975 recession as Food and Beverage Manager Kirk Ritchie immediately had a challenge on his hands to improve levels of turnover and profitability. Of particular concern was the food and beverage area which although satisfactory until the early nineteen seventies was having to come to terms with serious competition. A number of country house style hotels had recently opened and it was imperative that the Lygon Arms retain its share of the market. As a result of Kirk Ritchie's endeavours a number of changes was instigated. The aim of the food and beverage area is now to produce quality menus of a consistently high standard without indulging in spectacular cuisine which tends to be not only costly but also much more difficult to achieve consistent standards. The virtues of this approach may be seen in the relatively short `a la carte menu and in the table d'hote menu which is of a standard sufficient to satisfy the majority of guests.

The significant proportion of function and conference business enables the hotel to achieve an overall gross profit percentage on food in excess of 60 and a similar profit percentage on drink in excess of 50. This is both necessary and important in an area which attracts a high labour cost, typically 30 to 35% of turnover, in addition to a considerable number of overheads e.g. laundry. The hotel operates a full system of management accounting and budgetary control which enables individual managers to assess performance on a monthly basis and thereafter remedy adverse variances and capitalise upon trends that are favourable. The system is under the control of the company secretary who reports to the chairman and managing director.

During the summer months the Lygon Arms employs 120 staff of whom 70 are female and 50 male. It may seem extravagant to employ 100 full time and 20 part time staff in an hotel which has only 63 bedrooms but the layout and the age of the buildings combined with the high standard of personal service which is available to guests necessitate these generous staffing levels. Considerable attention is paid to staff training and development with the result that the rate of staff turnover compares very favourably with the average for this type of hotel. For example 24 members of staff have more than 15 years service and their combined service extends to more than 1000 years. This attracts considerable benefits both to the hotel and for regular guests who can be assured of continuity of service by people whom they get to know well.

An indication of the importance that the management attach to staff was evident in the early 1980's. At that time consideration was being given to the provision of a health and leisure facility for the guests within the hotel grounds. Although very fashionable at the time there were opposing views as to the merits of such a course of action. Simultaneously it was recognised that the land available could be utilised for the provision of a purpose built staff accommodation wing. The hotel owned a number of old properties in the village and surrounding area and whilst these served a useful purpose their scattered location made it difficult to maintain and supervise their upkeep. Furthermore it was, on occasion, difficult to contact staff. A decision was made to opt for the staff accommodation wing which was built at a cost of £400,000, a substantial proportion of the investment being met by the sale of the village properties. The superior accommodation is a definite attraction for staff and gives the Lygon an advantage in engaging skilled staff with London or equivalent experience.

In the period November to March a financial evaluation of the hotel must take into account turnover, profitability and the rate of return on capital investment. Over the years the turnover has risen steadily to the point where it is now some £2.25m per annum. In the period October to March, however, the hotel operates at a loss mainly because of the high level of fixed costs which have to be borne irrespective of the level of turnover. It would be quite impracticable for an hotel of the standard of the Lygon Arms to close during the winter months - the main aim during this period is to minimize losses. The summer months produce a substantial profit except in years where the U.S. dollar is weak vis a vis sterling as was the case in 1980/81. Also, in years where the revenue charge for repairs and renewals is heavy, little or no operating profit is generated. In years where this charge is less than average a useful level of operating profit is produced.

In the case of the Lygon Arms the rate of return on capital investment is somewhat nebulous. On the basis of annual turnover of £2.25m and taking into account goodwill and the especial attractions of the hotel, a conservative valuation of the property as a going concern might be in the order of £3.5m. The hotel, however, has a valuable capital reserve in the form of 13 acres of prime land on the outskirts of the village. It is a prime site for private housebuilding and were planning permission obtained a value of a least £1.5m would be indicated. On the basis of a combined valuation of some £5m the rate of return is very low. In view of the capital structure of the company, however, this figure does not give cause for concern. The majority of the equity was formerly in the hands of the Russell family with Douglas Barrington having a minority interest. Subsequent to Don Russell gifting shares to Douglas Barrington control of the business passed to the family of the latter, Kirk Ritchie subsequently acquiring a minority interest.

In 1986 Douglas Barrington, by now in his mid-sixties, decided to sell The Lygon Arms. Not surprisingly the proposed sale received numerous enquiries from prospective purchasers but after careful consideration he decided to accept the offer of £4.75M from The Savoy Hotel PLC. Negotiations, which were concluded in the summer of that year, resulted in Douglas Barrington joining the board of the management company of the Savoy group. [13]

The Barrington era, spanning forty years, thus came to a successful conclusion: the operation of the hotel was transferred to capable hands with Douglas Barrington being available to ensure that the standards he had built were maintained and enhanced.

TABLE 2 - 3

THE LYGON ARMS LIMITED - BROADWAY

FINANCIAL SUMMARY - 1976-1985

	1976 £	1977 £	1978 £	1979 £	1980 £	1981 £	1982 £	1983 £	1984 £	1985 £
Turnover - * Total (Exclusive of VAT)	718,515	905,435	1,035,081	1,256,597	1,333,625	1,366,960	1,516,149	1,733,918	2,031,296	2,312,798
Accommodation	290,433	375,796	462,276	546,451	573,465	563,197	634,162	762,018	894,822	1,020,266
Food	312,458	386,792	411,247	444,966	472,022	512,516	519,020	618,651	710,730	809,216
Liquor	104,624	126,063	147,754	178,058	183,277	198,886	245,486	262,786	269,062	313,580
Gross Profit Percentage - Food	63%	62%	62%	62%	61%	53%	54%	52%	63%	63%
Gross Profit Percentage - Liquor	55%	54%	55%	52%	53%	51%	51%	52%	52%	54%
Repairs & Renewals charged to P & L	36,967	28,523	35,689	43,999	84,167	31,597	29,508	47,684	81,260	154,333
Net Profit Before Tax	£56,546	£63,658	£69,048	£27,346	Loss (£58,314)	Loss (£66,879)	£42,492	╖62,767	╖109,952	╖71,397

* Total Turnover includes:
Wine Bar
Telephones
Car Hire
Garage Rents

Source: Audited Accounts - The Lygon Arms Limited

3. **The Metropole, Llandrindod Wells, Powys**

Proprietor David Baird-Murray

The Metropole Hotel is located in the centre of Llandrindod Wells, Powys (formerly Radnor) Wales. Cardiff and Swansea are some 70 miles distant, Birmingham 80, Manchester and Liverpool 125 and London 170 - approximately 3 hours by car. The town is also served by the mid Wales railway line running from Swansea to Shrewsbury. The town has a population of 4,200 and within a radius of 25 miles there are only some 20,000 people.

Powys covers more than 1.25 million acres, nearly a quarter of Wales, with the smallest population of any county in England and Wales. Llandrindod Wells was built mainly between 1860 and 1870 as a Victorian Spa town. By 1910 there were at least 6 major hotels, each with 100 or more rooms together with numerous smaller establishments giving a total capacity in excess of 3,000 beds.

The great-grandmother of the present proprietor purchased the original buildings in 1897 for the sum of £7,850. Mrs. Elizabeth Miles (nee Spencer, born 1847 and died 1930) was married at 20 and left a widow with two sons at 24. Of dynamic disposition and formidable personality Elizabeth Miles ultimately became the licensee of ten properties in

South Wales. In the period 1897 to 1923 a series of major extensions was carried out with the result that at one time the hotel was the largest in Wales. [14]

Mrs. Elizabeth Miles engaged a manager and manageress to run the hotel. From 1906 Mr. A. Sims held this position until his death in 1929, his wife continuing throughout the Second World War until her retirement in 1947. Another couple, Mr. and Mrs. Finlay McEwan then took over the management until 1954 when the present proprietor David Spencer Baird-Murray, great-grandson of the founder, took over the operation. [15]

At the beginning of the Second World War the hotel was requisitioned, at a fortnight's notice, by the army authorities. The contents of the hotel were sold, unfortunately at a considerable loss. During the war years the building was used as an artillery officer training depot. Relatively minor damage was sustained during this period but, in the summer months of 1945 following the end of the war the hotel was used as a main demobilization centre and in this short period extensive damage was done to the fabric. The army reparations committee allowed only £8,000 in compensation which, as it turned out, was barely sufficient to eradicate the dry rot that had infested the building.

Consequently the immediate post-war years were hazardous in the extreme. The hotel was in very poor shape, there was little or no furniture and what there was had been bought at second hand sales, rationing and shortages still being the order of the day. There were hardly any carpets, no central heating, obsolete kitchen equipment and little prospect of an upturn in the low volume of business. The bulk of what turnover there was came from the public bar which the authorities had allowed to remain open throughout the war years.

Furthermore, mainly as a result of the war, the considerable family fortune was in marked decline. An attempt was made to sell the hotel at an asking price of £20,000 compared with a 1925 valuation of £32,000. There were no offers. In what was virtually a last resort the family sold most of their remaining property in Pontypridd for £19,000 and loaned this sum to the hotel company in order that it might effect essential repairs.

David Baird-Murray left Harrow in 1948 and spent two years National Service commissioned in the Royal Marine Commandos. As a result of this he had to forego the opportunity of attending the prestigious Lausanne Hotel School. Instead he spent a year in hotels in Paris and Cannes thereby gaining a useful insight into the operation of high class hotels on the Continent of Europe.

Subsequent to a year in the shipping business in North Africa he was then invited by his family to take over the running of the Metropole. Realizing that the future fortunes of his widely spread family were being placed in his hands he responded to the challenge more out of a sense of family duty than personal predilections or ambition. He became the licensee in 1954 and was at that time, aged 23, the youngest in Wales. [16]

In the early and mid 1950's when the annual turnover was little more than £30,000 only 54 out of the 150 rooms were available for letting. The season was short and the Spa attractions of Llandrindod, which were at their peak in the late Victorian era, had long since faded. The season usually commenced around Easter with the meeting of the Governing Body of the Church of Wales and finished in late September with the autumn meeting of that body. In between there were various theme weeks which tended to meet with varying degrees of success. These difficult problems were intensified by the extremely sparse local population, few of whom could afford to patronise anything other than the public bar. There was little cultural activity, the Welsh identity having been suppressed during the war years. Trade was equally depressed at the three other surviving hotels of note in the town.

Against this background David Baird-Murray commenced a three pronged assault on the market in order to revive the fortunes of the hotel. First of all he promoted the sale of liquor in the bars. This generated much needed cash with which to slowly set about the massive task of the refurbishment of the fabric, furniture, fittings and equipment. Secondly he set about attracting coach business throughout the season. In this he was mainly successful and after a number of years was dealing with no fewer than 17 separate coach operators from Thomas Cook downwards. This business helped fill the hotel and was a major contributor to eradicating losses and moving tenaciously towards a modest operating profit for the summer months. The final part of the strategy was designed to promote a cultural awareness of all things Welsh and to engender a nationalist spirit throughout the region so that Welsh people could perceive the advantages of tourism and increase the utilization of the natural and physical resources at their immediate disposal.

The implementation of these plans was successful to the extent that by 1956 the hotel was opened throughout the year, coach business continued to improve and the result of David Baird-Murray's appeal to the local people led to his being elected as district councillor in 1957. His financial rewards, however, were of a much more modest nature. For the first two years he had no salary from the hotel. From 1956 he was paid £250 per annum but this was doubled on his marriage in 1958 and doubled again on the birth of the first of his four children. Even then £1,000 per annum was not a great reward for six years' hard labour.

In addition the hotel was still starved of capital investment. In 1959 the hotel company was fortunate in being able to raise £30,000 via a first mortgage with the Eagle Star Insurance Company and Lombard Banking. This enabled central heating to be installed on the ground floor (but not as yet in the bedrooms) together with general improvements to the food and beverage areas.

In the period 1957 to 1962 David Baird-Murray widened his horizons by becoming involved in a number of organizations connected with the hotel industry. All of these helped him promote the hotel and the essence of his marketing strategy over the years has been the range of external influence he has been able to bring to bear on committees and organizations involved with the administration of the hotel, catering and tourism industries within Wales. He involved himself in the West Midlands and South Wales division of the British Hotels and Restaurants Association and with the then voluntary tourist board of Wales. He then attracted national attention throughout Wales as a result of the moves towards the relaxation of licensing laws in the country with regard to Sunday opening. He achieved an initial success in the 1961 campaign which saw hotels in Radnor being allowed to open on Sundays. This was followed by further successful campaigns in other Welsh counties in 1968, 1975 and 1983 by which time only two districts remained "dry" on Sundays. As chairman of the council that supported seven day opening he became well known in the country and this publicity was of considerable benefit to the Metropole.

The period 1965/1966 saw him obtain a controlling interest in the ordinary share capital of the company subsequent to the restructuring of the share capital for the benefit of some older members of the family. At the same time the director of the insurance company that provided the mortgage six years earlier now became the chairman of the hotel company. In addition a senior executive from the brewing firm Whitbread joined the board and from this grew a close trading relationship. As well as supplying the hotel with beers, wines and spirits they have been significant lenders to the company, enabling additional refurbishments to be carried out, with the added advantage of such loans carrying minimal rates of interest. In spite of this, substantial bank loans became a permanent feature on the balance sheet as the hotel struggled to overcome its economic disadvantages.

The combined problems of an isolated location with a sparse local population allied to seasonality and volatility in patterns of turnover were particularly severe for a large old hotel with heavy fixed costs, a continuing need for repairs and renewals and 100 bedrooms to fill. Whilst modest operating profits could be made during the summer months these were more than offset by the losses of the winter months exacerbated by increasingly heavy bank interest charges. Expenditure on refurbishments, expensive as they were, was essential to meet the now rising expectations of the guests. It was clear that further marketing ploys would have to be adopted in order to increase turnover and thereby profitability.

A major advance was made when the Metropole became the first Welsh hotel to join the Interchange consortium. In 1969 there were only seven members. David Baird-Murray was able to play a leading part in the development of Interchange and was instrumental in bringing the group to the attention of the largest marketing consortium for independent hotels in the world - Best Western which is headquartered in Phoenix, Arizona, U.S.A. Its Board of Management was eager to expand into Europe and in particular into the U.K. They saw a ready vehicle in Interchange and the deal was rapidly put together.

Best Western U.K., of which David Baird-Murray was chairman in 1976, has gone from strength to strength and by 1985 numbered 197 independent hotels. It has extended its activities to bulk purchasing whereby members can obtain substantial discounts on a wide range of goods and services. The links with Best Western International have been retained and it is interesting to note that Best Western U.K. actually refers, via a global computerised reservations system, more business to Best Western U.S.A. than vice versa. Despite this the advantages of membership are considerable and its popularity is reflected in the growing number of participants.

David Baird-Murray was appointed chairman of the Mid Wales Tourism Council in 1964. When the Wales Tourist Board was formed in 1969 he supported the appointment of the first chief executive Harold Naylor and worked closely with Sir David Davies throughout the formative stages of the board's development.

The hotel celebrated its centenary in 1972 with a spectacular buffet reception attended by many of the leading figures in Wales, the guest of honour being the Minister of State for Wales, David Gibson-Watt, who later became a life peer. The centenary celebrations were essentially a further marketing stratagem designed to bring the hotel to the attention of a wide circle of influential people.

In the centenary year Roberto Marchesi was appointed General Manager and he has remained at the hotel to this day. This allowed the proprietor to delegate much of the day to day administration of the property, freeing him to develop the marketing function and to explore the possibilities of an improved financial structure. Substantial bank loans were still outstanding, the financial position being made worse by the installation of many private bathrooms in guest bedrooms and further central heating, including the installation of the new boilers. [17]

The recession of 1973 to 1975 had considerable impact on the Metropole especially in 1974 when 10,000 bed nights were lost as a result of the cancellation of coach parties. In an effort to recoup this, contracts were entered into with SAGA and these became an important but not very profitable part of the business of the hotel for the following ten years. Effectively they enabled the hotel to improve its room and bed occupancy and materially improved the profitability of the hotel in April and October where formerly the hotel had either just broken even or traded at small loss. Nevertheless it is worth noting that in 1974 the charge per person for a week's full board was only £23. An additional problem during this period was the cost of implementing the provisions of Fire Precautions Act 1971. By the time that all the requirements of the authorities had been satisfied the cost of fire detection systems, fire doors, external flights of stairs and the like ran to £110,000.

Consequent to the economy pulling out of the recession the Metropole enjoyed its most stable period since the war in the latter half of the decade. From 1976 to 1979 the hotel was able to operate at a modest annual profit having benefited from the continuing schemes of refurbishment which resulted in clients being given sound value for money. During this time the Powys conference suite with a maximum capacity for 400 delegates was constructed and fitted out at a total cost of nearly £200,000, £40,000 of which was financed via a grant under section 4 of the Tourism Development Act 1969.

In 1979 David Baird-Murray purchased two hotels, the Bellevue Royal in Aberystwyth and the Haford Arms at Devil's Bridge, at a combined cost of £300,000, all financed by bank loans. At the time both hotels were showing satisfactory profits and it was forecast that the combined turnover of the three hotels would exceed £1m and that net pre-tax profits would be at least £135,000.

Unfortunately, shortly after the purchase of the two hotels trade became badly affected by the recession of 1979 to 1981. It soon became clear that the optimum course of action was to sell the two hotels and this was eventually accomplished via a piecemeal realization by early 1982. The proceeds of sale were just sufficient to recoup the investment, meet the bank interest and cover the trading losses that had been incurred. It was an unlucky experience. In other circumstances the investment might well have produced a satisfactory rate of return on the capital investment and the nucleus of a small group of hotels would have been formed. In the event the timing was wrong but at least the total investment was recouped without serious loss. [18]

In 1975 the chairman of the company Mr. E. G. Spater died and was succeeded by Lord Gibson-Watt. In the early 1980's it became clear to the directors that there were basically but two options open to further improve the standing of the hotel. One was to expand by purchasing the nearby Commodore Hotel at a cost of some £300,000 and then to refurbish it to three star standard. This would then attract the upper end of the market leaving the Metropole to continue to aim for the volume tour business at the lower end of the market. The other option was to spend heavily on the Metropole, regain the three star status it had relinquished and then move up-market, dispensing both with SAGA and the lower end of the coach business.

After considerable discussion it was agreed that the second option was the better way forward. As a result, over a period of three years from 1983-1985, further refurbishment totalling close on £500,000 was implemented. The major costs were a complete re-equipping of the kitchens, £100,000; the creation of a new all day food and beverage operation, £70,000; furniture and fittings, £100,000 with the balance of £130,000 attributed to the provision of further private bathrooms which resulted in all guestrooms enjoying private facilities. A significant proportion of the work was carried out by the full-time maintenance staff of the hotel resulting in considerable savings.

Although the volume of business increased by the time these major refurbishments were complete it was clear that in order to recoup the investment and move up-market it would be wise to terminate the various SAGA contracts and dispense with the majority of coach business.

The hotel had a large outdoor swimming pool which originally opened in 1935. It was felt that the increased demand for health and leisure facilities should be met by the provision of a health and leisure complex which would serve to complete the modernization of the hotel and would be a powerful attraction to conference organizers. In order to secure finance for this project David Baird-Murray instructed Christie's to prepare a valuation of the hotel policies. These were valued on a going concern basis at £1.4m. Several proposals were considered in the range of £400,000 to £900,000. In the event a proposal carrying a capital investment of £420,000 was implemented and opened in March 1988.

The investment proved itself by generating incremental income to the extent that the proprietor could budget for the hotel, for the first time in his career, to produce an operating profit in the winter months. In turn this would justify additional investment with the strategic aim of achieving a sound three star standard in all areas of hotel operation.

The management structure of the hotel is such that the proprietor is mainly involved with matters relating to administration and finance, the general manager is responsible for the day to day running of the hotel and is heavily involved in sales and marketing, whilst the deputy manager assumes much of the responsibility for the smooth running of the food and beverage operations. This team is backed by the various heads of department all of whom are given as much freedom of operation as possible. In the season from Easter to October there can be as many as 80 staff of whom only 10 will be part-time. As the majority of the staff are local few live in the hotel. During the winter months this will fall to 50-60 but this still represents a major fixed cost. In the 1980's the situation has been alleviated via the employment of students from a number of catering colleges in Wales and the West Midlands with whom the hotel maintains a close working relationship.

FINANCIAL COMMENTARY

In the period 1978 to 1985 it will be noted that although there was a steady increase in turnover, after taking inflation into account, the volume increase was marginal. Furthermore the sales mix, showing a high proportion of food, strikingly illustrates the necessity of accommodation sales to produce profits of any significance. The repairs and renewals charged to revenue are relatively modest, the standard of the hotel being such that the major part of schemes of refurbishment had to be capitalized as directed by the tax authorities.

In recent years (1983-1985) the revenue for accommodation has represented only 33% to 35% of turnover and is therefore indicative of the low profitability of the hotel. The figure also reflects the seasonality of the operation. Although the hotel is usually 75% or more full from April to September, the low winter occupancies averaging less than 20% in the period December to February result in an annual occupancy of around 58%. This is at least 10 percentage points below what is required to produce a satisfactory level of profitability. The problem is compounded by the low average room rate, typically £11 - £12 in 1984/1985 which is caused by the volume of coach business. The considerable turnover in food enables the hotel to achieve a gross profit percentage in excess of 60 whilst the sales mix for liquor produces a similar percentage of nearly 50. These figures are broadly acceptable when compared to industry norms for food and beverage operations. The key to improved profitability therefore is higher occupancies linked to a greater average room rate. This, in turn, will result in improved volume of food and beverage turnover. [19]

Although the hotel is now a soundly run business the future is by no means certain. On the one hand if the Welsh authorities, via public and private sector participation, can inject substantial funds into the local economy by way of additional tourist facilities, it could be that Llandrindod Wells might recapture the widespread popularity it enjoyed during its hey day as one of the premier Spa towns of the Victorian era. If little or no public money is forthcoming, however, the hotel will have to battle on alone. Competition for independent hotels is now severe, made more so by all the major groups upgrading their facilities and refining their sales and marketing strategies to provide guests with an ever widening range of activities.

TABLE 2 - 4

THE HOTEL METROPOLE - LLANDRINDOD WELLS

FINANCIAL SUMMARY - 1978-1985

	None 1977 £	31.3.78 £	31.3.79 £	31.3.80 £	31.3.81 £	31.3.82 £	30.9.82 £	30.9.83 £	30.9.84 £	30.9.85 ╖
Turnover - (Exclusive of VAT)		511,412	513,599	864,206	921,635	742,027	400,057	728,551	915,563	913,698
Accommodation		131,426	129,503	221,417	274,782	255,548	145,321	245,025	310,497	296,223
Food		165,072	284,952	415,725	427,988	352,928	202,996	355,683	427,841	450,690
Liquor		114,914	99,144	182,814	168,045	122,809	47,879	117,367	162,625	144,202
GP % Food		62	62	60	59	58	57	58	60	67
GP % Liquor		44	45	48	49	44	48	47	47	48
Repairs & Renewals (Charged to Revenue)		22,591	32,583	47,451	39,125	22,539	11,280	20,165	28,944	21,940
Net Pre-Tax Profit/Loss		£ 16,654	£ 45,869	£ (72,589)	£ (16,567)	£ (31,117)	£ (28,966)	£ (5,606)	£ 44,144	£ (13,581)

Notes

1. The accounts to 31st March 1978 covered a 17 month period.
2. The accounts to 31st March 1981 included a surplus on property disposal of £86,942. The true trading loss being ╖103,509.
3. The accounts to 31st March 1982 also included a surplus of £65,870 on property disposal. The true loss being ╖96,987.

Source: Audited accounts - The Hotel Metropole Limited.

4. **The Open Arms, Dirleton, East Lothian**

Proprietor Arthur Neil

BACKGROUND AND ORIGINS

The Open Arms is a small country hotel located in the East Lothian village of Dirleton, some twenty miles from Edinburgh. The buildings date from the eighteenth century, various additions having been made both during Victorian times and subsequent to the Second World War. In 1947 the property, which had been run as a guest house, was acquired by a tenant farmer from Pencaitland and his wife, George and Marguerite Gibson. The purchase price was in the region of £1,000 and the company, The Open Arms Limited, was incorporated on 20th January 1947, in the depths of a particularly severe winter throughout Great Britain.

The moving spirit behind the enterprise was Mrs. Marguerite (Pat) Gibson. She hailed from Glasgow and during the war held a prominent position in the land army in East Lothian. Of vigorous disposition and commanding presence she found the life of a farmer's wife did not fully exercise her energy and talents. She decided to become the proprietrix of a licensed hotel, a venture she saw essentially in terms of challenge and opportunity. She chose the name The Open

Arms to symbolise a welcome return for her clients and in particular wished to provide comfort and relaxation for those who had endured the war years.

The principal aim of the hotel was to provide a standard of food and drink somewhat removed from the austerity of wartime. Foodstuffs, however, were in short supply although the situation in country districts tended to be less serious than in urban areas owing to the occasional availability of local fish, meat and game. Wine merchants to the hotel were Sandeman Brothers, originally a Dundee family, but prominent as long established wine and spirit merchants in Edinburgh. The wine list was built around claret and the white wines of Bordeaux: even in the first year of operation the hotel carried the four first growths of the Medoc classification of 1855 - Lafite-Rothschild, Margeaux, Latour and Haut-Brion. In addition much Sauternes was sold and one client used to delight in drinking Chateau d'Yquem with pommes frites. At that time these first quality wines were sold for between £1.75 and £2 per bottle - to-day in similar circumstances they would sell from £75 per bottle upwards.

The period 1951/2 saw the formation of the outside catering division of the company. The main reason for this diversification was to boost sales during the quieter winter months. The venture quickly proved highly successful with 1000 people catered for at the Coronation Ball held in the Assembly Rooms, Edinburgh in June 1953; a similar number at a function dinner in the Assembly Rooms, Edinburgh in June 1953; a similar number at a function to mark the 21st birthday of the then Duke of Hamilton and a further dinner in the Assembly Rooms in honour of the supreme commander of NATO in 1958. A further important reason for diversification was that food and beverage sales formed by far the major part of the turnover of the company. There were only four letting bedrooms and in the early years little effort was made to sell the accommodation.

The outside catering division became one of the principal advertising media of the company and was instrumental in building goodwill as a result of the many family occasions for which it provided comprehensive facilities.

The turnover of the hotel increased during this period to such an extent that the restaurant was extended by building on a verandah which enabled a further 35 diners to be accommodated. Nevertheless food standards were maintained and the scope of the menu widened. [20]

THE ARTHUR NEIL PERIOD 1954 - 1989

Arthur Neil, the present proprietor, came to The Open Arms in 1954. A native of Falkirk, his family had been engaged for two generations in the manufacture of confectionery. In the second world war his father served with the 51st Highland Division, was captured at St. Valery in 1940 and spent five years in a prisoner of war camp in Poland. During this time he anticipated the post war trend to travel and tourism and thus identified the hotel and catering industry as a possible career for his children.

Consequently Arthur Neil applied to the recently formed Scottish Hotel School in Glasgow but was initially rejected on account of his being under age. He therefore spent some eighteen months during 1946 and 1947 at the Central Hotel in Glasgow. He was accepted for the Scottish Hotel School in 1947 and was, when admitted, the youngest student and the first of normal school leaving age. In the earliest days of the School nearly all the students were ex-service men over the age of 21. On leaving hotel school he completed two years of National Service finishing with the rank of paid acting Captain in the Catering Corps. He then worked in a well-known family hotel in London, The Goring, and later at the Bellevue Hotel in Berne, Switzerland. He then decided that he would like to have a spell in a small hotel as he had, by that time, made up his mind to become eventually the proprietor of an independent hotel.

His early months at The Open Arms were spent in assisting Mrs. Gibson and in particular helping her operate systems of catering control which had been installed by Henry Smith, the first in a long line of post-war consultants to the hotel and catering industry. Early in the autumn of 1955, having spent more than one year at the hotel, he decided to return to London where he had been offered the management of a reputable hotel similar to the Goring. Arthur Neil informed Mr. and Mrs. Gibson of his plans and was asked to find a successor. This he did and a suitable candidate was offered the position. The candidate, however, did not communicate by telegram acceptance of the post within the stipulated time.

Then, on 6th October 1955, Mr. and Mrs. Gibson, together with a family friend, whilst travelling by motor car to Edinburgh, were involved in a car accident. Tragically Mrs. Gibson was killed. Ironically the driver of the other car was on his way to dine at The Open Arms. Mr. Gibson survived the accident, re-married three years later and died in 1977. In the aftermath of the tragedy Mr. Gibson invited Arthur Neil to take over the management of The Open Arms and made him an offer to that effect. Arthur Neil agreed on condition that they travelled to London to explain the circumstances to Neil's potential employers. This was done in order to prevent the future career of Neil being put in jeopardy within the close knit world of London hotel proprietors.

On their return to Scotland arrangements were made for Mr. Gibson and his accountant to continue in office as directors of the hotel company. In order to aid the smooth transfer of operational management Mr. Gibson's daughter Rosemary relinquished her directorship. Arthur Neil was appointed manager and acquired a minority shareholding in the company. The overall effect of these arrangements was to create a stable business relationship between Arthur Neil, in his capacity as manager, and the Gibson family in their capacities as directors and shareholders.

Rosemary Gibson had left school in the early 1950's and had attended the prestigious Lausanne Hotel School. She had also worked in the Goring Hotel in London subsequent to Arthur Neil. Naturally the two came to know one another well and were drawn closer by the death of Mrs. Gibson. They married in 1958. In due course they bought out the interests of Mr. Gibson's son by his first marriage. In the mid 1960's, with the help of an unnamed border woollen family they were able to buy out Mr. Gibson who, at that time, wished to raise finance to start a herd of cattle at his Pencaitland farm. Much later, in the early 1980's, Rosemary and Arthur Neil were able to purchase the interests of the border woollen family.

The authorised and issued share capital of the company still stands at £5,000 in shares of £1 each. Arthur Neil holds 2,083 his wife 1,757 and his son Jamie 1,067. The remainder is held in family trusts. [21]

The principal difficulty which confronted Arthur Neil from 1955 to 1960 was living with the legend that Mrs. Gibson had created during less than a decade when The Open Arms had been brought to the forefront of the Scottish hotel and catering industry. The hotel was held in high regard by clients from in and around Edinburgh, and further afield, who were by the standards of the day relatively discriminating in the matter of the quality of provision of food and drink in hotels and restaurants. It was not until around 1962 that he felt his own reputation had been established mainly through the vehicle of outside catering functions, especially weddings.

During the 1960's Arthur Neil strove to improve and maintain the standards of The Open Arms. In this he was generally successful. With the gradual rise in disposable incomes during this period an increasing number of people found new pleasure in eating out. The reputation of the hotel enabled the volume of business and hence the profitability of the establishment to increase and improve.

Two other ventures occupied part of his time during this decade. He became involved, together with a local farmer, in the setting up of a wholesale potato and vegetable business - Shieldness Produce - of which he remains a director. The turnover of this company rose over the years to several million pounds per annum. In 1965 he and some business associates acquired a twenty year lease of some old farm buildings in Fife and operated them as the Grange Inn. The style of the operation was similar to The Open Arms. During the recession of 1973 to 1975 the lease was discharged when it became clear that owing to certain external influences it did not prove possible to achieve the initial aims of the venture with regard to agreed criteria for turnover and profitability.

In 1967, whilst retaining his interest in the hotel company and in the outside catering division, Arthur Neil became the first regional manager in Scotland for the Hotel and Catering Industry Training Board which had been created via the National Economic Development Office. In Scotland there followed effective implementation of Training Board policies aided by the extensive operational experience of Neil. This was in contrast to other regions in the U.K.

where lack of operational expertise on the part of training board management, exacerbated by a hierarchical management structure, led to a degree of conflict and major problems in the implementation of board policy. Neil himself was seen by certain board members as being something of a maverick. They may have been relieved when in 1970, exactly three years after taking up the appointment, Neil, as he had intended at the outset and within the time limit he had set himself, informed the board that he was going to leave in order to pursue his business interests.

ACQUISITION OF HOWARD HOTEL IN EDINBURGH

Neil was now faced with the choice of extending The Open Arms, acquiring something similar or breaking new ground. In 1970 the chance came to acquire The Howard Hotel in Edinburgh. The hotel was located in Great King Street in the New Town having been built as a private house in 1821. Immediately prior to acquisition by Neil it had been run as an hotel but had acquired a seedy reputation. The property was purchased on a going concern basis for £46,000, £10,000 of which came from Neil's own funds and £36,000 raised by way of external loans. During the period 1970 to 1975 a total of £300,000 was expended on the property. In the first phase some £100,000 was spent on the provision of private bathrooms for all twenty five bedrooms, plus the installation of lifts. Subsequent expenditure was in two tranches, one of £50,000 and the other £150,000. Grants under Section 4 of The Development of Tourism Act 1969 were approved for work to the value of £40,000. By the end of the refurbishment programme Neil possessed an attractive property set in an exclusive location with ample car parking and full facilities for discerning guests. [22]

Unfortunately the recession of 1973 to 1975 struck as the refurbishment was nearing completion and there was a shortfall in sales which caused the principal lenders to become temporarily apprehensive as to the commercial viability of the operation. Neil briefly considered selling the property but when initial interest indicated a purchase price somewhat below what he reckoned was reasonable in the circumstances he decided the optimum course of action was to "tough it out" and drag the lenders along with him. This duly happened and as the recession receded and the economy regained momentum sales grew steadily and operating profits sufficed to service the debt interest. Sales advanced to the point where by 1987 they were in excess of £500,000 per annum.

An important feature of the growth and success of the group has been the quality and effectiveness of the professional advice enjoyed by Neil who is quick to point to David Birrell (inter alia a director of the Clydesdale Bank) of Dundas & Wilson C.S., his lawyer for the past twenty-five years. Also Balfour Thomson of John M. Geoghegan, Chartered Accountants, occasional advice from Charles Gwynne of Christie's regarding property valuation and Douglas Laird of the architectural firm Campbell & Laird. Each has made an important contribution to the growth and well-being of the group over the years and collectively have acted as a counterpart to the operational expertise of Neil. These contacts have formed part of a web of interwoven friendship based on trust and mutual respect and have allowed Arthur Neil to have "a force beyond the purchasing power" of his business in his dealings with the professional and business community within and around Edinburgh.

Allied to this has been a caring management who know their business thoroughly. In particular Wilma Campbell and her cousin Dene McLeod, both from Lewis in the Western Isles, have been associated with The Open Arms for many years. Similarly David Ogden (college-trained with international experience of both operations and education) and his wife Marion, respectively manager and housekeeper at The Howard Hotel have been with the group since the mid-sixties. These members of staff, by their professionalism, epitomize the management style that the proprietor has successfully created and projected.

A major key factor is the prime location of each property with The Open Arms set in a village of great charm and antiquity only twenty miles from a conurbation with a population of 500,000 and The Howard handily situated in the heart of the New Town of Edinburgh. A further factor is the risks that Neil took, especially with The Howard, by making full use of bank finance. Although this made the business highly geared the quality of the management ensured its immediate survival and latterly the business was sold for approximately four times the value of the original purchase and subsequent refurbishments.

Neil's ability, brought about by intellect and experience, to perceive, alleviate and satisfy the physiological and psychological needs of his clients is indicative of his skill as an hotelier. The ability to please people and make them feel comfortable in what is essentially a business environment for which they are paying, is not given to many. It was, however, an attribute Neil had and he exercised it to the full. As a result he built goodwill and word of mouth advertising helped him achieve a successful business. Furthermore the standard of his operation was consistent which gave increasing confidence to his clients and resulted in repeat business.

Arthur Neil suggests certain personal qualities which successful hoteliers require. Prominent amongst these is an acquisitive instinct to set up on one's own rather than spend an entire career working for others. A further attribute is a genuine kindly nature which he considers essential in dealing with the wide diversity of human nature that is the lot of the hotelier. Alonsgide this is a genuine, not assumed, interest in clients - their needs, wishes, desires, habits and nature. Only by a full understanding of clients can the operation be flexed to suit their individual preferences. Skill in business techniques, particularly those of accountancy and law, are necessary combined with technical expertise in the fields of the production and service of accommodation, food, drink and leisure. A further important requirement is skill in staff management.

Neil is of the opinion that, generally speaking, guests are easier to deal with than staff. For one thing they tend to be on the premises for only a few hours or a few days at the most. Also they tend to seek gratification when visiting hotels and restaurants and a significant number are determined to obtain this gratification even to the extent of a degree of self delusion. Furthermore, in a well run establishment the great majority of guests genuinely find that their needs are satisfied. On the other hand staff may be with an employer for an indefinite period of time stretching over many years. In order to satisfy both employer and employee Neil reckons that staff must be positively motivated; must be paid well enough in order to release them from the poverty trap, thus allowing them to gain self respect and status; must be able to work in an environment which allows them to achieve their potential and must aim at a degree of self fulfilment which may result in them leaving an employer in order to advance their career. [23]

SALE OF THE HOWARD HOTEL

In 1989 a combination of circumstances, principally the rapid increase in hotel property values in the period 1985 to 1988 together with firm proposals for major leisure developments in the Dirleton area led Arthur Neil, by now rising sixty, to dispose of The Howard Hotel for a sum comfortably in excess of £1M. With the free proceeds of sale he planned to build additional bedroom accommodation at The Open Arms together with a specialized function suite which would materially aid his outside catering business in East Lothian. Such developments, which typify his entrepreneurial and opportunistic approach to business, may be judged as holding out the promise of a felicitious culmination to a long and successful career in the hotel and catering industry.

FINANCIAL COMMENTARY

The figures for the period 1976 to 1985 as shown in Table 2 - 5 give an analysis of turnover together with profits/losses at the operating level. At first sight it would appear that neither establishment is particularly profitable. It has to be borne in mind, however, that a feature common to the majority of independent hotels is the ploughing back of profits into the business by way of continuous programmes of refurbishment of furnishings, fittings and equipment. For old properties in particular this often results in the bulk of operating profit being swallowed up in programmes of this nature.

It will be seen that by 1985 the two properties were turning over close to £1M. At The Open Arms the combination of hotel food sales and function food sales formed the largest single item of turnover. At The Howard Hotel the progressive refurbishing and upgrading of the property combined with its city centre location resulted in accommodation forming an increasing proportion of turnover which proved the key to profitability and the major source of funding for improvements.

As one would expect in a professionally managed operation there is relatively little movement over the years in liquor gross profit. The variations in food gross profit are less marked at The Open Arms than The Howard. This may be attributed principally to the fact that The Open Arms received more direct control from Arthur Neil than The Howard, added to which the former enjoyed the benefit of outside catering which tended to minimize such fluctuations.

TABLE 2 - 5

THE OPEN ARMS HOTEL - DIRLETON
SCHEDULE OF FIGURES - 1976-1985

OPEN ARMS HOTEL	1976 £	1977 £	1978 £	1979 £	1980 £	1981 £	1982 £	1983 £	1984 £	1985 £
TURNOVER EX. VAT - TOTAL	198,900	244,300	267,100	331,700	356,900	378,300	362,300	366,800	440,500	437,900
Accommodation	19,400	21,400	27,000	28,800	33,300	31,300	32,700	37,200	46,400	50,600
Food	78,600	84,900	99,400	115,900	129,900	117,100	134,300	139,000	172,300	169,400
Liquor	29,500	31,200	39,000	45,400	51,500	48,200	53,300	59,400	68,500	66,200
Function Food	52,300	74,900	76,700	108,300	108,500	140,600	127,500	107,200	125,500	124,000
Function Liquor	19,100	31,900	25,000	36,300	33,700	41,100	34,500	24,000	27,800	27,700
GP % Food	59	60	56	59	60	59	57.3	59	62	59
Liquor	49	48	49	52.5	53.5	52.5	52.3	52.5	50	49.7
Repairs & Renewals	12,000	12,700	9,300	14,600	18,000	18,800	17,900	19,300	14,400	31,400
NET PRE-TAX PROFIT/(LOSS)	£(16,200)	£47,300	£4,900	£34	£(17,700)	£(16,500)	£(4,000)	£(16,000)	£12,700	£6,000

THE HOWARD HOTEL
SCHEDULE OF FIGURES - 1976-1985

HOWARD HOTEL	1976 £	1977 £	1978 £	1979 £	1980 £	1981 £	1982 £	1983 £	1984 £	1985 £
TURNOVER EX. VAT - TOTAL	178,700	243,300	280,600	326,000	393,600	435,400	433,200	436,500	473,100	537,800
Accommodation	62,500	85,100	94,700	97,300	106,000	117,900	120,200	157,000	182,900	229,100
Food	38,800	53,800	70,300	101,100	130,200	149,500	141,900	132,600	130,300	139,800
Liquor	77,400	104,400	115,600	127,600	155,400	168,000	171,100	148,900	159,900	168,900
GP % Food	51	56	56	61	58	57	52.6	52.8	52.8	59.9
Liquor	47	48	45	50	48	49	51	48	48	48.4
Repairs & Renewals	10,000	13,600	14,600	27,400	31,300	25,100	27,400	42,700	36,200	40,700
NET PRE-TAX PROFIT/(LOSS)	£13,600	£(3,000)	£17,200	£2,000	£11,000	£4,600	£(24,100)	£(27,900)	£(17,000)	£33,000

Source: Audited Accounts - The Open Arms Limited.

COMMENTARY ON OPERATION OF INDEPENDENT HOTELS

From the case studies certain aspects of the operation of independent hotels may be seen to contribute to their success. The levels of staffing and the relatively low levels of labour turnover give them an advantage over competing hotels with less generous staffing levels and higher rates of staff turnover which lead to inconsistent standards. Competent staff together with fixed assets maintained in good condition form a sound basis for guest satisfaction.

The consortia which Douglas Barrington and David Baird Murray helped promote enabled each to attain a higher level of turnover and consequent profitability than would otherwise have been possible. David Baird-Murray, in the early years of The Metropole, also sought to exploit the coach trade at a time when few hotels of the quality of The Metropole perceived such trade being of significant value. By comparison Arthur Neil used his outside catering business to act as a marketing and advertising medium for The Open Arms.

It is notable that none of the hotels featured in the case studies was in the vanguard to instal health and leisure facilities although these were very much both in fashion and demand by the mid nineteen eighties. By the end of the decade George Goring and Arthur Neil had rejected them whilst Douglas Barrington and David Baird-Murray were only latterly persuaded that they were necessary.

A further feature common to each but not to independent hotels in general was that, especially latterly, all four of them were relatively free from debt and therefore did not have substantial interest payments which eradicated their trading profits. Many operationally successful competitors went into liquidation in the period under review as a result of high gearing which resulted in satisfactory operational profits being less than interest payments due.

EVALUATION OF INDEPENDENT HOTELS

The case studies suggest that amongst the criteria for success in the independent sector, the following may be judged relevant:

a) location
b) entrepreneurial approach of proprietor
c) skilled exploitation of the market
d) sound professional advice
e) satisfaction of both guests and staff.

An examination of each of the case studies will reveal to what extent these criteria were in evidence.

a) Location

Clearly the location of The Goring Hotel has been a major contributory factor to its commercial success. The location of The Lygon Arms was sound but it was the exploitation of the location that gave Douglas Barrington a significant competitive advantage over his immediate neighbours. In marked contrast the poor location, more than anything else, was the cause of the relatively poor profitability of The Metropole. The Open Arms enjoyed a good location with little or no surrounding competition, especially in its formative years.

b) Entrepreneurial Approach of the Proprietor

In each of the case studies individual proprietors struck an entrepreneurial pose, some to a greater degree than others. Perhaps the riskiest of all actions documented was the purchase of The Howard Hotel by Arthur Neil - he nearly came unstuck as a result of the recession of 1973 - 1975, and it was only his ability to convince the bank to back him through those difficult years that ensured his commercial survival. The extensions to The Lygon Arms were, in themselves, risky but their deft implementation, co-ordinated by Douglas Barrington, was a model of astute timing of capital investment in accommodation, for which he was sure there would be a continuing demand. George Goring was unusually fortunate insofar as his strong position resulted in him having to take few risks other than to refuse to discount his room rates and, for many years, to refuse commission to travel agents. It could be argued that the greatest risk taken by David Baird-Murray was the acquisition of additional properties. Having realised that the timing was unfortunate he had the wit to sell them and escaped without serious loss.

c) Skilled Exploitation of the Market

In this area it could be fairly argued that Douglas Barrington achieved the greatest degree of success. The case study shows clearly how he built the market, exploited his overseas connections, consistently moved the hotel up-market whenever possible and generally became a byword amongst fellow hoteliers for his marketing expertise. George Goring also put a great deal of effective effort into the marketing of his properties. With the advantage of goodwill stretching back over many years he was able both to retain old customers and seek new ones. The occupancies at both The Goring and The Spa attest to the success of this approach. Arthur Neil was also no stranger to the skilled exploitation of the market and, in particular, to using his outside catering organisation to act both as a marketing device and a profit centre in its own right. David Baird-Murray had a hard road to travel to slowly build markets for a property saddled with a poor location and at the mercy of seasonality. That the property survived is, as is suggested in the text, a case of survival against the odds.

d) Sound Professional Advice

Sound professional advice is a pre-requisite for success in all businesses, but particularly so for small businesses in their early stages of development. In such circumstances the sage advice of a sound lawyer and accountant is especially valuable. The proprietors of many small businesses neither have the time nor the inclination to become involved in the intricacies of accountancy, finance or the law. Nevertheless, the successful conduct of their businesses has to rely on an understanding of such matters.

From the case studies it may be seen that Arthur Neil paid due tribute to the skills of his lawyer and accountant. Douglas Barrington not only took professional advice in such matters, but also employed a wide range of independent consultants to maintain and improve his business. David Baird-Murray would not profess to be expert in such matters but his powers of persuasion with both bankers and various insurance companies helped procure the finance necessary both to survive and latterly expand. George Goring, thanks to his very strong trading position, could afford to leave financial matters almost solely to his accountant. It has to be said that very, very few hoteliers are in such a fortunate position.

Professional advice is rarely referred to in the evaluation of business success. In these instances, however, it is considered that sound professional advice played a significant part in the success of each of the businesses portrayed.

e) Satisfaction of both Guests and Staff

In order to prosper and to create goodwill it is clear that hoteliers must satisfy the needs of both guests and staff. Each of the case studies shows the separate approach of the individual hotelier.

Arthur Neil is the most explicit in his comments about both guests and staff. His assertion that, generally speaking, it is easier to deal with guests than with staff is an interesting one. The key difference, of course, is the length of time each spends in the establishment - for the guest it is unlikely to be longer than a fortnight and may be only a few hours; for a member of staff it may be years.

Barrington, Goring and Neil all speak of the importance of treating each guest as an individual, recognising that when people spend considerable amounts of money they rightfully expect management and staff to give them a high level of personalised service, perhaps not pandering to every whim, but at least providing good value for money. At the upper end of the market, value for money becomes somewhat subjective - who can evaluate the worth of a particular style of decor, a floral arrangement or the texture of a particular sauce? Rather it is the overall impression that a guest forms of his stay in an establishment that will determine for him whether or not, or to be more exact, to what extent, his needs have been truly satisfied.

In each of the case studies the benefits of a well trained and highly motivated staff are evident. Again the higher the standards of the establishment, the more important it is that the staff can relate freely to the guests. For this to happen, social skills have to be inculcated into staff - a process that may take time and which can only be achieved by staff whose personalities are suited to a service industry.

From the case studies it is clear that the impact of the character and personality of the proprietor has a significant effect on the conduct and profitability of the individual business. It is noteworthy that three out of four proprietors - Douglas Barrington in the Navy, David Baird-Murray in the Marines, together with Arthur Neil in the Army Catering Corps, all had commissioned service in the armed forces. These character-forming experiences stood them in good stead during the formative years of their businesses. Arthur Neil indicates the qualities which are to be found in many successful hoteliers. A clear understanding of the needs of clients and the implementation of the appropriate management techniques to satisfy these needs were central to the success of the hoteliers portrayed.

CONCLUSIONS ON INDEPENDENT SECTOR

From these four case studies the factors that have contributed to the success of the various proprietors may be seen. George Goring, of course, had a huge advantage over his fellow proprietors insofar as he inherited a first class property in an exceptionally good location backed by a significant market following. Nevertheless the professionalism which he has exhibited over the years has enabled The Goring to remain in the forefront of London hotels and it is probably the finest truly private hotel left in the capital.

By contrast Douglas Barrington had to rebuild the fortunes of The Lygon Arms in the early post war years and was only able to propel it to the forefront of the industry by a series of major extensions and refurbishments which, happily, did little to alter the ambience and charm of the property. Apart from masterminding the improvements to the hotel, his principal achievement was to create and then implement a coherent marketing strategy for a relatively small country hotel with such success that latterly half the turnover was derived from overseas visitors.

As indicated in the case study David Baird-Murray had to strive over many years to overcome obstacles which would have defeated most. Perhaps it could be said that stamina was the key to his success. Certainly had he not been so young when he initially took over the hotel it would have been significantly more difficult to succeed. The fact that the The Metropole faced all the principal economic problems of the industry to a greater extent than most, especially with regard to size and location, made life far from easy for David Baird-Murray and it was not really until the successful launch of the health and leisure club that the future of the property could be called secure.

Arthur Neil was able to carve a special niche for himself on the strength of his particular skills and abilities in the food and beverage areas. Up market outside catering is strewn with many pitfalls and it is a measure of Neil's professionalism that he was able to build his personal reputation in this field. Allied to this was his ability to take risks - typified by the purchase of the Howard. His initial equity in this was a mere £10,000. Some twenty years on he was able to sell the hotel for £1.25M - an exceptional return even bearing in mind the £300,000 initially spent on upgrading.

In all cases the projection of the personality of the proprietor has been a key factor in the success of the various enterprises. It is, perhaps, the single major advantage they enjoy when compared with larger organizations. The individual attention they can give to their guests and the ambience they create in their smaller establishments enables guests to feel more comfortable more quickly than in large hotels where, irrespective of the efficiency of the service, it is more difficult to successfully practise the arts of hospitality.

FOOTNOTES

1. P. Jones & A. Lockwood The Management of Hospitality Operations Chapter 1. Cassell (1990).
2. Interview George Goring, March 7th 1986.
3. Caterer and Hotelkeeper, July 24th 1958.
4. Interview George Goring, March 7th 1986.
5. Caterer and Hotelkeeper, November 14th 1974.
6. Interview George Goring, March 7th 1986.
7. ibid.
8. ibid.
9. Caterer and Hotelkeeper, July 2nd 1957.
10. Sir Nikolaus Pevsner, The Buildings of England-Worcestershire (1968, Penguin Books, London) p106.
11. Interview Douglas Barrington, March 26th 1986.
12. Interview Kirk Ritchie, March 27th 1986.
13. Interview Douglas Barrington, March 26th 1986.
14. Interview David Baird-Murray, April 25th 1986.
15. ibid.
16. ibid.
17. Interview Robert Marchesi, April 26th 1986.
18. Interview David Baird-Murray, April 25th 1986.
19. ibid.
20. Interview Arthur Neil, November 9th 1985.
21. Audited Accounts, The Open Arms, Dirleton Limited 1986.
22. Interview Arthur Neil, November 9th 1985.
23. ibid.

CHAPTER 3 HOTEL GROUPS GEARED TO THE U.K. MARKET

Introduction

A major theme of this thesis is the dual perception of the hotel business as an investment in a property asset which is likely to increase in capital value as well as a specialised retail operation with inherent added value characteristics. All companies, including those whose operations carry an international dimension, recognise this but some companies more than others have capitalised on this perception and it is these companies which are the focus of this chapter.

The four companies portrayed are as follows

1. Mount Charlotte Investments Plc
   Managing Director Robert Peel
2. Norfolk Capital Group Plc
   Managing Director Peter Eyles
3. Centre Hotels, Comfort Hotels and Friendly Hotels
   Chairman Henry Edwards
4. Gleneagles Hotels Plc
   Managing Director Peter Tyrie

1. **MOUNT CHARLOTTE INVESTMENTS PLc**

Managing Director Robert Peel

MOUNT CHARLOTTE INVESTMENTS: ORIGINS AND EARLY EXPANSION

The origins of the group may be traced to 1932 when the company Lomah (Rhodesia) Gold Mines Ltd., was incorporated. The location of the mining operation moved to Australia in 1939 and the company became Mount Charlotte (Kalgoorlie) Ltd. Subsequent to the Second World War the mining interests gradually declined and by 1958, having become a classic shell company, the name was changed to Mount Charlotte Investments Limited. At this time the chairman of the company was a Mr. H. Scott Thompson and the main subsidiary of the company, Bettafoods Limited, operated a chain of medium priced, self service restaurants in central London including Holborn and the City. [1]

In 1959 two acquisitions took place:

a) Walkers Restaurants comprising 4 units was acquired at a cost of £87,000. A rights issue, which raised the issued share capital to £25,000, was arranged to finance this transaction.
b) Black and White Caterers comprising 5 units were acquired via a share issued of 357,337 "A" Ordinary Shares of 2 shillings in Mount Charlotte Investments

Limited. By 1960 the post tax profit of the group had advanced to £45,961 and further acquisitions were imminent. [2]

In February 1961 the company acquired the catering group Nuthalls for £624,706. This was by far the largest acquisition to date. Nuthalls pre-tax profits for 1960 were £105,000 and it was forecast that the combined group would produce pre-tax profits of approximately £200,000 for 1961. In addition to catering outlets Nuthalls owned and operated the Grand Hotel in Bristol and the Abernant Lake Hotel, Llanwrtyd Wells in Brecon, Wales. In the period 1962 to 1965 additional hotels were acquired in Exeter and Torquay, together with a small group of six hotels, based in Buxton, Derbyshire, three of which were located in Norfolk. [3]

During this period the catering outlets in Central London continued to thrive, one of the restaurants turning over 1,500 lunches in just 2.5 hours. Of the turnover as much as 65% came in the form of Luncheon Vouchers rather than cash. [4]

The results of the group in the period 1961 to 1966 fluctuated considerably, the best year being 1963 when post-tax profits of £214,000 were recorded. These shrunk to £52,000 in 1965 but recovered to £95,000 in 1966. In

February of that year the chairman, Mr. H. Scott Thompson retired temporarily on medical advice. Mr. Sidney C. Smith-Cox, a director of Nuthalls, was appointed to the main board of Mount Charlotte Investments. His family had also been connected with the Grand Hotel in Bristol since the turn of the century. [5]

In July 1966 Mr. H. Scott Thompson resigned as chairman his place being taken by a former Conservative M.P. Mr Paul Williams. A contributory factor to the resignation of the chairman was the company's involvement in radiovision and juke boxes. This diversification had proved both unfortunate and unprofitable with the chairman having to carry the responsibility. The chairman, however, retained his shareholding in the company until 1968 at which time he sold out to Mr Maxwell Joseph, the well known hotel and property dealer whose companies, Grand Metropolitan in particular, were in an expansionary mood. Maxwell Joseph joined the board of Mount Charlotte in October 1968. [6]

PRINCIPAL EVENTS OF EARLY AND MID 1970's

Further hotel acquisitions resulted in the group achieving pre-tax profits of £257,298 in 1971 and £292,381 in 1972. Maxwell Joseph then attempted, via Mount Charlotte Investments, to purchase two brewery companies in the North of England. These proposed purchases did not materialise and from that point his interest in the company waned. [7] He was by then more than fully occupied with his principal company Grand Metropolitan which had acquired the brewery companies Truman, Hanbury and Buxton in 1971 and Watney in the year following. The Watney purchase brought considerable organisational complications in its wake which left Maxwell Joseph and his directors with many problems to solve.

In May 1974 Joseph sold his stake in Mount Charlotte to institutional investors amongst whom was Slater Walker Securities who built up a 20% stake in the company. As was later widely recognised this company was heavily involved in the property collapse of 1974-75 and was forced to sell its shares in Mount Charlotte at a considerable loss - it was reckoned by some sections of the financial press that Slater Walker sold for between 3p and 5p per share. In any event the share price of Mount Charlotte Investments which had seen a high of 40p in 1968 fell to 2.5p in 1976. [8]

EXPANSION UNDER ROBERT E.G. PEEL

In March 1977 Sidney C. Smith-Cox was appointed chairman of Mount Charlotte Investments. As previously indicated, his family had been associated with the Grand Hotel in Bristol since the turn of the century, his own association with the company dating from the acquisition of Nuthalls in 1961 and having been on the main board of the company since 1966. By the time of his appointment the company owned and operated 21 provincial hotels totalling 1,346 bedrooms of which 637 had private facilities. In addition the company owned Gale Lister & Co. Ltd., a wine and spirit company, The Bronte Liqueur Company and the Knightsbridge Cake Manufacturing Company. There were thus a variety of businesses run with a strong property orientation but lacking a distinct group image targeted at a specific market segment. [9]

When Sidney Smith-Cox was appointed Chairman he was 67 years old. He realised that, in order to enhance the fortunes of the company, he needed a dynamic young managing director who had hands-on experience of the hotel business. He found such a person in Robert Peel. Peel's father had been a successful businessman with extensive interests in the Middle East and in Egypt in particular. Unfortunately, as a result of the Suez crisis the father lost a great deal of money to the extent that Robert, then aged 16 and attending Eton, had to leave school two years early. [10] He decided to enter the hotel industry and initially worked as a cellarman at the Hyde Park Hotel in London. His experience with the Trusthouse Forte group later extended to the positions of banqueting manager at Grosvenor House

Hotel in Park Lane and to General Manager of the restaurant complex incorporated in the Hotel Meurice owned and operated by the Quagalino brothers. [11]

He thus had the required range of experience sought by Smith-Cox. When Robert Peel joined Mount Charlotte in 1977 he was 30 years old. It was essential for him to take decisive action immediately as the majority of the hotel stock was in relatively poor condition and therefore required considerable capital expenditure to bring it up to a competitive standard. As a result of the decline of the company very little had recently been spent on the fabric and furnishings of each hotel. In turn this had weakened occupancy percentages with a consequent adverse effect on turnover and profitability. In such circumstances it was not surprising that the morale of the staff was generally low. [12]

Immediately subsequent to his appointment Robert Peel acquired, with borrowed money, 300,000 ordinary shares in Mount Charlotte Investments at a cost of 2.5p each. Within two years his original stake of £7,500 was worth £75,000. By the end of the decade the turnover of the company was £9,98M with pre-tax profits of £1.05M. By this time Peel had embarked on major schemes of property renovation and improvement coupled with the raising of tariffs where justified. He saw clearly that there was, in Mount

Charlotte, the base to build a major hotel company by shrewd acquisition of properties which could be upgraded subsequent to renovation and refurbishment. The acquisition of such properties at realistic prices together with additional properties that were to come to the market in not dissimilar circumstances was to form the basis of the growth and successful development of the group throughout the 1980's. [13]

Two entirely separate sets of circumstances contributed to the considerable turnover of hotel property in the U.K. in general and to London in particular in the period 1981 to 1984. One was the acquisition from Pan American World Airways of the Intercontinental Group of hotels by Grand Metropolitan; the other was the disposal, at the instigation of the U.K. government, of the 27 British Transport Hotels. Included in the latter group were such properties as Gleneagles in Perthshire, Scotland, the Midland, Manchester and a large number of desirable properties in Central London. In order to pay for the Intercontinental acquisition Grand Metropolitan, in separate deals, sold 12 hotels in central London for some £120M together with 26 provincial hotels for £30M. The sale gave established groups in the U.K. the opportunity to expand their holdings of hotel property. [14].

PRINCIPAL ACQUISITIONS

The first major London acquisition by Mount Charlotte in this period was in June 1982. The London Ryan Hotel with 213 bedrooms was acquired at a total cost of £3.2M of which £0.5M was satisfied by the issue of shares in Mount Charlotte and the balance in cash in a series of instalments. [15] This was followed early in 1983 by the acquisition from Trusthouse Forte of four London properties - The Park Court and Whites Hotel in Bayswater, The Bayswater Post House and the Kingsley Hotel in Holborn. The four properties comprised 847 bedrooms and the consideration was £19M cash. This was financed by a medium term bank loan secured on the properties of £5.4M together with the proceeds of a rights issue which raised £13.6M (net). [16]

The next major move was in London where Mount Charlotte Investments acquired from Grand Metropolitan at a combined cost of £21.5M the 713 room Mount Royal hotel in Oxford Street and the 307 room Kennedy Hotel at Euston. Both were leasehold properties with, in the case of the Mount Royal, 30 years of the lease remaining. Subsequent to acquisition Mount Charlotte Investments negotiated a fresh 125 year lease on this property for £9M from the freeholder, the Portman Family Settled Estates, and embarked on a major scheme of refurbishment. [17]

The following year Mount Charlotte Investments acquired the Skean Dhu group, which was based in Aberdeen, for £27,7M. this group owned and operated three hotels in Aberdeen, one in Glasgow and one in Irvine, Ayrshire. These five hotels, all of which had been constructed from scratch since 1972, comprised 1,040 bedrooms including the 316 bedroom hotel in Glasgow, which, in terms of bedrooms, was the largest hotel in Scotland. The transaction was financed via an institutional placing of Mount Charlotte shares which raised £27M. This enabled the company to purchase for cash the majority of the Skean Dhu shares and, at the same time to re-finance certain Skean Dhu loan stock on more favourable terms. The importance of the Skean Dhu acquisition from the Mount Charlotte viewpoint was that it resulted in the company becoming the second largest hotel operator in the U.K. after the Trusthouse Forte group. By 1985 the company owned and operated 47 hotels with a roomstock of 5,638 throughout the U.K. [18]

The principal reason why Mount Charlotte was able to acquire the 1,040 roomstock of Skean Dhu for as little as £27.7M - equivalent to £26,635 per bedroom - was that Skean Dhu had little experience of hotel operations. For example the Glasgow hotel was producing room occupancies of only 25%. This, combined with other major operational problems and deficiencies, including overstaffing, resulted in the property losing as much as £5,000 per week at operating level. [19]

To overcome this problem Mount Charlotte appointed a new general manager, Alastair McMurrich, who had enjoyed a classical training with the Savoy Hotel Company which had included a spell as assistant banqueting manager at Claridges. McMurrich and his management team rapidly eradicated the major problems and over a two year period turned round the fortunes of the hotel to such effect that latterly it enjoyed occupancies on a par with its two major competitors, the Glasgow Holiday Inn and the Albany, owned and operated by Trusthouse Forte. As a result of his initial efforts McMurrich was appointed operations director for Scotland. [20]

Whilst 1985 was a relatively quiet year for Mount Charlotte in terms of acquisitions 1986 and 1987 saw major advances. During 1986 a total of £22.5M was expended on new properties, the major part, £15.7M being the acquisition from Chrysalis Plc of the Kingsmead Hotel Group which owned and operated seven hotels comprising 399 rooms, the majority in the provinces. In addition refurbishment schemes were put in hand at hotels recently acquired, notably at the 350 room Royal Scot at King's Cross, London, formerly owned by Scottish & Newcastle Breweries. [21]

The year 1987 saw three major acquisitions which were to propel Mount Charlotte to the forefront of the U.K. hotel industry with special emphasis upon London where by the end of that year the group possessed a roomstock of no less than 4,377. In March of that year the group commenced negotiations with Rushkale/London Park for the acquisition of three hotels in central London together with an hotel at Heathrow Airport. The combined roomstock of the four hotels was 850. This transaction, at a cost of £38M and financed by way of an exchange of shares, was completed in April. Two of the hotels, located at Piccadilly in Central London and in Kensington, required extensive refurbishment work which continued after completion. [22]

The second major acquisition in that year was the purchase from the International Leisure Group of three major hotels in London with a combined roomstock of 1,049. Two of the properties, the Charing Cross Hotel with 218 rooms and the Grosvenor at Victoria with 360 rooms, had originally been owned and operated by British Transport Hotels whilst the third, the New Barbican with 471 rooms was a new hotel having been opened as recently as 1985. The New Barbican was purchased as a freehold property whilst the others were held on long leases of more than 120 years at a peppercorn rent. [23]

The consideration for the three hotels was £96M which was financed via an open offer arranged by merchant bankers Robert Fleming which raised £99M. This method of financing was chosen as it was cheaper than a rights issue. The majority of the shares were taken up by the institutions but provision, on a favourable basis, was also made for the smaller shareholder. [24] Then in the autumn the company acquired from Ladbrokes eight smaller hotels in Scotland and two in the north of England with a total roomstock of 879 for £18.65M. [25]

The overall result of the 1987 acquisitions was to increase the total number of hotels within the group to 68 with a bedroom capacity of almost 9000 of which slightly more than 50% were in London. In terms of rooms the company had grown to become the second largest in the U.K. exceeded only by Trusthouse Forte. As has been shown the growth was brought about entirely by acquisition, in many cases of properties which had long term potential and the ability to be upgraded with a view to obtaining improved room rates and consequently greater potential profitability. The expansion had been in all areas of the U.K. but the greater part was focussed on London which, although involving substantial capital outlay, had the merit of higher annual occupancies and a lesser degree of seasonality than provincial properties. After long negotiations with Edinburgh District Council the company announced in the spring of 1988 that it would build a 288 bedroom hotel together with a multi-purpose convention centre capable of handling 2,500 delegates. This venture, to be located near Edinburgh city centre, was capitalised at £45M all of which, at least initially, to be funded by Mount Charlotte Investments. [26]

FINANCIAL RESULTS: THE CONTRIBUTION OF PROPERTY

When Robert Peel took over as Managing Director he was faced with a particular problem as far as pricing was concerned because the properties were of widely differing standards and in scattered locations throughout the U.K. As additional properties were acquired he decided to apportion them to distinct market segments, each aimed at separate markets and price ranges. The result of this approach saw the company emerge with five distinct groupings - Luxury City Centre Hotels of which there are 5, Hospitality Inns of which there are 10, city centre hotels, the largest group, of which there are 29, country hotels of which there are 21 and finally budget hotels of which there are only 3 and which comprises a mere 152 rooms.

The great majority of city centre and country hotels are three star, the Hospitality Inns and the luxury city centre hotels are four star whilst one of the London properties enjoys a five star rating. The room rate for the majority of three and four star properties is (at 1988 prices) in the range £35 to £55 per night in the provinces and £50 to £75 in London. These represent the rack rates but there are significant discounts for corporate clients and for groups of over 20 people. [27] The overall aim of the pricing strategy is to maximise occupancies rather than to sell only at rack rate. This produces greater revenue both for accommodation and for attendant food and beverage sales outlets.

As may be seen from the financial summary, group turnover has climbed steeply between 1983 and 1987 as the result of major acquisitions. Despite the costs associated with acquisitions the return on sales (trading profit) has improved each year from 1983 when it was 22.8% to 1987 by which time it had risen to 35.0%. These figures saw Mount Charlotte being placed second only to Glaxo in a league table compiled by Management Today in February 1987. [28]. In the words of a Mount Charlotte director the results stem from the Mount Charlotte policy of "very close control of hotel operations and concentrating on filling hotels at a reasonable price to the consumer rather than partially filling them at a higher price". The early success of the policies spearheaded by Robert Peel gave confidence to joint stock banks and city institutions who gained increasing respect for the managerial abilities of the company. Robert Peel's brother, Charles, a partner in the stockbroking firm of Fielding, Newson-Smith & Co. played an important role in raising the city profile of Mount Charlotte. It was by such means that the company was able to raise finance via open offers, institutional placings and medium term loans. The raising of substantial tranches of finance at competitive rates helped ensure the cost of acquisitions remained reasonable and did not result in undue pressure being put on operational profits via interest charges (Table 3 - 1).

The financial summary also indicates the conservative dividend policy adopted by the company whereby the ratio of post tax profits to dividend has been maintained at approximately 4:1 in the period 1983 to 1987. In turn the high level of retentions has enabled the necessary amount of refurbishment to take place thus ensuring the competitive standard of the properties. [29] One feature of the company which places it in a minority when compared with the majority of its competitors is that it does not revalue its properties regularly. The revaluation of hotel properties, certainly in recent years, has had the effect of lowering the rate of return on capital invested as property valuations have moved significantly upwards.

TABLE 3 - 1

MOUNT CHARLOTTE INVESTMENTS PLc and SUBSIDIARIES
- FINANCIAL SUMMARY

	1983	1984	1985	1986	1987
	£'000	£'000	£'000	£'000	£'000
Turnover	26,694	43,740	60,283	64,913	93,358
Profit before Interest	6,303	12,002	18,561	21,693	33,726
Interest Payable	1,707	1,975	2,502	3,052	4,685
Profit before Taxation	4,596	10,027	16,059	18,641	29,041
Taxation	537	1,538	2,990	3,767	6,942
Profit after Taxation	4,059	8,489	13,069	14,879	22,100
Extraordinary Items	-	315	-	-	289
Profit for Financial Year	4,059	8,804	13,069	14,874	22,389
Dividends	1,250	2,164	2,964	3,557	5,637
Profit retained	2,809	6,640	10,105	11,317	16,752
Earnings per share (net)	4.10p	5.20p	6.30p	6.90p	8.30p
Dividends per share	1.03p	1.20p	1.40p	1.63p	1.90p
Net Tangible Assets (£'000)	50,902	96,190	115,177	127,198	282,347

Source: Published Accounts 1987

When Mount Charlotte eventually revalued its properties in 1988 substantial surpluses were disclosed with the total property portfolio shown to be worth close to £1 billion. This, of course, reflected not only the general rise in hotel property values but the improvements made to run-down and unprofitable hotels by competent management. The success of Mount Charlotte in recent years clearly stems from the partnership of Sidney Smith-Cox and Robert Peel which, since the appointment of the latter to the post of managing director in 1977, transformed the fortunes of the company.

It is interesting to note that the modus operandi of Robert Peel centres on a very small board of directors, four in total, with only Kenneth Pawson, the company secretary and himself as executive directors operating from the company head office in Leeds whilst the chairman has an office in Bristol and the non-executive director works in the city of London as an investment fund manager. Consequently control of the company and the major decision process is vested in Robert Peel and Kenneth Pawson. Peel takes the view that this style of management is best suited to the company's needs particularly where rapid decisions regarding acquisitions have to be made. Indeed with just Pawson and himself in executive control the management style is akin to a partnership with each knowing the other's mind and able to respond rapidly to advice, suggestions or opportunities that may arise. [30]

For both of them having their head office in Leeds is a considerable bonus. Rents and rates are much cheaper and the momentum of the company is such that the morale of head office staff is maintained at a high level. Kenneth Pawson commented "if I arrive at 7.30a.m. some staff are already here and if I leave at 10.00p.m. the situation is similar". There are marked advantages for staff compared with London in terms of commuting time, house prices, quality of life and the like. [31]

Clearly the confidence in the company that Robert Peel has engendered within the City of London has been especially important in successfully completing major acquisitions in the period 1984 to 1988. It is difficult to identify which deal in the 1984-1988 period will turn out to be the most profitable for the company but it may well be that the acquisition of the Mount Royal with its 700 plus bedrooms, together with the Kennedy with 300 plus bedrooms, will be ranked as high as any. Grand Metropolitan were criticised for selling off their London hotels too quickly and too cheaply - six years on the price paid by Mount Charlotte now seems like a bargain despite the subsequent costs of refurbishment and the negotiations for a fresh lease.

Despite the significant rise in hotel property values in recent years it is likely that there will still be opportunities for Mount Charlotte to make further acquisitions thus strengthening their competitive position and increasing their market share. Simultaneously, as some of their major competitors have already done, Mount Charlotte may decide to expand on the continent of Europe, both via acquisition and management contracts.

FOOTNOTES

1. Financial Times 11/3/58.
2. Financial Times 30/11/60.
3. Financial Times 17/2/64.
4. Financial Times 13/9/62.
5. Financial Times 11/2/66.
6. Financial Times 15/10/68.
7. Interview Kenneth Pawson, October 1988.
8. Extel Card - Mount Charlotte Investments May 1987.
9. Financial Times 17/3/77.
10. Letter Kenneth Pawson to D. Stewart 30/9/88.
11. Interview Alastair McMurrich 23/6/86
12. Glasgow Herald 23/12/85.
13. Financial Times 14/7/79.
14. D. A. Stewart, Grand Metropolitan, A Study In Acquisition Business Strategy M.Sc Thesis Strathclyde School 26/10/84.
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18. Offer Document 22/6/84 Page 9, Robert Fleming & Co. Limited.
19. Interview Alastair McMurrich 23/6/86.

20. ibid.

21. Annual Report Mount Charlotte Investments March 1987.

22. Offer Document 25/3/87 Page 3 to 15, Robert Fleming & Co. Limited.

23. Offer Document 29/7/87 Page 4 to 8, Robert Fleming & Co. Limited.

24. Press Release Robert Fleming & Co. 23/7/87.

25. Press Release Mount Charlotte Investments Plc. 8/10/87.

26. Annual Report Mount Charlotte Investments Plc. March 1988.

27. ibid.

28. Management Today page 50 February 1987.

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2. NORFOLK CAPITAL GROUP PLc

Chairman Anthony Richmond-Watson

Managing Director Peter Eyles

INTRODUCTION

The post war origins of Norfolk Capital may be traced to 1946 when Maxwell Joseph acquired the Norfolk Hotel (Hove) Limited. He subsequently sold the hotel but retained the company which carried a London stock exchange listing. During the next two decades, whilst expanding his hotel interests in London, Maxwell Joseph simultaneously made opportunistic purchases of hotel property in the West of England and Wales. His interest in this part of the country stemmed partly from owning a large country house at Melksham in Gloucestershire to which, particularly in the early and mid 1960's, he would often retreat of a Thursday evening returning to London the following Monday morning. [1]

Properties were acquired in Gloucestershire at Tetbury and Gloucester, in Somerset at Bath and Weston super Mare, in Warwickshire at Warwick, in Wiltshire at Chippenham together with properties at Cardiff and Swansea. The properties were mostly old, built at the turn of the century or earlier and consequently required substantial expenditure to maintain the furnishings and fittings let alone the fabric. All the hotels were controlled from

Maxwell Joseph's small corporate office in Mayfair, London. Each was constituted as a private limited company but in due course the companies were reversed into Norfolk to form a group. After 1966 when Maxwell Joseph embarked on a dazzling series of acquisitions which transformed Grand Metroplitan from a medium sized company in the hotel business to one of the largest industrial groups in the U.K., the west country hotels, understandably, received less than their fair share of attention. [2]

MIXED FORTUNES 1973 - 1981

The west country group enjoyed mixed fortunes during the 1970's. In June 1973 Associated Hotels, a London based company which included the Kensington Palace Hotel and Norfolk Hotel, South Kensington was acquired. Shortly afterwards the group was severely affected by the quadrupling of oil prices and the recession of 1973 to 1975 with the result that the shares were suspended until towards the end of 1975. By 1979, subsequent to a series of sales and purchases of various properties the group comprised 17 hotels with a roomstock of 1800. Turnover grew steadily to the point where, in 1979, it was £8.59M with pre-tax profits of £914,000. This was barely acceptable and the group lacked a distinct corporate image.

It was not held in high esteem by institutional investors who regarded it as peripheral to the main business interests of Maxwell Joseph. [3]

In October of 1980, the year he was awarded a knighthood, Maxwell Joseph appointed his son-in-law Peter Eyles as a non-executive director for Norfolk. His previous career had been in sales, marketing and advertising in firms outwith the hotel industry. In addition, however, he had also run his own property company through which he first came to know Maxwell Joseph. He was appointed managing director after a period of six months and immediately set about re-organising the company. When he joined the administration of the company was divided between London and Bath and the head office personnel had grown to more than forty. In a short space of time Eyles reduced this by more than a half, devolving considerable responsibility onto individual hotel managers. He reorganised the sales and marketing staff, directing the thrust of their efforts towards direct selling to business rather than tourist clients, simultaneously ensuring that they operated in close contact with the hotel managers. Furthermore he instituted a management development programme to upgrade the capability of managers, especially in the areas of sales and marketing. In addition a bonus incentive scheme was applied to give managers a stake in the improving profitability of their units. [4]

The following year saw a marked decline in the health of Sir Maxwell Joseph and in June 1982 he appointed his wife, Lady Eileen Joseph to the board. Subsequent to Sir Maxwell's death in September 1982 Lady Joseph became chairman. Additional board members were James McGuffie, an independent hotel consultant who had originally joined Maxwell Joseph's organisation in 1957, had been appointed a non-executive director in 1969 and who latterly had occupied a senior sales and marketing position with Grand Metropolitan, and Anthony Good of Good Public Relations. The group was adversely affected by the recession of 1980/81 and in the immediate aftermath the board determined to dispose of unwanted properties, to refurbish selected existing properties and to embark on a series of carefully targeted acquisitions. [5]

In the first phase of disposal, carried out in the period March to September 1982 four hotels and three investment properties were sold realising a total of £3,019,501 against a book value of £2,628,500. The only acquisition was the freehold of the four star, 100 bedroom Angel Hotel in Cardiff purchased in January 1982 from the major brewer Whitbread at a cost of £850,000. Capital Gains Tax arising from disposals was absorbed by rollover and other reliefs available to the company. [6]

The bulk of the net proceeds was diverted to the modernisation and refurbishment of two of the principal London properties, the Royal Court Hotel in Sloane Square SW1 and the Norfolk Hotel in South Kensington SW7. The improvements at each hotel were of such magnitude that the Royal Court was closed from September 1984 until December 1985, partially re-opened in January 1986 and made fully operational by the spring of that year. These closures made heavy inroads to the level of group profits but the wisdom of radical improvement was fully vindicated within weeks of each property operating at full capacity. So well did the Royal Court perform in the year to September 1983 that the manager of the hotel, as a result of the management incentive scheme, was, for that year, the highest paid employee (directors included) within the group. [7]

The refurbishment and operation of the Royal Court typified the fresh management strategy that Peter Eyles wished to implement at each of the hotels. The refurbishment was carried out to a high standard with custom built, free standing furniture imported from Italy being used for all the bedrooms. This was felt to be a useful marketing tool as it was a cut above the standardised built-in furniture and fittings which were representative of competing establishments. [8]

Furthermore each bedroom floor had a different decor and design theme - again this was an added attraction compared with the bulk of the competition. The restaurant, named The Old Poodle Dog, the wine bar and the lounge bar were so constructed as to enable them to be run as separate businesses with many customers being unaware that they were in fact an integral part of the hotel. This allowed distinct market segments to be tapped for each area of the business and thus improved turnover and profitability. [9]

RE-FINANCING OF BANK LOANS

Towards the end of 1981 group borrowings had been heading towards £10M and this high level of gearing had made the company vulnerable to even modest falls in turnover or increases in costs. During 1982 the opportunity was taken to rearrange the loan facilities of the group as follows:

a) a bank loan for £4M for a period of 10 years from 23rd July 1982 repayable in annual tranches, the first repayment of £250,000 being due on 23rd July 1985;

b) a bank overdraft of up to £1.5M repayable on demand;

c) a standby facility of £1.5M for a period of three years commencing 12th July 1982. [10]

When Lady Joseph took over as chairman she held in her own right 29.9% of the equity. The next largest shareholding was held by the Kuwait Investment Office with 15%. Other hotel groups, notably Stakis and Kennedy Brookes, took a stake in the company with a possible view to proceeding to a full take over bid. None emerged and these two holdings were subsequently sold on the open market. [11]

A NEW PHASE OF EXPANSION 1984 - 1987

During the following eighteen months management attention was directed towards building fresh markets for the refurbished hotels. In May 1984 the company raised £3.2M by way of a rights issue, unconventionally issuing its shares at par in the ratio of 7 to 2. The reason for this was to eliminate the speculative element in the shares at the time which would have otherwise prejudiced the availability of this source of finance. The company was advised by Morgan Grenfell & Co. Ltd., brokers to the issue being Grievson, Grant and Co. Morgan Grenfell was an interesting choice insofar as Sir Maxwell Joseph had been advised throughout his career by their arch rivals S.G. Warburg & Co. Ltd. Nevertheless the choice of Morgan Grenfell was to have considerable implications for the group as Lady Joseph appointed the bank director who handled the account, Anthony Richmond-Watson, to the board on 28th July 1984. In due course, at Lady Joseph's request, he became chairman of the company in June 1986. [12]

Peter Eyles realised that in order to move the group up market and to obtain comprehensive geographical coverage of the U.K. it would be essential to acquire existing hotels of a high standard. Simultaneously he realised that to obtain worthwhile property required painstaking research and not a little patience. In his search for suitable property he was assisted by a property agent who worked for him on a "no sale, no fee basis" and by James Baker, a senior partner in Weatherall, Green, Smith, Chartered Surveyors, who had extensive experience of hotel valuation. [13]

The first set of properties to catch his eye were the twenty-nine hotels owned and operated by British Transport Hotels which, at the instigation of the government, were to be disposed of either as a single group or in collective lots. Initial information regarding these properties was made available early in 1981. Eyles set his sights on bidding for four properties - Gleneagles, The North British and Caledonian in Edinburgh together with the Charing Cross in London. He reckoned that a viable bid would be in the order of £15M or slightly more. [14] At this stage, regrettably, the group did not enjoy the backing of a bank as powerful as Morgan Grenfell, and consequently Eyles was not in a position to bid. Nothing daunted he lowered his sights somewhat and concentrated on acquiring one suitable property in the north of England and one near London. To achieve completion each property took more than two years.

In September 1984 the group acquired the Old Swan Hotel in Harrogate from Leisuretime International for £2.25M. This well known property, a grade II listed building, was originally constructed in the eighteenth century with later additions in the 19th century. It was of four star standard with 140 bedrooms and 8.5 acres of ground, some of which was available for future expansion and development. The consideration for the Old Swan Hotel was satisfied by the allotment of 13,798,391 new Ordinary Shares of 5p each in the company, all of which were placed by Morgan Grenfell on behalf of the vendors through the market at 16.5p per share. [15]

This was an important coup for Norfolk and brought the added bonus that the company was subsequently able to dispose of the 2 star Granby hotel in Harrogate. Further disposals included the Norbreck Castle Hotel in Blackpool, which catered for the mass tourist market and the New County Hotel in Gloucester which was impracticable to refurbish to a 4 star standard. These two disposals fetched £3.2M.

Norfolk was able, in October 1985, to complete the purchase of the Briggens Hotel near Ware in Hertfordshire on which Peter Eyles had been working for more than two years. The Briggens Hotel was originally built as a country house in the eighteenth century and, like the Old Swan, was a listed building. It had been converted to an hotel in 1982 and had rapidly achieved 4 star status. The property was set in 45 acres of parkland in which there had been constructed a nine hole golf course. In addition the hotel had tennis courts and an outdoor swimming pool and enjoyed fishing rights on the river Stort. The consideration of £2.9M was satisfied by the allotment of 14,310,980 new ordinary shares in the company, all of which were placed by Morgan Grenfell on behalf of the vendors through the market at 20.5p per share. [16]

In May 1986 the board of Norfolk announced that negotiations had been finalised for the construction from scratch of a 124 bedroom, four star property at Reading in Berkshire at a capital cost of some £7M. An added advantage of this development was that it was located at a particularly attractive site by the river Thames. This was the first such development by Norfolk but it was in tune with the overall strategy of the group to acquire suitable property in prosperous parts of the U.K. The development was financed by an eight year loan, secured by guarantees, commencing February 1989. [17]

Each of these three moves, Harrogate, Ware and Reading served to bring the Norfolk Capital group up market and to give the company a higher public profile. In the spring of 1986 Peter Eyles, still in an acquisitive frame of mind, noted the public interest surrounding the Guinness group and its acquisition of The Distillers Company Limited for £2.5 billion which had been finalised in April 1986. Previously, in August 1985, Guinness had acquired the whisky firm Arthur Bell & Co., for £375M. In turn Bells had acquired, in February 1984, the Gleneagles group which originally had been formed in 1981 comprising Gleneagles itself together with the North British and Caledonian in Edinburgh - the very hotels over which Peter Eyles formerly had cast a speculative and acquisitive eye. By the time they were acquired by Bells, the Gleneagles group had acquired and entered into a costly refurbishment contract for the Piccadilly Hotel in London which they acquired from Grand Metropolitan. [18]

Almost immediately after the acquisition of Distillers had been finalised, Guinness sold the Piccadilly Hotel to the hotel subsidiary of Air France for £31M. Guinness, however, retained the health and leisure club which had been constructed by Gleneagles in the basement of the hotel at a cost of £4.5M. This fitted in with the other health and leisure centres owned by Guinness. Guinness also made clear that whilst it intended to retain Gleneagles itself it would consider bids for the Caledonian and the North British.

ACQUISITION OF THE CALEDONIAN AND NORTH BRITISH HOTELS IN EDINBURGH

A number of other hotel groups were interested in acquiring the Edinburgh hotels. Scottish & Newcastle Breweries who were headquartered in the city perceived the properties as having especial attraction. Mount Charlotte Investments had been examining possible sites in the city and they also showed interest as did Trusthouse Forte who were under represented in Scotland generally and in Edinburgh particularly. Alick Rankin, the chief executive of Scottish & Newcastle had approached Guinness as early as the summer of 1985 to enquire as to whether the two hotels might be available. At that time the official Guinness line was that they were not for sale. Rankin, however, knew personally the chairman and chief executive of Guinness, Ernest Saunders, and harboured hopes that the two properties might eventually come on the market.

In the year that Gleneagles Hotels PLc was formed the hotels' valuers Christies had valued the Caledonian at £2.8M and the North British at £2.33M. [14] In the years immediately prior to the formation of Gleneagles Hotels, the Caledonian had been just breaking even, at operating level, on a turnover of between £2M and £2.25M whilst the North British produced remarkably similar figures with marginally lower tariffs. Under the direction of Peter Tyrie and aided by substantial capital investment, especially at the Caledonian, where £4.5M was spent, the turnover figures were increased to in excess of £6M for the Caledonian in the year to December 1985. The turnover figures for the North British are unavailable but it may be presumed that they were substantially less than those of the Caledonian. [19] This is due to the fact that the North British received only minimal capital investment in the period 1981 - 1985 and that the tariffs were lower. There were further complications at the North British surrounding the proposed redevelopment of the entire property with the projected capital costs of various schemes ranging from £10M to £50M.

As Guinness were using Morgan Grenfell Laurie, the property arm of Morgan Grenfell, to advise on the disposal of the two hotels Norfolk did not use Morgan Grenfell for advice on the purchase of the hotels but only to effect the financing following the agreement in principle of terms with Guinness. Tony Richmond-Watson was involved, as a principal, in the decisions taken by Norfolk but was not favoured in any way by Guinness and was not privy to the advice being given by Laurie to Guinness. [20]

Norfolk was in a slightly different position from Trusthouse Forte, Scottish & Newcastle and Mount Charlotte. Each of these companies already had hotels in Scotland and they were used to driving hard bargains for properties they acquired. On the other hand Norfolk was relatively a much smaller company and had no properties in Scotland - the opportunity to purchase the five star Caledonian was a considerable attraction and, to Norfolk, justified a premium price. In the event Norfolk submitted two bids to Guinness - one for the Caledonian alone and one for both properties. Subsequent to an outline agreement with Guinness Peter Eyles instructed Weatherall, Green & Smith to carry out full structural surveys of the two properties and to confirm their preliminary valuations. [21]

The survey uncovered unexpected faults in the Caledonian which led them to reduce their combined valuation to £23.5M, £18.5M for the Caledonian and £5M for the North British. This was £1.5M less than the £25M which Norfolk had agreed with Guiness for both properties and led to lively meetings to persuade Guinness to accept that significant remedial work, of which they had not taken account, was necessary. Having achieved this in May Guinness effectively withdrew from the final stage of negotiating the agreement owing to the pressures imposed by the "Thomas Risk" affair which plagued Guinness throughout the summer of 1986. Once Ernest Saunders, chairman and chief executive of Guinness was able to gain shareholder support at an extraordinary meeting held in London on 11th September, Peter Eyles and Tony Richmond-Watson were relieved to see the negotiations resurrected. Even then considerable uncertainty remained as to the outcome, principally as a consequence of Guinness' requirement to accommodate the proposed development of the North British. Nevertheless, by the end of September, agreement was finally reached and completion dates arranged for the sale of both properties.

Both Tony Richmond-Watson and Peter Eyles perceived the acquisition of the Caledonian and North British as the most important single event in the development of the Norfolk Capital Group. [22]. The acquisition, at a stroke, almost double the size of the group, brought it into the five star market, gave it greater credibility both within the industry and with institutional investors and paved the way for future acquisitions in the four and five star market. The acquisition costs were met mainly by a rights issue of 115,900,832 5p shares at a price of 18.5p per share. This raised £20.2M net of expenses with the balance being met by the internal resources of the group. [23]

An additional long term attraction, especially to Norfolk compared with the other bidders, was the significant property redevelopment that was scheduled to take place in the environs of each hotel. The authorities in Edinburgh had been trying for a number of years to attract private sector investment to construct a conference centre on land adjacent to the Caledonian. The directors of Norfolk reckoned that the Caledonian would be a major beneficiary were such redevelopment to take place - the other major beneficiary would be the Sheraton Hotel, opened in 1985, located to the south of the proposed conference centre. Regrettably, even by the end of 1987 the combined efforts of Norfolk, the Scottish Development Agency, Edinburgh District Council and Lothian Regional Council failed to produce an acceptable plan which had the agreement of all parties concerned. [24]

The property redevelopment plans for the North British were even more fraught and towards the end of 1987 Norfolk realised that the optimum approach to the problem would be to redevelop the entire site by themselves. This would necessitate the closure of the North British for a period of two to three years and entail expenditure on the hotel alone of some £12M to £15M to bring it up to the same standard as the Caledonian. [25]

In the short term the entry costs to the Edinburgh hotel market proved expensive for Norfolk. The cost of the Caledonian in particular was judged by some to be high at the time. The marked increase in hotel property values since then, however, has largely vindicated the decision. Longer term judgement on the Edinburgh hotels must wait until the mid 1990's by which time the North British will have been fully refurbished and hopefully the capital will have a conference centre of international standard.

FURTHER ACQUISITIONS IN THE 1980's

In January 1987 the opportunity came for Norfolk to bid for a group of four country house hotels, each with a four star rating. They were privately controlled by a Canadian, who, being in his seventies, was approaching the time when he wished to dispose of his assets in the U.K. [26] Peter Eyles had spent time cultivating his acquaintance and the acquisition by Norfolk of the Caledonian together with the refurbishment of the Royal Court and the Norfolk had favourably impressed the Canadian who decided to sell the four properties to Norfolk. Thus for the sum of £15.3M the group was able to purchase four properties with a total of 184 bedrooms with extensive conference facilities. The hotels were situated in Kent, Berkshire, Worcestershire and

Warwickshire and each had the added advantage of being set in their own grounds which ranged from 9 to 62 acres as indicated below.

Kent .	Eastwell Manor	24 bedrooms
	grounds extend to 62 acres	
Berkshire	Oakley Court	92 bedrooms
	grounds extend to 25 acres	
Worcestershire	The Elms Hotel	27 bedrooms
	grounds extend to 9 acres	
Warwickshire	Billesley Manor	41 bedrooms
	grounds extend to 9 acres	

The consideration was satisfied via an institutional placing of 61.2M shares at 25p per share arranged via Morgan Grenfell. This was an extremely sound purchase for Norfolk. Not only did it emphasise the role of the group in the country house hotel market but it gave a useful geographical spread from Kent to the Midlands. As a result of the subsequent rise in hotel property values Peter Eyles found that he would have been able to sell, within little over a year of acquisition, one of the hotels for as much as the group paid for all four. [27]

Later in the year Norfolk was able to acquire a four star property with 45 bedrooms, The Royal Crescent Hotel in Bath for £7.5M thus enabling the company to dispose of the Royal York Hotel in the same city. The Royal York had been owned by the group since the 1950's. It was in an inferior location to the Royal Crescent and refurbishment, which had been planned, would have cost some £4.5M.

Subsequent to meetings between Peter Eyles and Peter de Savary Norfolk was able to set in hand arrangements to acquire the St. James's Clubs in London and Paris at a combined cost of £22M. Between them the clubs had 91 bedrooms thus the acquisition cost was in excess of £200,000 per bedroom. [28] In addition Norfolk obtained an option to acquire the St. James's Club, Los Angeles, which was due to open in early 1988.

In order to pay for these Norfolk raised £44.2M (net of expenses) via a 1 to 3 rights issue of 102,655,884 5p shares at a price of 45p per share, the issue being underwritten by Morgan Grenfell. [29] It was a matter of regret that while the issue price of 45p seemed reasonable in comparison to the market price of 51p at the time of issue the whole market turned soft shortly afterwards and Norfolk suffered from institutional reaction to the financing of other major acquisitions.

Less than 20% of the shares were taken up leaving the bulk with the underwriters. The stock market crash of 19th October occurred only six weeks after the issue was finalised. The shares, which earlier in the year had reached more than 50p, fell back sharply and by the end of the year had recovered to only 25p, 20p below the issue price. Norfolk, had, nevertheless, obtained the necessary finance to fund the acquisition on, in retrospect, very favourable terms. In turn the underwriters took substantial losses: some of them sold their shares at a loss at the end of 1987 while others have written down their holdings having taken a long term view of the future success of the company. The view of the chairman, Tony Richmond-Watson, was that it was merely "a technical position that has to be unwound." Clearly a degree of sangfroid is an asset under such circumstances. [30]

Interest had also been taken in Westin Hotels which was a substantial USA group which controlled 66 hotels throughout the USA, Central America, Canada and the Far East. Its parent company was the Allegis Corporation which earlier in the year had sold Hilton International to Ladbroke for $1 billion and Hertz for $1.3 billion. The price it put on Westin was similar to that for Hilton International. Initially there were as many as fifty interested buyers but this was whittled down first to fifteen and then to five.

It was a major undertaking for Norfolk who, at the time, were capitalised at approximately one third of the value of Westin. Peter Eyles spent a week in New York with some two dozen advisers from Morgan Grenfell, Peat Marwick McLintock and Weatherall, Green & Smith analysing the details made available by the vendors. [31]

Unfortunately the stock market crash put paid to hopes that Norfolk would be able to put in a realistic bid for the group which was sold subsequently to a Texan oil family. Nevertheless, Peter Eyles felt that it had been a useful exercise and that it gave both Norfolk and its professional advisers the feel for mounting a similar exercise should the occasion present itself and considerable knowledge of the USA which was put to good use six months later when Norfolk decided to exercise its option to acquire the St. James's Club, Los Angeles. [32]

The results for the year to December 1987 showed turnover of £32.2M and pre-tax profits of £5.2M. Despite the acquisitions made during the year the company was keen to acquire further properties judging that "Only in a period of absolute bear market frenzy would it become difficult to finance suitable purchases" (Table 3 - 2). [33]

PERFORMANCE OF NORFOLK CAPITAL 1984 - 1987

During the period 1984 to 1987, via a strategy of acquisition, the group grew dramatically with net tangible assets moving from £12M at the end of 1983 to £153M by the end of 1987. [34] It should be noted, however, that whilst the capital costs of refurbishment of the London hotels, together with the acquisition of Celebrated Country Hotels may be judged reasonable the later purchases, particularly the St. James's Clubs must be judged as being relatively expensive. On the one hand they may be justified on the basis of the likely long term appreciation of high quality property but it is more difficult to justify them on the basis of current profits and rate of return on capital invested. It could be argued that the full price paid for the St James's Clubs was reflected in the disappointing level of take up of the 1987 rights issue.

The geographic spread of hotels throughout the U.K. is concentrated in and around London and the Home Counties. The remainder are divided between the West Country, the West Midlands and Edinburgh. It remains to be seen whether buying opportunities arise in major English provincial cities which, if taken, would result in a more balanced property portfolio. It should also be noted that financing fresh acquisitions became more difficult from mid 1988 as a result of rising interest rates.

All told there is no doubt that Norfolk Capital made impressive strides both in the quality of its properties and the ability of its management throughout the 1980's. In particular the combination of the property dealing skills of Peter Eyles linked to the finance raising ability of Tony Richmond-Watson and Morgan Grenfell has been a potent factor in the growth and development of the company.

TABLE 3 - 2

NORFOLK CAPITAL GROUP
FINANCIAL RESULTS 1983 - 1987

The results of the efforts of Peter Eyles and his management may be judged by the following financial results:

Year ended	30 Sep 1983 £'000	30 Sep 1984 £'000	15 months 31 Dec 1985 £'000	31 Dec 1986 £'000	31 Dec 1987 £'000
Turnover	9,292	10,619	15,055	13,440	32,201
Operating Profit before Interest	743	1,064	1,592	1,730	5,109
Profit before Taxation	55	505	1,272	1,412	5,230
Profit after Taxation	38	347	1,133	1,140	4,206
Dividends	38	241	331	724	1,694
Issued Share Capital	949	5,042	5,757	11,590	20,531
Net Assets	11,657	20,567	35,417	64,170	153,357
Net Asset Value per Share	17.4p	18.8p	24.1p	27.7p	37.4p
Earnings per Share (net basis)	0.06p	0.43p	0.99p	0.80p	1.30p
Dividends per Share	0.06p	0.23p	0.28p	0.375p	0.45p

<u>Notes</u>

1. Net asset value per share for 1987 is calculated by dividing the net tangible assets at the end of the year by the number of shares in issue at that date. Net asset values per share for 1983-1986 have been adjusted to take account of the share issues in 1984 and 1986.
2. Earnings per share for 1987 is calculated by dividing the profit after taxation by the weighted average number of ordinary shares in issue during the year.
3. Earnings per share and dividend per share for 1983 to 1986 have been adjusted to allow for the effect of the bonus element of the share issues in 1984 and 1986.

Source: Published Accounts

FINANCIAL COMMENTARY

It has already been noted that a principal reason for the successful development of the group was the especial expertise of the merchant bank Morgan Grenfell. Indeed, without them, it is reasonable to suggest that the development would have been neither successful nor as swift. A measure of the financial success of the group may be seen by reference to the price earnings ratio of the shares of the company which were, even in the two years subsequent to the stockmarket crash of October 1987, approximately twice those of their competitors - in the range 30 to 36 compared with industry norms of 14 to 18.

The diversification into clubs initially brought substantial losses but it is likely that all the club operations will eventually produce a satisfactory level of profitability. In the period subsequent to acquisition (1987 - 1989) however, the losses made by the clubs were partially responsible for an adverse effect on the share price of the group. In fact the weakness in the share price was reflected by the fact that in mid 1989 the shares were being traded in the 34 to 36p range - more than 20% less than the price at which the rights issue of 1987 took place. It was, in part, owing to this weakness that Mount Charlotte took a 12% equity stake in the company.
Nevertheless, the company is soundly financed with an

enviable portfolio of high grade hotel property. On the one hand this gives it security but on the other the possibility of an unwelcome takeover bid cannot be ruled out.

FOOTNOTES

1. D.A. Stewart, Grand Metropolitan, A Study In Acquisition Strategy M.Sc. Thesis Strathclyde Business School, 26/10/84.
2. ibid.
3. ibid.
4. Interview J. D. McGuffie November, 1987.
5. Rights Issue Document 27th March 1984, Morgan Grenfell & Co. Limited.
6. Interview Peter Eyles March 1988.
7. ibid.
8. ibid.
9. ibid.
10. Statement issued by Norfolk Capital Group to shareholders 13th August 1982.
11. Financial Times 12/12/82.
12. Interview Peter Eyles March 1988.
13. ibid.
14. Annual Report and Accounts 1981 - 1985.
15. Interview Peter Eyles March 1988.
16. Statement Issued to Shareholders 13th September 1982.
17. Statement Issued to Shareholders 3th October 1985.
18. Statement Issued to Shareholders 9th May 1986.
19. Placing Document ex Gleneagles Hotels PLc 12th June 1981.
20. See paper on Gleneagles Hotels.

21. Interview Peter Eyles March 1988.

22. ibid.

23. Interview Anthony Richmond-Watson March 1988.

24. Rights Issue Document 27th September 1986, Morgan Grenfell & Co. Limited.

25. Glasgow Herald and Scotsman December 1987.

26. Interview Peter Eyles March 1988.

27. ibid.

28. Rights Issue Document August 1987, Morgan Grenfell & Co. Limited.

29. ibid.

30. Interview Anthony Richmond-Watson March 1988.

31. Interview Peter Eyles March 1988.

32. Financial Times 15/3/88.

33. Interview Anthony Richmond-Watson March 1988.

34. Annual Report and Accounts 1987.

3. **CENTRE HOTELS, COMFORT HOTELS AND FRIENDLY HOTELS 1965-1987**

Chairman Henry J Edwards

THE EMERGENCE OF CENTRE HOTELS

The aim of this case study is to trace the growth and development of three middle market hotel groups Centre Hotels, Comfort Hotels and Friendly Hotels during the period 1965 to 1987. During this time Henry J. Edwards was chairman of each company. Edwards' family came originally from near Vienna, Austria and Edwards was brought as a teenager to the U.K. prior to the Second World War by his parents who had been in the textile trade and who continued in this line of business in their adopted country. During the war he served in the British Army in both the Tank Regiment and latterly in the Intelligence Corps. [1]

Subsequent to demobilisation he became involved in the hotel industry in London and around 1950 came into contact first with Fred Kobler and subsequently Maxwell Joseph. One of his early jobs was assistant manager at the Grosvenor Court Hotel just to the south of Oxford Street and near Bond Street underground station. The lease of this hotel was held by Fred Kobler who sold it in 1953. Kobler then went into partnership with Joseph and within two years, by 1955, acquired the leases of four London hotels. These, together with The Mandeville, which Joseph had purchased some years earlier, were to form the nucleus of the rapidly expanding group. [2]

Joseph himself was, for a short time, the manager of one of the properties - The Washington, in Curzon Street, Mayfair, W.1. He did not care, however, for the intricacies of day-to-day hotel management but preferred to concentrate on property dealing in which field he was to become pre-eminent during the 1960's. [3]. It was determined, therefore, that Joseph should be the chairman of the company, Kobler the managing director and Edwards the general manager. The group was constituted as Grand Hotels (Mayfair), the majority of hotels being in that fashionable district of the metropolis, but was operated as The Washington Group of Hotels. This name was deliberately chosen to create a market image and to attract transatlantic business. [4]

In a relatively short space of time the team of Joseph, Kobler and Edwards made a considerable impact on the London hotel industry of the 1950's. Their management style which was an amalgam of shrewd property acquisition implemented by Joseph, imaginative use of available space together with innovative sales and marketing techniques both spearheaded by Kobler allied to rigorous financial controls instigated by Edwards brought the company to the forefront of the industry, producing above average (and in some cases exceptional) rates of return on capital investment. [5]

The number of hotels grew steadily to the point where, in 1962, the group owned and operated 12 hotels in central London and after the acquisition of the Eglinton Hotel Group in 1962 a further 6 in Scotland. On the 10th of July in that year Joseph merged his hotel interests via Mount Royal (Marble Arch) Limited to form Grand Metropolitan Limited. [6] Although Henry Edwards remained General Manager of the enlarged group he was conscious of the fact that Maxwell Joseph was beginning to rely increasingly on his two senior accountants Stanley Grinstead and Ernest Sharp for the management and administration of the 113 companies of which he was a director. Sensing that further promotions might go to men who were professionally qualified as lawyers, accountants or surveyors Henry Edwards determined to strike out on his own lest he became vulnerable should a power struggle develop. As the junior partner in the trio he did not have the financial wherewithal of either Joseph or Kobler. He realised that he would require financial support for his plans to succeed and to this end approached Joseph in the summer of 1964. [7]

His chance came later that year. Grand Metropolitan, as the holding company was now called, had formed a company G.M. Hotel Projects for the purpose of identifying possible acquisitions. In December of that year acting on behalf of this subsidiary company, Messrs. Colegrave & Co. of 14/18 Gresham Street, London EC2 made a successful offer for the Issued Ordinary Stock of The Cranston London Hotels Company Limited, the consideration being £620,000. Cranston had been originally incorporated in 1900 and its main business was that of operating temperance hotels. In 1964 its principal assets were three hotels in the Bloomsbury district of London - the Ivanhoe, the Kenilworth and the Waverley. These names indicate the Scottish origin of the company whose registered office had always been in Edinburgh. Indeed, Grand Metropolitan may first have come across the company at the time it was investigating the acquisition of the Eglinton Group two years earlier. [8]

In the event Henry Edwards purchased the three hotels from Grand Metropolitan, resigned as a director of Grand Metropolitan on 1st January 1965, was appointed Chairman of Cranston that month and came to an arrangement with Maxwell Joseph whereby Grand Metropolitan would take a substantial holding in Cranston amounting to 28% of the ordinary stock in issue and 34% of the issued preference capital. At the time this was publicly perceived as a generous gesture on the part of Maxwell Joseph. Without this financial assistance Henry Edwards would have had considerable difficulty in raising sufficient capital to purchase, refurbish and expand Cranston. Nevertheless the confidence Joseph displayed in Edwards was handsomely vindicated in the ensuing years via the substantial capital appreciation of the trade investment. [9]

CENTRE HOTELS 1965 - 1977

Consequent to the acquisition of Cranston the name of the company was changed to Centre Hotels (Cranston) Ltd. The first major task was to implement a scheme of capital reorganisation of the company the main thrusts of which were:

a) an increase in the Authorised Share Capital of the company from £172,000 to £500,000;

b) an increase in the Ordinary Issued Share Capital from £62,000 in Stock Units of £1 to £166,720 in Ordinary Shares of 2s (10p) each;

c) the existing 5 per cent Cumulative Participating Preference Stock in units of £1 of which £85,440 was issued was reclassified as 7% Cumulative (Non

Participating) Preference Stock;

d) The existing unissued 24,560 Preference Shares of £1 each were reclassified as Ordinary Shares of £1 each;

e) the objects clause of the Company's Memorandum of Association was revised to delete the prohibition on the sale by the company of alcoholic beverages and to permit the establishment of share option schemes;

f) borrowings by the company would not, without the sanction of an Ordinary Resolution, exceed three times the aggregate of the issued share capital and consolidated reserves. [10]

The next important move was to form a board of directors. A. A. Davis, a senior partner in the accountancy firm of Stoy Hayword & Co who had been auditors to Grand Hotels (Mayfair) joined the board together with two executives from that company: Michael Thompson, a lawyer, became general manager and dealt with the detail of subsequent acquisitions while Rory Fraser was appointed Company Secretary in charge of administration. [11]

With an appropriate capital structure and a fresh board the new company set about improving the existing properties and seeking out suitable acquisitions. Their business policy was predicated on three principal factors:

1. Rising living standards would make the concept of away-from-home holidays more commonplace.

2. The growth of air travel, especially the increasing popularity of group travel and package tours, would reduce both price and travel time for those seeking holidays in other countries.

3. The development of larger divisionalised companies would lead, not only to more business travel, but to a demand for more business facilities in hotels.

On this basis the board envisioned three principal strands in their anticipated pattern of growth:

a) the development of existing properties

b) the acquisition of existing hotels

c) construction from scratch to match strict specifications in line with budgeted costs and budgeted standards aimed at the growing middle market (3 star). [13]

The foregoing was encapsulated in the company philosophy which was stated as follows:

1. Centre Hotels' objective is to earn the best possible return for its shareholders, together with ever-increasing rewards for its staff, by owning, operating and supplying management services for hotels and catering outlets in the United Kingdom and overseas. We offer a satisfactory product, responsive to market needs, and geared to a pre-determined price structure.

2. Our long term marketing aim is to gain and retain the loyalty of business firms, tour operators, travel agents and the general public. To this end, we provide value-for-money, with strategically placed accommodation and consistent standards of comfort and convenience. In addition, we have developed an advanced formula for purpose built multi-function suites, matching the needs of conference, exhibition and social event organisers.

3. Centre Hotels impose strict budgets for both new structures and conversions. Bedroom selling prices being directly related to capital costs, our investment in large hotels, with relatively low capitalisation ensures sensible tariffs and high occupancy.

4. By catering for the anticipated needs of British and Overseas travellers, within a controlled cost framework, Centre Hotels are well placed to benefit from the world's long-term upward trend in away-from -home business and leisure activities. [14]

With a business policy in place and a clearly defined company strategy the group, backed by strong management, was set fair to expand rapidly and make an important contribution to the U.K. hotel industry of the 1960's. This it did via a process of refurbishment of existing properties, acquisition of additional properties and the construction from scratch of three hotels - two in London, the Regent Centre and the West Centre together with one at London Airport.

FINANCIAL REVIEW

By the end of the decade the group had eight hotels in London, two hotels in Birmingham together with properties in Brighton, Eastbourne, Hull, York, Edinburgh and Dundee. In addition the company ran 21 Centre restaurants separately from the main hotels and in 1970 purchased 27 Old Kentucky restaurants throughout the London area. An indication of the growth of the company during the chairmanship of Henry Edwards is reflected in the following financial statistics.

TABLE 3 - 3

CENTRE HOTELS FINANCIAL DATA 1967-1976 Source Published Accounts.

YEAR ENDED Mar 31	TURNOVER £	PRE-TAX PROFIT £	PRE-TAX PROFIT %	POST-TAX PROFIT £	POST-TAX PROFIT %
1967	947,981	158,348	16.7	99,476	10.5
1968	1,110,125	205,201	18.5	201,425	18.1
1969	2,539,786	325,986	12.8	269,872	10.6
1970	3,500,518	532,739	15.2	407,039	11.6
1971	6,375,564	977,060	15.3	671,960	10.5
1972	7,401,936	1,283,246	17.3	843,816	11.4
1973	8,368,959	1,581,848	18.9	1,198,188	14.3
1974	11,411,478	1,218,355	10.7	917,398	8.0
1975	12,871,640	709,089	5.5	589,826	4.6
1976	16,210,742	568,283	3.5	380,099	2.3

At first sight these figures are impressive until one realises that, while the figures for 1973 show turnover of £8,368,959, pre-tax profits of £1,581,848 and post-tax profits of £1,198,188, three years later (during which time the turnover had doubled to £16,210,742), the pre-tax profit had declined to £568,283 and the post-tax profit to £380,099. [15]

The downturn in profits in the period 1973 to 1976 may be attributed to certain specific factors. In the first place the period 1973 to 1975 marked a time of severe recession in the U.K. and all hotel companies were adversely affected to a greater or lesser extent. In the case of Centre the problem was compounded by the heavy capital investment of the late 1960's and early 1970's. For the most part this capital expenditure had not yet worked its way through to profits with the new hotels initially being a drag on the profits of established properties. In the early and mid 1970's the group decided to expand on the Continent of Europe and acquired four properties in Amsterdam with a total of 440 bedrooms. This took the number of hotels operated by the company to 30 with a total of 5,350 bedrooms. [16]

The principal reason why the company had been able to expand so rapidly rested on the reputation of Henry Edwards as a highly efficient hotelier who was able to discern a specific market niche and then to provide facilities in accommodation, food and liquor that exactly matched the chosen market segment. In particular his rigorous cost control of capital expenditure (including professional fees) had won many admirers and gave confidence to bankers and institutional lenders who were more than prepared to back his expertise. The fact that the new Centre hotels, both in London and in the provinces were completed on time and within budget (in marked contrast to some of the more grandiose schemes that were implemented subsequent to the Development of Tourism Act of 1969) was further proof of the professionalism of his management team. This allied to tight revenue control and assertive marketing of accommodation brought about the surge in turnover and profits in the period 1969 - 1973. It was only when the recession struck with the accompanying squeeze on margins allied to the high interest charges that the formula came under pressure. Although the company was sound from the point of view of underlying assets the ratio of pre-tax profits to turnover made it vulnerable to predators.

Furthermore the company had only recently established Centrelink, a marketing and purchasing organisation for hotels in the U.K. who wished to be associated with Centre to take advantage of the company's marketing and purchasing strength. In addition the company had established Hotel Management International to manage hotels overseas. These operations together with the management of the restaurants throughout the group placed a heavy financial burden on the company. Margins were squeezed and the interest charges rose substantially, eating into the operating profits and, as the figures indicate, although the turnover for 1976 was almost twice that of 1973 post-tax profits were only one third of the 1973 figure. The company thus became particularly vulnerable to any predator who recognised the underlying asset value and the potential of a company whose profits, in all probability, would be likely in due course to show a strong upward trend.

It was thus that, early in 1977, the expanding bookmaking group, Coral, who had the benefit of a strong positive cash flow, decided that they should increase the asset base of their company and reckoned that a bid for Centre would be a shrewd vehicle for so doing. Coral's timing of the bid was excellent. Not only would they be purchasing an hotel group where a significant proportion of the roomstock had been recently built but in Jubilee year the prospect of improved room occupancies with an immediate contribution to post-acquisition profits was a strong incentive. [17]

In addition although the total assets of Centre were, in 1976, in excess of £30M, the value ascribed to the Ordinary Shareholders was only £11M. It was this highly geared situation that had made the company vulnerable. Also it was ironic that in the financial year 1976/1977 the profits of Centre were due to show a marked rise and this represented a further benefit to Coral. Negotiations began in April 1977 and on 17th May the company, advised by their merchant bankers Kleinwort Benson, wrote to shareholders advising them to accept the Coral offer which valued Centre at £16.7M. In view of the fact that the equity was valued at £11M this was as good an offer as Centre could have expected. [18]

In the manner of such negotiations a statement was made to the effect that as a result of "the changed economic and financial circumstances" the board of Centre was of the opinion that a merger with a larger company was in the best interests of shareholders and was the optimum route to further expansion. The immediate intention was that subsequent to the merger Centre should continue as a separate division of Coral with Henry Edwards as Chairman and Managing Director supported by two directors from the main board of Coral. [19]

Consequent to the communication from the board of Centre to its shareholders Coral rapidly obtained more than 50% of the equity of Centre and the bid thus became unconditional. All things considered it was a satisfactory outcome for the shareholders of Centre. As recently as November 1976 they had seen their shares languishing at a mere 17.5p - only seven months later the shares had more than tripled in value. For Henry Edwards himself it must have taken the sting out of the take-over, having 2.8M shares in the company he had seen their value rise from just under £.5M to £1.58M. [20]

As might have been expected he did not stay with the new board for long. Within a year he resigned his position, determined to go it alone once again and in a manner not too dissimilar from his early days at both Grand Hotels (Mayfair) and Centre Hotels (Cranston) Ltd.

THE COMFORT HOTEL PHASE 1978 TO 1984

As soon as it became evident to Henry Edwards that staying with Coral was to invite tiresome constraints on his freedom of action he began the task of tracking down suitable hotel property with a view to launching a fresh company under his personal direction and control. By May 1978 he had found what he was looking for - the chance to buy a significant stake in a company that was ripe for expansion. At that time Adda Hotels owned six properties in London together with one each in Amsterdam and Paris. In the autumn three additional hotels in London were acquired, each for around £1.5M. Henry Edwards, together with some business associates, acquired 29.5% of this company from Derek Garcia and the estate of his late brother A. A. Garcia. It was to be via this vehicle that he was to build his second hotel company. [21]

Although it had been under the control of the Garcia brothers since the mid 1960's the period prior to the approach had been difficult and it was only the sale of a property in Chelsea for some £6M that made the group a saleable proposition. In the half year prior to the change of ownership the turnover was £3.4M with pre-tax profits of £408,000. The return to profit from a prior period of operating losses had been the principal aim of Derek Garcia - subsequent to this achievement he was happy for Henry Edwards to buy into the company whilst he, together with family interests, retained 22% of the equity. [22]

The first major acquisition engineered by Henry Edwards for Adda was the purchase of City Hotels, a group of five London hotels with a combined roomstock of just over 500, together with the Strikes restaurant chain and the Dayville ice cream operation which had 80 retail outlets. This gave the enlarged group a roomstock just short of 1500. Subsequent to the acquisition of City Hotels the Adda name was dropped and the new name of Comfort Hotels International adopted. It was clear even at this early stage that significant expansion was likely. [23]

The period 1979 to 1981 was not an easy one for Comfort Hotels International. The group was burdened with considerable debt and the optimum route towards its elimination was via improved trading levels. Given the recession of this period this was no easy task. The alternative - to sell off hotels in a depressed market would have proved but a short term palliative and would clearly not have squared with the overall aim of enlarging the group. Consequently the aim during this period was to gradually improve trading levels, spend what was needed by way of refurbishment and to identify those properties within the group, mainly the smaller ones, that could be easily sold once the recession had run its course. As it turned out the group was able to dispose of four of its smaller properties in 1982/1983 for £5.6M. During this period it acquired the lease of the 400 room Royal Kensington Hotel and a property development company based in Mayfair. These acquisitions were financed via a £7.6M rights issue. [24]

As the economy gradually moved out of recession the trading performance of Comfort improved. Agreement was reached with a property company British Land to build a chain of Comfort Lodges throughout the provinces. These were to provide "three star standard facilities for the travelling public at two star prices." [25] Clearly this was an extension of Henry Edwards' philosophy of providing value for money accommodation and related facilities at a price his competitors would find difficult to match. The initial agreement was for five lodges at a total capital investment of £10M of which Comfort was to provide 10% together with the operating management. The profit split was not disclosed but it was a major breakthrough for Comfort and a sign of British Land's confidence in the management style and technique of the company. The initial cost projections indicated a cost per room of £17,000 - less than half the average costs of construction from scratch.

FINANCIAL PERFORMANCE OF COMFORT HOTELS INTERNATIONAL

1978 - 1983

An indication of the rate of growth of Comfort Hotels International during the time it was directed and controlled by Henry Edwards may be seen from the following figures.

TABLE 3 - 4

YEAR ENDED Dec 31	TURNOVER £M	PRE-TAX £M	PROFIT %	POST-TAX £	PROFIT %
1978	8.3	1.3	15.7	1.0	12.1
1979	18.5	2.6	14.1	1.9	10.3
1980	21.4	1.6	7.5	1.5	7.0
1981	24.1	0.6	2.5	0.4	1.7
1982	26.5	1.3	4.9	1.0	3.8
1983	32.3	2.4	7.4	1.9	5.9

Source: Published Accounts 1983

With the recession out of the way Comfort Hotels International was able to continue its expansion. By 1984 the group was beginning to attract the attention of would be takeover predators. The first of these emerged in October 1984 in the form of the second largest tour operator in the U.K. - Intasun, run by the ebullient Harry Goodman, who obtained a 14.97% stake in the equity of the company by purchasing shares from Comfort's two largest shareholders, Imperial Life Assurance of Canada and Mr Abdul Shamji's Gomba Holdings. [26] At this stage Comfort was valued at £44M, which indicated the rapid rise in hotel property values since the recession of 1980/81. At the time Goodman talked expansively of acquiring the entire Comfort equity - "The £50M it would cost to buy the whole of Comfort is no problem". Goodman also indicated he would consider, in the interim, joint ventures overseas with Comfort. Comfort vehemently rejected the approaches of Intasun and whilst they were being made bid itself for another hotel group, the Prince of Wales for £15M. This potential acquisition brought with it the prospect of links to a major U.S. chain which had expansion plans for Europe which Comfort hoped to exploit.

The value of £44M which Intasun placed upon Comfort has to be seen in the light of the fact that, by this time, Comfort had a roomstock close to 4,000, 1,700 of which were in London, 1,200 in other parts of the U.K. and 1,000 on the Continent. The bid was thus equivalent to some £11,000 per bedroom. The anticipated pre-tax profits for the year to December 1984 were in the order of £3.5M. [27]

In December 1984, however, a counter bid for Comfort was made by the bookmaking giant Ladbroke which valued the company at £67.44M, some 50% more than Intasun. The rationale behind this bid was that Ladbroke wished to expand in a number of directions and that a successful bid for Comfort would allow it to emerge as the second largest hotel operator in the U.K. Ladbroke also had the advantage of having as merchant bankers Morgan Grenfell who were then, before the Guinness scandal, perhaps the pre-eminent bank in the field of contested takeovers. Thus the Ladbroke bid was much more difficult for Henry Edwards to defend.

The Ladbroke bid was pitched at 5 Ladbroke shares for every 14 Comfort shares incorporating a cash alternative in respect of 11.76M Comfort shares thus giving a Comfort share valuation of 85p. In the event a slightly revised bid by Ladbroke raised the value of Comfort to £71M and this was sufficient to persuade Henry Edwards to grudgingly agree to the offer on 17th December 1984. [28]

Thus a further chapter in the career of Henry Edwards came to an end. Although he had by this time been responsible for the creation of three major hotel companies he was now, at the age of 61, eager to strike out on his own yet again. He had substantial capital and his reputation ensured that the raising of capital presented no problem. It only remained to find a suitable vehicle to found yet another hotel company.

In a matter of only weeks Henry Edwards re-established himself by acquiring another temperance hotel group, Arden and Cobden which operated two hotels in Birmingham, The Cobden with 210 rooms and The Norfolk with 175 rooms. [29] In February 1985 the name of the company was changed to Friendly Hotels Limited and a straightforward scheme of capital reorganisation implemented. Subsidiary companies, which indicated future company strategy, were formed namely Care and Comfort Homes Limited, Comprehensive Resources Limited, Friendly Lodges Limited and Friendly City Hotels Limited. In addition to traditional hotel services the company planned to move into the residential care market for the elderly and into office management and services. In his own right Henry Edwards held 1,274,370 ordinary shares in Friendly Hotels Limited. [30]

The company then proceeded to embark on an acquisition programme to implement its agreed strategy. In August 1985 the company acquired French Franks, a small chain of fast food restaurants in central London. This was followed in November of that year by the acquisition of 100,000 sq. ft. of office space in central London which the company proposed to run as serviced offices. In September of the following year the company completed the initial phase of its programme of diversification by acquiring two residential nursing homes for the elderly, one in Hampshire and one in Suffolk at a combined cost of £1.4M.

In addition to these important moves the company, in May 1986, acquired from the Virani group four large hotels in the provinces and one in London for £5.9M, the consideration being satisfied by £2.65M cash, £2.83M in convertible preference shares in Friendly and the balance of £420,000 by the issue of 303,000 ordinary shares in Friendly at 133p per share. The provincial hotels, the Central in Glasgow; the Station in Perth; The Royal Station in Hull and the George in Nottingham had a combined roomstock of 484 while the London property had 120. The purchase price thus equated to £9,768 per room. In addition the provincial hotels had extensive conference and banqueting facilities. The Glasgow hotel was held on a short lease with 19 years remaining, the Hull hotel on a long lease with 122 years remaining while the other two provincial hotels were freehold. The London property, the Eccleston in Victoria, was held on a twenty five year lease. [31]

These acquisitions were the most important development in the expansion of Friendly. At the time the economy was forging ahead and with the improved management techniques of Friendly the room occupancies at all hotels, together with food and beverage income, showed increases. In addition the sales and marketing efforts of the group resulted in greater utilisation of the banqueting and conference facilities at each hotel.

One major problem was that of refurbishment. In particular the properties at Glasgow, Perth and Hull, each of which had been bought by the Virani group from British Rail in 1983, all required considerable capital expenditure to restore them to a satisfactory standard.

In April 1987 Friendly successfully bid for Connaught Restaurants which owned one of the largest and most prestigious banqueting suites in London for a consideration of £2.6M. This purchase resulted in the combined fixed assets of the enlarged group being valued at £22M. [32]

FINANCIAL PERFORMANCE OF FRIENDLY HOTELS

Prior to the arrival of Henry Edwards the Arden and Cobden group had been run in an ultra conservative manner. Subsequent to his arrival and change of company name (Friendly Hotels had been originally incorporated in 1875) the new group made rapid advances as may be seen from the following figures. [33]

TABLE 3 - 5

YEAR ENDED Dec 31	TURNOVER £M	PRE-TAX PROFIT £	%	POST-TAX PROFIT £	%
1984	1.5	123,746	8.3	106,186	7.1
1985	1.6	180,393	11.3	142,731	8.9
1986	6.1	781,000	12.8	656,000	10.8
1987 (est)	9.2	1,450,000	15.8	1,160,000	12.6

Source: Published Accounts 1987

The importance of the Virani group acquisition is clear from the above figures but it should also be noted that by mid 1987, less than three years from inception, the group had made significant progress both in the hotel business and in areas into which it had chosen to diversify.

CONCLUSION

This case study demonstrates the successful development of a middle market group whose success stemmed from clever property acquisition, stringent control over capital and revenue expenditure, a marketing strategy directed towards the sale of accommodation and the targeting of income groups largely ignored by traditional hotel companies. Regrettably, both Centre and Comfort were adversely affected by the recessions of 1973 - 1975 and 1980 - 1981, in particular the high level of interest rates during these periods. As shown in the text, not surprisingly, each company was the subject of a successful takeover bid.

Latterly, Friendly Hotels, which expanded at a slower rate, was able to escape the attention of predators throughout the 1980's.

FOOTNOTES

1. Letter H. J. Edwards to D. A. Stewart, 15th April 1988.
2. Interview H. J. Edwards March 1988.
3. Oliver Marriott, The Property Boom P88, 1968, London, Hamish Hamilton.
4. Interview H. J. Edwards March 1988.
5. Published Accounts Grand Hotels (Mayfair) 1957 to 1962.
6. MSc Thesis Grand Metropolitan A Study in Acquisition Strategy D. A. Stewart, Strathclyde Business School, 1984.
7. Private Document listing directorships of M. Joseph.
8. Document ex The Cranston London Hotels Company Limited.
9. See paper on Queens Moat Houses 31/10/87.
10. Documents ex Centre Hotels (Cranston) Limited.
11. ibid.
12. ibid.
13. Centre Hotels Corporate Identity Statement 1968.
14. ibid.
15. ibid.
16. Annual Report and Accounts 1976.
17. Coral Offer Document 17th May 1977, Charterhouse Japhet Limited.
18. Document ex Centre Hotels (Cranston) Limited.
19. Coral offer Document, Charterhouse Japhet Limited.

20. Interview H. J. Edwards March 1988.

21. London Evening Standard 18/5/78.

22. Morning Advertiser 24/8/78.

23. Financial Times 10/11/78.

24. Rights Issue Document, Kleinwort Benson Limited.

25. Interview H. J. Edwards March 1988.

26. Daily Telegraph 28/11/84.

27. Financial Times 28/11/84.

28. Financial Times 17/12/84.

29. Financial Times 12/12/84.

30. Interview H. J. Edwards March 1988.

31. Offer Document ex Friendly Hotels PLC 25/3/86, Kleinwort Benson Limited.

32. ibid.

33. Kleinwort Grieveson - Stockbrokers, Spring 1987 Review.

4. **GLENEAGLES HOTELS PLc**

Managing Director Peter Tyrie

One of the declared intentions of the Thatcher administration which came to power in June 1979 was to privatise as many state assets as could successfully be sold off to the public. British Rail, because of its large annual subsidy was an unattractive proposition but the collection of 29 hotels owned and operated by British Transport Hotels (BTH) which had been brought into being in 1947, was thought to be sufficiently appealing as to make plans for its collective disposable feasible.

Concurrent with these early developments the City of Edinburgh was attempting to generate interest in the creation of a conference centre to be located immediately adjacent to the Caledonian Hotel. [1] In fact the land had originally been the main freight depot for the London, Midland and Scottish Railway Company. The then deputy chairman of British Transport Hotels, Sir Alexander Glen (a former chairman of the British Tourist Authority) became involved in these discussions as did the Bank of Scotland and its merchant banking arm the British Linen Bank. [2] Agreement on the development of the site was frustrated by differing views taken by Lothian Regional Council and Edinburgh District Council. [3] Nevertheless, Sir Alexander Glen, aware of government thinking instigated a series of meetings with the then Secretary of State for Transport, Norman Fowler. As a result of these meetings the government determined that, as a first step, the main Scottish Hotels - Gleneagles, together with the Caledonian and the North British should be sold via the flotation of a new company to be called Gleneagles Hotels PLc (GH). [4]

Gleneagles Hotel was originally opened in 1924 as a luxury hotel with sporting facilities. [4] In 1980 it had 210 letting bedrooms, produced a turnover of £3.5M, an average room occupancy of 64% and showed an operating profit of £204,000 from a 190 day season commencing in April. [6] The Caledonian Hotel was originally opened in 1903 by the Caledonian Railway Company, later to become the London, Midland and Scottish Railway Company. In 1980 it had 213 letting bedrooms, produced a turnover of £2.25M, an annual room occupancy of 60%, was open all year round and showed an operating profit of £41,000. [7] The North British Hotel was originally opened by the North British Railway Company in 1902. In 1980 it had 193 letting bedrooms, produced a turnover of £2.17M, an annual room occupancy of 56%, was open all the year round and showed an operating profit of £14,000. [8] Both the Caledonian and North British were rated as four star hotels. The intention was to upgrade the Caledonian to five star, in line with Gleneagles, and to refurbish the North British to three star standard, thus minimising the competition between the two city hotels. [9]

On 11th May 1981 Gleneagles Hotels (GH) was incorporated as a private company and re-registered as a public company on 21st May. [10] This was arranged by the British Linen Bank, the merchant banking arm of the Bank of Scotland acting as advisers to British Transport Hotels (BTH). The aim was to create a company, in which BTH would retain one third of the equity to own and operate Gleneagles Hotel, Auchterarder, Perthshire together with the Caledonian and North British Hotel, both in Edinburgh. It was felt that the combination of two city hotels and one resort hotel would form an attractive investment opportunity and would gain support from city institutions.

An open market valuation of each hotel was carried out by Christie & Co in the period January to June 1981. [11] The values ascribed were as follows:-

Gleneagles Hotel	£7,600,000	
Caledonian Hotel	£2,800,000	
North British Hotel	£2,330,000	
<u>Total</u>:	£12,730,000	[12]

The conditional purchase agreement between GH and BTH provided for the acquisition of the three hotels for a consideration of £10,350,000, a discount of approximately 18% over the valuation which reflected the then weakness in hotel property prices. The consideration was to be satisfied by a cash payment on completion of £7,600,000 and the balance in two equal annual instalments. This agreement was conditional upon other parties subscribing for 5,950,000 shares and £1,500,000 stock for cash at par. The result would be the BTH would have one third stake in the new company which was capitalised at £9,000,000. It was further decided that the issue would not be underwritten and that no allotment would be made unless all the placing shares and stock were subscribed. The capital structure was to be £9M equity with £4.5M 12% unsecured loan stock 1991-1995. [13] The initial profit forecast, compiled by Arthur Young McClelland Moores was for pre-tax profits to be at an annual level of £600,000. Initially there were to be no dividend payments so that all available monies could be applied to the refurbishment of the three properties.

Preliminary estimates of desired capital and revenue expenditure at the three properties in the period 1982 to 1986 indicated a total of £2.6M should be spent on Gleneagles, £1.5M on the Caledonian and £3.5M on the North British. There were, however, complications regarding the amount for the North British in view of current and possible future property redevelopments in the immediate environs of the hotel. [14]

It should be noted that the British Linen Bank as financial advisers to GH experienced considerable difficulty in putting the original financial act together and the poor level of support from the Edinburgh financial community was particularly disappointing. [15] Schooled as they were in financial rectitude the majority of fund managers perceived the hotel industry as unknown and unquantifiable territory in which they deemed it prudent not to venture. Consequently the British Linen Bank was obliged to approach no fewer than eighty institutions in order to secure the requisite finance. [16] Added to this tiresome problem was the prevailing pattern of interest rates. In June 1981 bank base rates, minimum lending rates, were in the 12-14% band. Such high rates of interest naturally hit hard any hotel companies which showed even a modest degree of gearing and the unsecured loan stock element of the package, pitched at 12%, required a formidable £540,000 annual servicing cost.

One important breakthrough, however, did occur during this period and without the financing would have proved even more difficult and, in retrospect, perhaps impossible. This was a directive from HM Treasury which reduced the minimum state holding in firms which were to be privatised from 50% to 33% thus allowing investors to gain equity control. BTH had originally sought a larger, albeit still minority shareholding. [17]

Accordingly the group and its advisers were able to attract 18 institutions and their take up percentages were as follows: [18]

British Transport Hotels	33.33
Kuwait Investment Office	15.00
Bank of Scotland 1976 Pension Scheme	7.78
Coats Paton Superannuation Scheme	5.56
Scottish Amicable Pensions Investment	
Scottish Amicable Life Insurance	5.56
Prudential Assurance	4.44
Unity House (Holdings) NUR	4.44
North British Properties	3.71
Melville Street Investments (Edinburgh)	3.71
Equity and Law Life Assurance	3.33
Legal and General Assurance	3.11
NC Head Office Nominees (DCL Pension Fund)	2.78
Scottish Mutual Association	2.67
Clerical and Medical Life	2.22
Clydesdale Bank (London) Nominees	1.11
Reo Stakis (as an individual)	1.11
British Linen Securities	0.14
Total:	100.00

The first chairman of the company was William Stevenson, whose principal job was chairman of the Scottish Transport Bus Group. He was succeeded in 1983 by another director, Sir Alan Smith, who was formerly the chairman and chief executive of Dawson International, the textile group. They were joined by two members of the board of the British Linen Bank, Ian Brown and Ian Jones together with the deputy chairman of BTH, Sir Alexander Glen and its finance director John Tee and with the chairman of The Lygon Arms, Broadway, Worcestershire, Douglas Barrington, who was a prominent hotelier in his own right. [19]

Sir Alexander Glen went on the board at the specific request of Ian Jones and was an independent member. John Tee represented the interests of British Rail. He, however, resigned early in 1983 when he was afforded the opportunity to acquire two other BTH hotels, The Great Northern at King's Cross and The Great Eastern at Liverpool Street. These two hotels were to form the nucleus of his new company Compass Hotels Limited. Subsequent to the departure of John Tee British Rail did not have any representation on the Board, though they still retained one third of the equity of the company, and this situation was a source of considerable annoyance to British Rail and ultimately may have played a minor part in their decision to dispose of their shareholding. [20]
During 1983 Ian Jones left the British Linen Bank, for whom

he had worked ten years, to set up his own firm Quayle Munro. He brought in as chairman Sir Alan Smith, the former chairman and chief executive of the Dawson textile group. Quayle Munro effectively became the principal financial adviser to GH working closely with Samuel Montagu, the London merchant bank and the Kuwait Investment Office with whom they latterly arranged the leveraged lease deal on the Piccadilly Hotel. [21]

Concurrent with raising the necessary finance the promoters had also been searching out a group chief executive. The man they chose to rescue the three moribund properties was 34 year old Peter Tyrie who had an interesting track record, his previous assignment having been Executive Vice President-Development for the Ramada group in the Far East. [22] Most significantly Tyrie brought not only energy and determination but also youth and charm to the group. He took up the post in September 1981 and set about creating a management team. The key appointments were new General Managers at each of the three properties - Guy Macpherson (subsequently Peter Lederer) at Gleneagles, Dermot Fitzpatrick at the Caledonian and Carl Donnelly at the North British. [23] In addition, via the efforts of Sir Alexander Glen and Douglas Barrington, Peter Bates was appointed as sales and marketing manager. [24] It was as a result of the efforts of these five executives together with their staff, that the ailing group regained its operational expertise and subsequently attained five star standards initially in Scotland and latterly in London.

It was clear at the outset that much more than had been originally anticipated would have to be expended on each of the three properties. All three were in a state of decay, having been starved of necessary capital expenditure for many years, and there was a clear need for investment in both fabric and basic facilities. At Gleneagles the public areas were refurbished at a cost of £440,000 and half the guest bedrooms at a cost of £785,000. [25] Tyrie then commissioned a Glasgow firm of architects, Cobban and Lironi, to design a Country Club and Conference Centre. The firm had sprung to prominence as a result of their design of the Glasgow Holiday Inn which had opened in April 1982 and immediately proved a resounding success. The Club and Conference Centre was duly constructed at a total cost of £1.8M. This, in Tyrie's words, enabled the group to "wrap leisure round the traditional hotel products of accommodation, food and drink". [26] Additionally and equally important it allowed the hotel to be open throughout the year instead of from April to October. This naturally led to significantly increased turnover and profitability and resulted in a distinct improvement in the attitudes and morale of staff, although when the decision was announced it was received with considerable scepticism

- a view which quickly proved to be unjustified. By the end of 1984 there was further expenditure on Gleneagles when the top floor was converted from staff accommodation to create a further 50 guest bedrooms and the remainder of the accommodation areas were fully refurbished. [27]

At the Caledonian the refurbishment programme commenced with the cleaning of the red sandstone exterior (unusual in Edinburgh) and the smartening up of the main public rooms at a cost of £750,000. This was followed by an expenditure of £1,500,000 on existing rooms and the provision of a further 50 rooms, formerly used as staff quarters, at a cost of £650,000. As a result of these and other improvements the hotel was subsequently awarded a five star rating by the Automobile Association. [28]

In the first full financial year of operation, to 31st December 1982, the combined turnover of the three hotels was £8,759,020. This produced an operating profit, after interest payable and receivable, but before tax of £83,161. [29]

Apart from the consolidation of operating activities in Scotland the other agreed objective of all the members of the board was to obtain a London hotel, which was perceived as being fundamental to the successful development of the group. Several properties were considered before it was decided that the Piccadilly would be the optimum one to acquire. Together with a clutch of lesser hotels it had been put on the market by Grand Metropolitan as part of a rationalisation of their U.K. hotel interests subsequent to their acquisition of the Intercontinental Group. Peter Tyrie, together with his chairman, was confident that the hotel had significant potential due to the under-utilisation of available space and they reckoned that with the burgeoning sales and marketing expertise within the group led by Peter Bates, the additional property would dramatically improve group profitability. Other members of the Board were cautious as to the likely outrun cost of the massive and complex refurbishment that was needed to refurbish the property to full five star standards. [30]

The Piccadilly had been constructed during the first decade of this century and had originally opened in 1908. Due to the excessive capital sums required during the course of construction and fitting out, allied to a severe shortfall in income subsequent to opening, the first company to operate the property was forced into bankruptcy within eighteen months. [31] Subject to varied vicissitudes during the ensuing fifty years the hotel was acquired by Grand Metropolitan in the early 1960's. That decade was a successful one for the hotel industry in the U.K. in general and the Piccadilly prospered. The hotel division of Grand Metropolitan met with less success during the

1970's and by the beginning of the following decade the property was somewhat 'tired'. Consequent to the acquisition of the Intercontinental Group by Grand Metropolitan in 1981 the company decided to dispose of certain of its U.K. hotels and this programme of divestment included the Piccadilly. [32]

The property was held on a 125 year Crown Lease with an asking price of £15M. In addition, the property itself required substantial refurbishment particularly if it was to operate in the five star market in accordance with its true potential. GH, on the advice of Ian Jones of Quayle Munro, floated the idea to St Martin's Property Corporation of a leveraged lease deal between St Martin's and GH whereunder St Martin's would acquire the head lease which would be supported by a back-to-back under-lease to GH who would be responsible for refurbishing the property to five star standard. The lease would be on a 'leverage basis' with both St Martin's and GH having basic shares from the income of the hotel and thereafter sharing the profits in proportion of 60% to St Martin's and 40% to Gleneagles after the amortisation of GH's initial expenditure. These negotiations were concluded and they resulted in St Martin's acquiring the head lease from Grand Metropolitan and granting an under-lease to GH, all commencing in October 1983. [33]

The principal detailed terms of the underlease were as follows:-

a) St Martin's agreed to contribute the sum of £1.4M, being a reverse premium on the lease, in order to help GH in meeting the initial costs of professional fees together with preliminary work in connection with repairs, re-equipment and provision of plant and machinery at the hotel.

b) It was agreed that the annual rent payable by GH to St Martin's would be the aggregrate of:

    i) a ground rent of £40,000 per annum or 1% of the gross turnover of the hotel, whichever was the greater. As it was confidently anticipated that the gross annual turnover of the hotel would comfortably exceed £4M it was this latter figure that St Martin's had in mind.

    ii) the basic rent was to be £155,000 per quarter and was thereafter to rise by annual increments to a maximum of £371,341 in the first quarter of 1991. Thereafter it was to reduce by £1,286 per quarter until the expiry of the lease in 2082, the final quarterly rate being £96,031.

    iii) the net operating profit of the property was to be split as to 60% St Martin's and 40% GH after charging all operating expenses, including depreciation, amortisation, ground rent, basic rent, insurance, rates and a management charge to GH of 7.5% of gross turnover. [34]

A provisional cost summary for the acquisition of the Piccadilly, together with the continuing improvements to the three existing hotels is set out below: [35]

Table 3 - 6

	£'000	£'000
The Piccadilly Hotel		
Repairs, re-equipment and provision of plant and machinery, professional fees	10,125	
Acquisition Costs	492	

	10,617	
Less contribution from St Martin's	1,400	
	------	9,217
Existing Hotels		
The Gleneagles Hotel	2,796	
The Caledonian Hotel	1,004	
The North British Hotel	60	
	-----	3,680
Total expenditure:		£13,077

The proposed methods of financing the expensive refurbishment of the Piccadilly brought to the surface latent discontent and mistrust between opposing factions on the Gleneagles board. At the outset in 1981 all the directors, both executive and non-executive, were keen to tackle together the problems that faced them. [36]

By 1983, however, the power structure within the board had changed significantly. Throughout 1981 and 1982 the British Linen Bank had been an invaluable source of support, the long experience of the chief executive Ian Brown being complemented by the intellect and creativity of Ian Jones. When this partnership was terminated Ian Jones aligned himself with Sir Alan Smith and Peter Tyrie. This triumvirate emerged as the power group within the board. [37] Sir Alan Smith was impressed by the professionalism and ability of Peter Tyrie and perceived the non-executive directors as having relatively little to offer the company from the viewpoint of hotel operations. As a consequence Sir Alexander Glen and Ian Brown became somewhat isolated. A further area of contention was that, despite maintaining a one third equity stake in the company, BTH did not have an official representative on the board. Taken together these factors resulted in a somewhat uneasy boardroom atmosphere where the assertive, dynamic attitude of Peter Tyrie tended to be out of step with the more restrained approach of the non-executive board members. [38]

The Board of GH decided that these expenditures should be financed by a rights issue of £9.7M with the balance being satisfied by internal sources, including leasing. At this stage there was disagreement with the British Linen Bank who were principal advisers in regard to the rights issue and the bank refused to proceed unless the issue was restricted to £5M. The GH board declined to accept this and the British Linen Bank resigned to be replaced by Samuel Montagu who, together with Quayle Munro, proceeded to complete the formalities for and underwrite the rights issue at the original figure of £9.7M. [39]

These proceedings were brought to an abrupt halt when Arthur Bell & Sons plc (Bells) brought an unwelcome 1984 New Year present in the form of a £20.24M bid for the group. [40] This was sent to shareholders on 5th January 1984 by Bell's merchant bank, Henry Ansbacher & Co. This move had its origins in the acquisition of 29.9% of GH's equity on 23rd December 1983 from BTH for a total consideration of £6,074,998 equivalent to 225p per ordinary share of GH. Bells also acquired 1,500,000 nominal of the 12% 1991 - 1995 unsecured loan stock of the company for a consideration of £1,500,000. This move was certainly influenced by the refusal of the transport secretary Nicholas Ridley to allow BTH to subscribe to the proposed rights issue. [41] It may also have been influenced by a feeling of isolation on the part of the British Railways Board who still lacked formal representation on the GH board.

In any event once they were barred by the government for applying for shares and thus furthering their interest in the company they merely took the line of least resistance and sold out to the first available suitor. The government must be held responsible for a policy decision which effectively decreed that the British Railways Board should terminate its association with GH despite the fact that it was showing a capital gain of more than 100% on its investment in the company with the likelihood that further capital appreciation was a near certainty.

Under the terms of the offer 173 new ordinary shares of 50p of Bells were to be exchanged for every 100 ordinary shares of £1 each in GH (the share offer) OR 225p in cash for ordinary shares of £1 (the cash alternative). A condition of the offer was that the proposed Rights Issue to raise £9.7M for the refurbishment of the Piccadilly should not proceed. [42] Bells, and in particular their chairman Raymond Miquel, were of the opinion that such an amount was too onerous for a company of the size of GH to undertake. In point of fact they were merely displaying their limited knowledge of the hotel business as the Rights Issue represented less than 20% of the value of group assets at that time.

The GH board were angered and dismayed at the bid on a number of grounds.

a) they felt that BTH had been disloyal in selling their retained stake - their sale of shares to Bells was a breach of a written assurance to the chairman of Gleneagles Sir Alan Smith that the BTH stake would not be sold without prior reference. At the same time the board did acknowledge that BTH had been compromised by the government in the form of Nicholas Ridley and that they had made a useful profit on the deal.

b) they were of the opinion that the Bells bid was undervaluing the group on both an asset and a profitability basis.

c) they were of the opinion that they had rescued the hotels, had worked hard to greatly improve their standards and were now being pressured into a marriage in which they would undoubtedly have substantially less control over the operation of the properties.

d) GH had been in business for only 2.5 years. Its growth potential was scarcely recognised and the whole venture deserved shareholder support for a much longer period. [43]

In its own way the Bells versus GH takeover battle appeared to the outsider to be the forerunner of the era of vitriolic takeovers - some very hard things were said and the public took a close interest with much of the sympathy being directed towards GH. It is interesting to note that certain of the major players reappear in the Guinness saga - Morgan Grenfell acted for BTH in the disposal of their interests in Gleneagles to Bells and were at that time also acting for Bells in other matters. Lord Spens of Ansbachers acted for Bells in the bid. [44]

During the course of the battle, coming to the defence of the fledgling company, the Kuwait Investment Office sought to build a blocking interest sufficiently large as to ensure the continuance of the independent existence of GH, but the four subsequent acceptors of the Bells Offer failed to respond, even though the Kuwaiti tender was marginally higher. They also failed to accept higher offers for their shares made by the Gleneagles financial advisers Samuel Montagu and Quayle Munro. Although they did not overtly admit that they knew of each others' intentions there is but little doubt that they did. On evaluation it is reasonable to conclude that the sale by BTH of the 29.9% of the equity allied to the action taken by the British Linen Bank and its influence with other shareholders was instrumental in delivering GH into the hands of Bells. [45]

Bells had come back on 26th January with an increased offer which valued the group at £27M. This was accepted by a number of shareholders including the Bank of Scotland Pension Fund, Melville Street Investments (Edinburgh), a company controlled by the Bank of Scotland, together with Coats Patons, Distillers Company Pension Fund and British Rail in respect of its remaining holding of 3.4%. [46] These acceptances resulted in Bells claiming 52% of the equity and thus control of the company. This control was legitimised despite an appeal by the GH Board to officials of the Take-Over Panel. On 3rd February the full Panel of Take-Overs and Mergers overturned an earlier ruling of their officials. The Panel decided that the commitments obtained by Bells during the first acceptance period did not contravene the Code on Take-Overs and Mergers. Thus were Bells able to legitimise their control of GH. [47]

Following the takeover Bells realised that it had but little option to press on with the refurbishment of the Piccadilly as a contractual consequence of the arrangements that had been completed between GH when independent and St Martin's Property Corporation. It was clearly an onerous agreement and some felt that the principal advantages lay with St Martin's. Put another way, however, it was the cost that Tyrie and his Board had to pay in order to secure a prime site in central London, one which they perceived as the vehicle for gaining entry to the lucrative London market and thus affording their clients a London stopover en route to their Scottish properties and to Gleneagles in particular. Indeed it was more than that because Gleneagles was a world famous name, but without any metropolitan hotels in the leading international centres had very limited growth prospects, particularly for the gaining of further management contracts essential to the group's growth. When GH was taken over by Bells one such contract was already available. This was in Portugal in a new luxury sporting hotel in the Algarve, however, with the subsequent break-up of the new group the venture was abandoned.

The Piccadilly underlease has been much criticised but noticeably only by predators for GH, either by Bells directly or by Guinness when bidding for Bells. Privately, however, there had been deep concern within the GH board, particularly by Sir Alexander Glen and Ian Brown both of whom were castigated by the chairman for their views. [48] It is interesting to note, however, that Bells became converted on closer acquaintance and Guinness themselves had no difficulty in disposing of the underlease subsequent to taking over Bells in the early autumn of 1985. Since then the hotel market has continued to prosper and the early move by Tyrie and his board to London, although seen by some to be foolhardy at the time, has proved to have shown considerable foresight, despite the heavy overrun of conversion cost against the original estimate. The final judgement must rest on the £31M paid by Meridian which represented a profit to Bells/Guinness of close to £10M on the net outlay when the value of the retained leisure centre is taken into account. The consideration received appears high in relation to the net outlay of approximately £17M provided as part of its obligation in terms of the underlease but the net income from the property due to GH appears to have been at an annual rate of some £2M and on the basis of the long (125 year) lease has clearly justified a premium valuation. The income derived by St Martin's has, like GH, never been made publicly available but it is likely that it is close to that derived by GH. [49]

The acquisition of GH by Bells was the start of the end. The relationship between Tyrie and Miquel, rarely easy at the best of times, was bound to be strained by the ardour of the bid battle - each had very different personalities. Miquel was looking hard for the growth that was eluding the whisky activities of his group and failing to find it. The City was doubtful and by the autumn of 1985 Bells had been acquired by Guinness who quickly made it clear they were not particularly interested in the hotel group. [50] Shortly after the acquisition of Bells they were preoccupied with much weightier matters when they launched a massive £2.3 billion bid for the Distillers Company Limited subsequent to a blatantly overt approach from the Board of Directors of that company who wished, at all costs, to avoid being taken over by James Gulliver whose Argyll food group had commenced the bidding for DCL in December 1985 with a ranging shot of £1.8 billion. [51]

Once Guinness successfully gained control of DCL they proceeded in the spring of 1986 to sell the Piccadilly to the hotel subsidiary of Air France for £31M but retained the health and leisure club which, it will be recalled, was capitalised at £4.5M. [52] It is likely that Guinness could have obtained significantly more for the Piccadilly had the sale not gone ahead with almost indecent haste, but even at £31M the sale produced some profits even after taking into account the heavy refurbishment costs which had originally been borne by Bells. In the autumn of 1986 the break-up of the group was completed when the Caledonian and North British were sold to the Norfolk Capital Group for £18.5M and £5M respectively. [53] Considering that Bells had earlier acquired Gleneagles for £27M the net result of these transactions was that Guinness effectively acquired Gleneagles, with a 1986 value of some £40M, for nothing.

The management of the group was also broken up - Peter Tyrie returned to the Far East as Chief Executive of the Mandarin Group based in Hong Kong and he was quickly followed there by the sales and marketing director Peter Bates.

It had taken a mere five years for the three properties to have been rescued, owned successively by no fewer than five proprietors, only to be sold off at the earliest opportunity to the highest bidder and not in the happiest circumstances. British Rail broke a written assurance given to the GH Chairman, Sir Alan Smith, when it sold its 29.89% stake in Gleneagles to Bells at Christmas 1983 and the four institutions who sold out to Bells, viz the British Linen Bank, Coats Patons Pension Fund, DCL Pension Fund and British Rail with its remaining 3.4%, all took a short term view of the situation and let down a young and very capable management team whom they had recruited for a much longer term objective. [54] It is ironic that their premature sale almost certainly deprived them of a much larger profit that would have been made had they held on and it is also arguable that Bell's acquisition of GH was widely perceived as a strategic mistake thus making it more vulnerable to being taken over.

It is difficult to evaluate the role of the British Linen Bank in the whole affair. In the early stages of development, during 1981 and 1982, there is no doubt that the support of the bank was helpful in establishing the credibility of the GH board. Once Ian Jones left the bank and established himself, together with Samuel Montagu, as the main financial adviser to the GH board the role of the British Linen Bank becomes somewhat obscured. Ian Brown and Sir Alexander Glen were critical of the methods adopted by Peter Tyrie and Sir Alan Smith regarding the financing of the refurbishment of the Piccadilly. In their judgement the methods adopted by the chairman and managing director were open to criticism on the grounds that the other directors were given insufficient time to study the proposed patterns of expenditure and were not allowed to express their opinions in the boardroom as freely as they might have wished. [55] The disinclination of all concerned to close ranks at a vital period highlighted the split in the board and, to a certain extent, increased the vulnerability of the company to a take-over bid. Indeed it is fair to say that in the circumstances had the take-over approach not come from Bells it might well have come from elsewhere, sooner or later. Any predator had only to persuade BTH to sell their holding to be in a position to launch a full-scale bid.

As might be expected in such circumstances opposing personalities were a potent factor. Ian Brown, the Chief Executive of the British Linen Bank, regarded Tyrie and his team as somewhat aggressive and it may be that he felt the dynamism of the team out of step with his own modus operandi. [56] It has already been noted that Peter Tyrie and Raymond Miquel did not form a harmonious working relationship and it was noticeable how Tyrie distanced himself from the other Bell's directors during the Guinness takeover. Following the takeover by Guinness, it rapidly became clear to Tyrie and his team that there was no commitment to the future of GH notwithstanding earlier assurances, and the original initiative to build a major international hotel group was clearly about be terminated. Ernest Saunders, the Guinness chairman behaved in an altogether cavalier fashion towards Tyrie, latterly ignoring him completely. [57] It may be seen therefore that it was the attitude of first Miquel and then Saunders, as much as anything else, that made Tyrie seek pastures new.

Tyrie and Bates, together with the General Managers of the three hotels, had comprehensively demonstrated their management skill and ability in turning the properties from loss making concerns to profitable businesses. The only major criticism of Tyrie concerns the Piccadilly where he seriously underestimated the refurbishment costs. As things turned out, however, it would have been extremely difficult to have accurately forecast the structural and technical difficulties that were encountered during the course of the refurbishment.

Nevertheless even taking £35M as the final total investment represents good value for money, at 1985 prices, for a 300 bedroom, 5 star hotel in central London, complete with health and leisure facilities. By comparison the Dorchester, albeit freehold, with approximately the same number of bedrooms exchanged hands shortly afterwards for a sum reputed to be more than £60M. As the only way to free himself of the constraints put on him by Miquel and Saunders, Peter Tyrie briefly considered a management buy-out of the four properties for some £70M. [58] There is but little doubt that he and his backers could have raised such a sum but the notion was scuppered by Guinness who reckoned, quite correctly, that an even greater sum could be raised by piecemeal realisation.

With hindsight it is fair to say that the personality differences between board members of GH did little to help the development of the company. Whilst certain non-executive board members may have felt that the chairman should have kept the managing director on a shorter rein the circumstances called for a seasoned professional, as Tyrie was, to act with speed and decisiveness to remedy a situation where internationally known hotels had been starved of capital investment to the point where their future operation was in jeopardy.

EVALUATION

Although the story of Gleneagles Hotels PLC in the period 1981 to 1986 had an unhappy ending it nevertheless illustrated many of the determinants necessary for success in the hotel industry. The application of professional management skills to a situation where the property was under-utilised and in parts nearly derelict, together with a simultaneous attack on a product-led market which was surviving mainly on rapidly deteriorating goodwill, resulted in sharply increased profits. Most of these were retained in the business for purposes of refurbishment and upgrading, resulting in a fivefold increase in the value of group properties. This clearly demonstrates the hotel industry is as much property business as retail.

Gleneagles displays those determinants of success that are most closely linked to corporate strategy viz. suitable location, acquisition at competitive cost, ability to grow via acquisition and sound professional advice. In the case of Gleneagles each of these determinants was matched by professional management skills that led to growth in turnover and profitability.

The determinants relating to marketing strategy were clearly shown from the early months of Peter Tyrie's stewardship. Indeed, the major achievement in the period 1981 to 1986 was to revive the Gleneagles name, both within the U.K. and abroad, to the extent that when Guinness acquired Bells it decided to retain the flagship hotel despite disposing of all the others.

As far as innovation is concerned it is fair to say that Peter Tyrie was one of the major innovators during the 1980's in the field of health and leisure as applied to the hotel industry. The health and leisure complex at Gleneagles transformed the property and was a principal factor in enabling it to stay open throughout the year whilst the facilities installed at the Piccadilly, at a capital cost of £4.5M, proved such a success that they were retained by Guinness when the hotel itself was sold.

On a somewhat discordant note, as the text illustrates, all was not sweetness and light in the Gleneagles boardroom. From the time the first moves to acquire the Piccadilly were initiated to the eventual break-up of the group, conflicts of personality diminished the ability of the directors to act in an effectively united manner. This syndrome was seen to accelerate during the Guinness battle for Bells when Peter Tyrie changed horses in mid-stream. In so doing, whilst it was felt at the time he had settled the score with Raymond Miquel, he partially allowed himself to become a piece on the chessboard as far as the machinations of Ernest Saunders were concerned.

Gleneagles Hotels PLC typifies the fast moving pace of the hotel industry in the 1980's; few properties had the dubious distinction of having had five proprietors in just five years. It is ironic to note that the transaction which set in train the moves that led ultimately to Gleneagles losing its independence was the sale, at the instigation of the government, of the 29.9% equity stake in Gleneagles Hotels PLC by the original owners British Rail. This was sold to a company which within 18 months was acquired by Guinness, whose subsequent sales of hotel property effectively enabled Guinness to acquire the Gleneagles hotel itself for nothing.

FOOTNOTES

1. Interview Sir Alexander Glen 2/24/87.
2. ibid.
3. ibid.
4. ibid.
5. Placing Document 12/6/81 Page 5, The British Linen Bank Limited.
6. ibid. Page 5.
7. ibid. Page 6.
8. ibid. Page 7.
9. ibid. Page 12.
10. ibid. Page 4.
11. ibid. Page 21.
12. ibid. Page 21.
13. ibid. Page 10.
14. ibid. Pages 10 and 11.
15. Interview Ian Brown British Linen Bank 12/3.87.
16. ibid.
17. Interview Ian Q. Jones Quayle Munro 15/10/86.
18. ibid.
19. ibid.
20. ibid.
21. ibid.
22. Interview Peter Tyrie 24/5/86.
23. ibid.
24. ibid.

25. Rights Issue Document 19/12/83 Page 3.
26. Interview Peter Tyrie 24/5/86.
27. Rights Issue Document 19/12/83 Page 3.
28. ibid. Page 3.
29. ibid. Page 3.
30. Interview Sir Alexander Glen 2/4/87.
31. Derek Taylor and David Bush <u>The Golden Age of British Hotels</u> P143 1974, London, Northwood Publications.
32. The Financial Times 23/2/82.
33. Rights Issue Document 19/12/83 Page 8, Samuel Montagu & Co. Limited.
34. ibid. pages 8 and 9.
35. ibid. page 4.
36. Letter Sir Alexander Glen 9/5/87.
37. Interview Sir Alan Smith 4/5/87.
38. ibid.
39. Interview Ian Q. Jones 20/2/87.
40. Offer Document 5/1/84 Arthur Bell & Sons plc Page 8, Henry Ansbacher & Co. Limited.
41. The Guardian 24/1/84.
42. Offer Document 5/1/84 Arthur Bell & Sons Page 4, Henry Ansbacher & Co. Limited..
43. Financial Times 23/1/84.
44. Interview Ian Q. Jones 15/10/86.
45. ibid.
46. The Times 24/1/84.
47. Panel on Take-Overs and Mergers, Official Communique

3/2/84.

48. Interview Sir Alan Smith 4/5/87.

49. Interview Ian Q. Jones 10/3/87.

50. The Financial Times 9/9/85.

51. The Financial Times 3/12/85.

52. Interview Peter Tyrie 24/5/86.

53. ibid.

54. Letter from M. Bosworth, Deputy Chairman, BTH to Sir Alan Smith, Chairman Glenagles Hotels PLc 27/10/83.

55. Letter Sir Alexander Glen 9/5/87.

56. Interview Ian Brown, British Linen Bank, 12/3/87.

57. Interview Peter Tyrie 24/5/86.

58. ibid.

CONCLUSIONS ON GROUPS GEARED TO THE U.K. MARKETS

From the case studies certain factors relevant to the profitable operation of groups with a property bias may be discerned. Certainly in the 1960's and 1970's, albeit to a lesser degree in the 1980's, none of the groups had a clear strategy as to how to develop and manage its business - to a great extent growth reflected whatever the group was able to buy at a particular time. Consequently deals were driven as much by timing as by location, cost or 'fit' with a particular market. In the later stages of growth collective purchases of properties tended to be made with the aim either of securing greater geographical spread, as was the case of Mount Charlotte or gaining a greater share of a particular market in a given geographical area as shown by the various purchase of London properties by Centre and Comfort.

It is also evident that these groups tended to aim more for the business than the tourist market. They each saw how Grand Metropolitan, having been outstandingly successful in the 1960's, tended to falter in the 1970's by placing undue reliance on the tourist market. The result was that the groups with a property bias concentrated on the property aspects of their business almost as much as on the retail aspects of hotelkeeping in an effort to enhance asset values while simultaneously attempting to improve operating profits.

On close examination of the groups represented in the case studies some interesting facts emerge. As has already been stressed the dual nature of the industry as a property business and a retailing operation is of supreme importance and is illustrated in each of the companies portrayed. One without the other can never result in optimum profitability being achieved. In the case of Mount Charlotte it was the adoption of this perception allied to acquisition at competitive cost, especially in the early years of development, and the stringent control of operating costs that laid the foundations for the continuing profitability of the group.

Indeed the notion of acquisition at competitive cost, especially in the early years of companies, is shown in the development of Norfolk Capital and to a lesser extent, Gleneagles. Clearly the keener the cost the less the burden of interest on operating profit - a vital factor of success in the formative years of virtually any company.

The importance of property assets used in schemes of diversification is also relevant to some of the groups portrayed. It is interesting to note that Henry Edwards, when he diversified, ensured that the assets had property backing.

In all cases the notion of acquisition at a competitive price was aided by wide ranging professional advice. With the growth and development of Norfolk Capital, for example, the merchant banking skills of Morgan Grenfell were crucial in enabling Tony Richmond-Watson to secure the finance required for the succession of acquisitions in the period 1984 to 1986. Likewise, the advice of Kleinwort allowed Henry Edwards to expand Comfort and Friendly, although it has to be said that the merchant bank was not able to secure the degree of independence that Edwards would have wished.

A further factor linked to successful expansion is the pattern of interest rates. Clearly property acquisitions which are effected when interest rates are rising tend to carry a greater degree of risk than when interest rates are moving down. An adverse upward trend may be seen in the case of Centre which "was badly hit by the economic problems of the early and mid 1970's when interest rates reached 20%".

Certain techniques of professional hotel management also emerge from the case studies. For example, the importance of marketing and branding can clearly be seen in the case of Gleneagles, where Peter Tyrie and his management team were able to turn round a loss making property open only 190 days of the year into a thriving concern open all year round, helped latterly by the name Gleneagles which had positive international recognition. For othe companies, once satisfactory levels of occupancy had been achieved stringent control over costs resulted in satisfactory levels of profitability. This is demonstrated both in the study of Centre, Comfort and Friendly on the one hand and Mount Charlotte Investments on the other.

Each of the studies indicates the increasing pace of the U.K. hotel industry as it grew towards maturity by the end of the nineteen eighties. In this connection perhaps Gleneagles Hotels PLc is the best illustration; few properties had the dubious distinction of having had five proprietors in just five years.

It has already been shown that each of the four companies was quick to realise that opportunistic purchases of hotel property coupled with extensive refurbishments and, in some cases, developments from scratch in which rigorous control was exerted over capital costs, formed the optimum route to successful growth and development. Moreover the companies, some with a greater degree of success than others, sought to compound this success by improving the quality of their retail skills as applied to accommodation, food, liquor and latterly leisure. The combination of shrewd property purchases allied to an increasing awareness of retailing skills was the key to success for each of the companies portrayed. Furthermore the success was best consolidated by those companies which were able to maintain strict control of operating costs. This is no easy task and is made all the more difficult when companies, such as Mount Charlotte and Norfolk Capital, were moving up-market thus involving themselves with a significantly greater number of cost centres than lower grade hotels.

It would be invidious to suggest that one group was conspicuously more successful than another - each occupied distinct niches in the market place. What can be said is that the renaissance of Gleneagles was so successful that it attracted take-over predators within little more than two years of commencing operations. Likewise the success of Centre led to the unwelcome take-over bid by Coral. There is no doubt that had Tyrie and Edwards been less successful take-over bids would not have happened so quickly. The successful growth of Norfolk Capital is directly related not only to the property acquisition skills of managing director Peter Eyles but also to the ability of Anthony Richmond-Watson and his merchant banking colleagues at Morgan Grenfell to raise the necessary finance for expansion as and when required. If one were to choose one firm as being marginally more successful than the others it would have to be Mount Charlotte where not only was skilful property acquisition and the raising of finance in evidence but also the stringent control of capital and revenue expenditure which resulted in handsome rates of return on capital investment.

Having considered in this chapter four companies each of whose operation was either wholly or almost wholly based in the U.K. it will be necessary in a further chapter to describe other companies whose operation carried an international dimension. For these companies also the successful acquisition of hotel property at a competitive price was a principal factor in their development. As many of the acquisitions were outwith the U.K. they were often more complex and carried a greater degree of risk.

CHAPTER 4 THE INTERNATIONAL SECTOR

Introduction

The third group of companies to be considered in this study have in common the fact that their hotel interests are operated on an international basis. In addition, with one exception - that of Queens Moat Houses - the hotel operation represents but one division of each company. Grand Metropolitan is a group which is represented over a wide range in the food and drink industry. In the case of Bass, investment in hotels represented a strategic diversification into a particular sector of the leisure business. Trusthouse Forte was the result of a merger between a long established hotel company operating around the middle of the market, managed in a generally restrained and gentlemanly fashion, with a thrusting dynamic catering company which perceived the hotel group as an ideal vehicle to further its ambitious expansion plans.

Clearly each of the companies has had to compete in international markets against the leading hotel companies worldwide. This has meant competing against the likes of Hilton, Sheraton, Holiday Inn, Intercontinental, Marriott and Hyatt. International hotel groups are essentially a post war phenomenon. The largest hotel company worldwide, Holiday Corporation, originated in 1951 and its first property was opened in Memphis, Tennessee in August 1952. It positioned itself in the large three/four star market, expanded rapidly and by 1985 controlled 1750 hotels in 51 countries across six continents. Similarly, Pan American World Airways formed a wholly owned hotel subsidiary Intercontinental Hotels, incorporated in the state of Delaware in 1946. The company became the leading hotel group serving the international business traveller with the great majority of its hotels enjoying five star status. By 1980 it controlled 100 hotel properties worldwide. Another major U.S.A. airline Trans World Airlines acquired Hilton International in 1967. This company was originally formed in 1949 as a separate subsidiary of Hilton Hotels Corporation and was subsequently spun off as an independent public company in 1964, at which time it was granted the exclusive right to the Hilton name outwith the U.S.A. In strong competition to Hilton and Intercontinental was the Sheraton Hotel Corporation which was constituted as a subsidiary of I.T.T. - International Telephone and Telegraph. Consequent to considerable investment worldwide from 1970 onwards by the parent company, Sheraton controlled, by 1985, some 500 hotel properties. Other major international groups such as Holiday Corporation, Marriott, Hyatt, Westin and Ramada each targeted their efforts on distinct market segments.

The general pattern within the U.K. was for emergent hotel companies to consolidate their position nationwide and then to expand abroad either by acquiring hotel properties on an individual or group basis. Latterly U.K. hotel companies made a series of spectacular coups, led by Grand Metropolitan acquiring the Intercontinental Group in 1981 at a cost of US$ 500M, followed by Bass acquiring the Holiday Inn properties outwith the U.S.A., Canada and Mexico in 1987 at a cost of US$ 475M, and in the same year the purchase by Ladbroke of Hilton International at a cost of US$ 1.07 billion. These purchases brought the respective U.K. companies to the forefront of the international hotel business.

These moves were followed in 1988 by Grand Metropolitan divesting itself of Intercontinental to the Japanese conglomerate Seibu Saison. The net proceeds of sale were £1.35 billion which represented a post tax profit of more than £500M - a considerable reward for just seven years, ownership. There were two principal reasons for the sale. The first was that as a result of spiralling property prices the return on investment became very small - especially from the viewpoint of financial analysts and shareholders keen to receive a tangible return on their investment. The other reason was that Grand Metropolitan increasingly took the view that the role of the company should be that of a specialized retailer and that retaining high class hotels did not fully blend with such a strategy.

Against this international background the examples chosen illustrate how relatively small companies grew by acquisition, in two cases with the financial backing of their parent company, to the point where the optimum route to further expansion lay overseas. Many of the determinants of success in the hotel industry are clearly demonstrated over a range of strategic decisions taken by each of the companies.

The examples are:-

1. Grand Metropolitan PLC

Chairman	Sir Maxwell Joseph 1962 to 1982
"	Sir Stanley Grinstead 1982 to 1987
"	Allen Sheppard 1987-

2.	Bass PLC		
	Crest Hotels	Chairman	Brian Langton
	Holiday Inns		
3.	Queens Moat Houses Plc	Chairman	John Bairstow
4.	Trusthouse Forte PLC	Chairman	Lord Forte of Ripley

1. Grand Metropolitan PLC

Chairman	Sir Maxwell Joseph 1962 to 1982
"	Sir Stanley Grinstead 1982 to 1987
"	Allen Sheppard 1987-

The origins of the company may be traced to 1903 in which year Grand Hotels (Mayfair) Limited was formed. [1] On 6th September, 1934, Mount Royal (Marble Arch) Limited was first registered as a private company. [2]

The founder of Grand Metropolitan was Max Joseph (in later years he adopted the name of Maxwell) born in Whitechapel, London on 31st May 1910. After leaving school he had several jobs with firms of estate agents and in 1929, at the age of nineteen set up his own firm of estate agents, Connaught Hooper, in Bayswater with the help of £500 lent to him by his father Jack Joseph. He continued in this field until war broke out in 1939. He applied for a commission in the R.A.F. but this was not forthcoming. He joined the Royal Engineers and was demobilized in 1946 with the rank of Lance-Corporal. [3]

At the end of the war property in general throughout London was in a very poor state of repair and was available for purchase at very low prices. As an experienced estate agent Joseph was in a position to capitalize on this and made a number of extremely shrewd purchases. He was assisted in these purchases by an exceptionally able conveyancing solicitor Leonard Tobin who indicated to Joseph the potential of hotel property. As a result he purchased in 1948 The Mandeville Hotel in Mandeville Place, W1, which lay less than a quarter of a mile to the north of Bond Street underground station in Oxford Street. At the time of acquisition it was in a very run down state having but six letting bedrooms. [4]

In the early 1950's Joseph came into contact with two men who were to play a prominent part in the initial expansion of his hotel interests - Fred Kobler and Henry Edwards - who were later to become Managing Director and General Manager respectively of Grand Metropolitan Hotels. Both were of central European origin, Kobler from Czechoslovakia and Edwards from Austria, and had come to England in the 1930's. Edwards, some twenty years younger than Kobler, had served in the British army during World War 2, latterly with the army of occupation on the Continent of Europe. [5]

Fred Kobler entered the hotel business in 1946 when he leased a small property in Bentinck Street, W1 which he operated on a bed and breakfast basis. In the following year he took a lease on Airways Mansions, a small block of flats in Charles 11 street and later acquired the lease on Grosvenor Court Hotel which lay just to the south of Oxford Street. [6] At this hotel Henry Edwards, then in his mid twenties, was the assistant manager. In 1953 Kobler sold his interests in each of the three properties and, in partnership with Maxwell Joseph for the first time, purchased the lease of the Ford Hotel in Manchester Street. [7] In April 1955 Joseph and Kobler sold their interest in the Ford Hotel to Marks & Spencer. With the proceeds, which included a significant element of profit, Joseph and Kobler were able to acquire the leases of two substantial hotels in Half Moon Street, Mayfair W1 - The Green Park and Flemings, each of which had close to 100 letting bedrooms and the then well known restaurant Manetta's, which was an integral part of Flemings. In addition the proceeds of sale allowed the purchase of the lease of The Clifton Hotel which was very near to The Mandeville. [8]

During this period Maxwell Joseph had purchased on his own account and for a short time actually managed The Washington Hotel in Curzon Street. [9] Joseph, however, did not care for the day-to-day administration of hotels but preferred to concentrate on property dealing. He determined, therefore, to form the five hotels into a group which was constituted as Grand Hotels (Mayfair) but operated as The Washington Group of Hotels. The latter name was deliberately chosen to create a market image and to promote transatlantic business. [10] Joseph was appointed Chairman of the group, Kobler Managing Director and Edwards General Manager. By 1960 the group operated 10 medium-price hotels with a combined book value of £835,846. The fact that a significant proportion of the hotels - Flemings, Green Park and The Clifton Ford to name but three - had not been purpose built but simply formed a collection of contiguous London town houses is the principal explanation for the modest book-value. [11]

On 1st July 1957 Maxwell Joseph, with the help of Isaac Woolfson of Great Universal Stores (who subsequently sold his stake), purchased Mount Royal (Marble Arch) from Sir Bracewell Smith for £1.05M. It had originally been built as a block of flats in the 1930's. [12] In 1957 it was a leasehold property, having 714 letting bedrooms, with 55 years of the lease remaining, the ground rent being £40,000 per annum. Under the direction of Maxwell Joseph and with the help of Stanley Grinstead the profitability of the hotel improved to the extent that its value on a going concern basis doubled within four years. [13] The profit record and a summary of the net assets of Grand Hotels (Mayfair) and Mount Royal (Marble Arch) Limited for the period 1956 to 1961 is shown in Table 4 - 1 and 2.

Table 4 - 1

A. PROFITS

The profits of Mount Royal and of the Grand Hotels group for their last five completed financial years are set out below. The figures given are based on the audited accounts for these years. The Grand Hotels' offer for the whole of the issued Ordinary Shares of Eglinton Hotels was declared unconditional on 17 January 1962.

1) **Mount Royal Limited**

	Yr ended 30.9.56 £	18 mths ended 31.3.58 £	Yr ended 31.3.59 £	Yr ended 31.3.60 £	Yr ended 31.3.61 £
Net trading profits before amortisation of leasehold property	185,085	183,300	239,563	291,672	392,774
Interest and Income from Investments (Gross)	17,626	45,764	35,169	34,107	53,592
	202,711	229,064	274,732	325,779	446,366
Less: UK Taxation	103,774	98,059	139,498	156,104	229,394
	98,937	131,005	135,234	169,675	216,972
Amortisation of leasehold property	250	375	10,951	12,171	12,579
Net profits attributable to Ordinary Shareholders	£98,687	£130,630	£124,283	£157,504	£204,393
Dividends on £225,000 issued Ordinary Shares:					
Rate per cent	25	25	62.5	60	75
Amount (net)	£32,344	£32,344	£81,949	£82,687	£103,359

2) **Grand Hotels Group**

a) Grand Hotels (Mayfair) Limited and its Subsidiaries

Years ended 30 September	1957 £	1958 £	1959 £	1960 £	1961 £
Net trading profit before amortisation of leasehold property	56,367	133,895	284,281	449,355	570,432
Less: UK Taxation	31,140	74,029	148,302	207,966	304,896
	25,227	61,866	135,979	241,389	265,536
Amortisation of leasehold property	4,691	9,564	18,581	17,638	58,949
Net profits attributable to Ordinary Shareholders	£20,536	£52,302	£117,398	£223,751	£206,587
Net amount of dividends on Ordinary Shares	£Nil	£30,250	£61,189	£86,211	£105,806

Source: Offer Document issued by Ocean Trust re Merger of Mount Royal (Marble Arch) Limited and Grand Hotels (Mayfair) Limited.

Table 4 - 2

B. ASSETS

The following is a summary of the net assets of Mount Royal and of the Grand Hotels group based on their latest audited accounts.

	MOUNT ROYAL		GRAND HOTELS GROUP			
			Grand Hotels and Subsidiaries		Eglinton Hotels	
	31 March 1961		30 September 1961		31 October 1961	
	£	£	£	£	£	£
<u>Fixed Assets</u>						
Freehold and Heritable Property, at Cost				114,148		961,600
Leasehold Property, at Cost or Valuation				2,025,427		
Furniture & Equipment at Cost or Valuation		2,176,250				
(less provision for renewals)				522,800		435,490
		2,176,250		2,662,375		1,397,090
Less: Mortgages ...						380,000
						1,017,090
Trade Investments, at Cost				1,967		2
Net Current Assets (or Liabilities)						
Stock	18,760		32,663		54,274	
Debtors	27,469		235,495		30,074	
Cash, deposits and investments	1,065,826		324,098		34,200	
Less:						
Creditors	64,166		269,494		149,844	
Current Taxation ...	63,649		327,819		33,115	
Bank Overdrafts ...			64,443			
Proposed Dividends ...	62,016		70,537		17,559	
	189,831	922,224	732,293	(140,037)	200,518	(81,970)
		3,098,474		2,524,305		935,122
Less: Provision for future taxation		161,000	228,050			61,300
Net Tangible Assets ...		2,937,474	2,296,255			873,822
Preference Capital ...		-	500,000			260,000
Net Tangible Assets representing Ordinary Capital		£2,937,474	£1,796,255			£613,822

Source: Offer Document issued by Ocean Trust re Merger of Mount Royal (Marble Arch) Limited and Grand Hotels (Mayfair) Limited

The tables illustrate the Balance Sheets of Mount Royal (Marble Arch) Limited and Grand Hotels (Mayfair) Limited at the time of the merger that took place in July 1962 to form Grand Metropolitan. Even at this early stage in the development of the company the importance of property assets, especially those which were freehold, may be appreciated. Although the company was highly geared at later stages in its growth, the increasing value of property assets was indicitive of the underlying strength of the company and these assets were, on many occasions, a valuable source of collateral when short term borrowing was necessary. Although the hotel interests of the company were secondary in the 1970's they received a boost with the acquisition, in 1981, of Intercontinental. Grand Metropolitan, by capitalization, continued to increase in value to the point where by the end of the decade it was valued at more than £5 billion. The key to this growth was the series of acquisitions, none of them hotels, in the period 1966 to 1972, followed by organic growth and further acquisitions in 1980, 1981 and 1987.

PUBLIC COMPANY STATUS: GRAND METROPOLITAN LIMITED

On 23rd June 1961 Mount Royal (Marble Arch) Limited was converted to a public company. The Offer for Sale, handled by Ocean Trust, was an enormous success, the offer being oversubscribed 24 times. [14] The purchase and subsequent conversion to a public company of the Mount Royal was crucial to the career of Maxwell Joseph. As he said to Anthony Bambridge of The Observer in an interview thirteen years later "It was the real turning point in my career." He was then, in 1961, aged 51. [15]

In the same year Grand Hotels (Mayfair) Limited acquired Eglinton Hotels (Scotland) Limited. In the following year on 10th July 1962 the two groups were merged and on 15th July the name of the company was changed to Grand Metropolitan Hotels Limited. [16] In the three years subsequent to the merger additional hotels were acquired in London, in Scotland and on the Continent of Europe. During this time Maxwell Joseph, by astute deployment of funds and effective systems of management was able to build a position from which to launch a major series of acquisitions, mergers and takeovers. [17]

The effective systems of management were best displayed in the management organization of Grand Hotels (Mayfair). In the immediate post-war period whilst the rest of the industry carried on much as before with the hotel manager/proprietor usually playing a "mine host" role and departmental managers such as chefs and restaurant managers enjoying a substantial degree of autonomy (frequently with results not altogether favourable to the business), Grand Hotels (Mayfair) sought to impose stringent operating and financial controls on individual hotel managers. This strategy was achieved by the implementation of a carefully organized head office located at 16 Half Moon Street in the heart of Mayfair. The strategy owed much to Fred Kobler who visited the United States frequently, learning at first hand how the emergent U.S.A. groups, Hilton in particular, operated their properties.

The operation was headed by Henry Edwards as General Manager who took an active part in all aspects, particularly financial, of the administration of the rapidly growing group of hotels. His management style, influenced principally by his unbounded energy, helped create a dynamic environment which in turn produced healthy rivalry and competition amongst and between head office executives and individual hotel managers. He was aided by an assistant general manager whose main task was personnel and training. The early 1960's produced a useful crop of hotel school graduates who were quickly assimilated into the group and given the opportunity to make their mark early in their careers in both individual hotels and in the specialist head office functions. In the former, able graduates were assigned either food and beverage or accommodation roles where they were responsible for cost and profit centres, whilst at head office they would act as assistants to executives in charge of sales and marketing, personnel and training, finance, purchasing and control.

INNOVATION IN SALES AND MARKETING

A particularly important and innovative area of head office influence was the sales and marketing department headed by two executives who were to become leading practitioners in their field - Harold Delvin and Derek Taylor. The company, benefiting from Fred Kobler's visits to the U.S.A., pioneered the idea of a permanent head office sales and marketing organization both for groups and individual tourists as well as for business clients. The conscious effort to organize centrally the selling of hotel rooms was an important factor in the continued prosperity of the company. The objective was to discover new ways of marketing hotel rooms to avoid the seasonal fluctuations that previously had left rooms empty for part of the year. [18] In the mid 1960's the group began the promotion of mini-holidays (usually week-ends) which were priced to barely cover marginal costs, and which proved so successful, despite the initial opposition of travel agents, that occasionally Grand Metropolitan had to refer clients to competing hotels as their own were 100% full. The resultant improvement in room occupancies stemming from the success of the various sales and marketing techniques had a significant effect on group profitability. Much of the incremental income filtered through to operating profit, the fixed costs having already been met. [19]

During the early 1960's the fledgling group made rapid progress, acquiring additional hotels such as The Reubens, The Rembrandt and The Piccadilly and refurbishing existing hotels such as St. Ermin's, Clifton Ford and The Londoner. [20] The Londoner was an excellent example of the creativity of the group whereby an old hotel, originally called The Welbeck Palace, was completely gutted and transformed into a modern hotel with all amenities. An added advantage of the hotels was that "they are sited in exceptionally strategic and valuable locations" which bore testimony to the skill of Maxwell Joseph as a dealer in property. [21] In fact, by common consent, he was judged "the incomparable dealer of the period." [22]

The board was strengthened in 1963 by the appointment of Maxwell Joseph's two senior accountants, Stanley Grinstead and Ernest Sharp. The following year saw the largest opening to date, that of the 300 bedroom Europe Hotel in Grosvenor Square, London W1. 1965 was an important year for the group in a number of ways. [23] On 1st January Henry Edwards resigned as general manager and as a director. [24] He had played an influential part in the development of the group but now wished to set up his own.

This he did by acquiring Cranston Hotels Limited, a group of temperance hotels controlled from Scotland but with three properties in London. Maxwell Joseph backed him in this venture, arranging for Grand Metropolitan to take a stake in the company amounting to 28% of its ordinary capital and 34% of its preference capital. [25] This was a generous gesture on the part of Maxwell Joseph but his confidence was rewarded in the long term by the substantial capital appreciation of the trade investment. With the departure of Henry Edwards, Eric Bernard was appointed general manager and was appointed a director in 1969, a post he retained until his departure from the group in 1976. The year 1965 also saw the acquisition of the Gordon Group of hotels which included the renowned Mayfair Hotel in Stratton Street, W1. [26]

1966 TO 1972 - ACQUISITION AND DIVERSIFICATION

1965 may be viewed as the peak year for the hotel interests of Maxwell Joseph. Although he subsequently acquired numerous additional hotels which were controlled by Grand Metropolitan he entered in 1966 upon a rapid phase of expansion and development spearheaded by a dazzling series of acquisitions. These acquisitions radically altered the nature of his interests and in the space of some six years he grew from being principally a property dealer to a magnate controlling businesses as diverse as milk, breweries and casinos. The spate of acquisitions commenced in August 1966 with the acquisition of the old established London drink and catering firm of Levy & Franks. This was followed in September 1969 by the acquisition of Express Dairies. In May 1970 came the acquisition of the steakhouse chain Berni Inns followed in September of the same year by Mecca. These moves were consolidated in August 1971 by the acquisition of the brewers Truman, Hanbury & Buxton and the sequence was completed in July of the following year by the acquisition, in the face of fierce competition, of Watneys incorporating International Vintners and Distillers. [27] All these, however, were more opportunistic strikes than phases of an overall strategy.

As a result of these acquisitions there was considerable pressure on top management to direct the rapidly expanding number of companies under Maxwell Joseph's control. Much of the burden fell on Stanley Grinstead and Ernest Sharp. This was particularly true in the case of Watney where radical reorganization was required to the extent that it took fully five years to implement. [28] Consequently, less top management time than might otherwise have been expected was expended upon the hotel group. Nevertheless in the period 1966 to 1972 a number of hotels were acquired, prominent amongst which were The Carlton in Cannes, The Metropole in Monte Carlo, The Lotti and The

Scribe in Paris, together with several U.K. properties including the 460 room Britannia (built from scratch and opened in 1969) on the south side of Grosvenor Square which complemented the Europe on the north side. These hotel acquisitions resulted in Grand Metropolitan becoming the largest hotel group in London and the second largest in the U.K. after Trusthouse Forte, who claimed the top spot by virtue of some 200 provincial properties throughout the U.K. [29]

COMMENTARY ON THE NINETEEN SIXTIES

The 1960's proved a successful decade for the British hotel industry. By innovation and example it is fair to say that Grand Metropolitan made more progress than any other group and emerged as the industry leader especially in the field of the management of hotel operations and in sales and marketing management applied to the hotel and catering industry. This was brought about by a combination of the property skills of Maxwell Joseph linked to the general management abilities of Kobler, Edwards, Grinstead and Sharp and to the operational expertise of practising hoteliers such as Blattner, Dergiman, Giordano, Menard, Ross-Watt and Worz.

GRAND METROPOLITAN IN THE 1970's

It has been noted that the spate of acquisitions which commenced in 1966 resulted in considerable pressure being placed upon top management. Consequently it was decided in 1972 to reorganize the hotel interests on a regional basis. In the forefront of this development was the creation of the County Hotels Division which represented 38 units with a geographical spread from Exeter to Edinburgh. These were smaller hotels and motels which had previously belonged either to Express Dairies, Truman's and Watney's, or which had originally been Grand Metropolitan regional hotels. [30] This allowed the London hotels to be managed separately as was the case with the hotels located on the Continent of Europe in which Maxwell Joseph used to take a personal interest. The major hotel investments were in Amsterdam, Rome, Paris, Cannes and Monte Carlo. The acquisition of each of these was in the nature of an opportunistic strike as the individual properties became available.

The fortunes of the hotel division in the early and mid seventies were closely linked with the overall performance of the group. In acquiring Watney, Grand Metropolitan had taken over a company larger than itself. Subsequent and consequent to the Watney acquisition, Grand Metropolitan was very heavily geared with some £275M outstanding in loans. [31]

Whilst the servicing of these loans and capital projects did not seem an insuperable task at the time of the merger two further factors came into play to compound the problem considerably. One was the pattern of interest rates in the period 1972 to 1975. The high for MLR in 1971 was 7% but this was increased to 9% in 1972, to 13% in 1973 and 1974 and only in 1975 did interest rates begin to fall. The impact of high interest rates on the group was dramatic. By late 1974 interest payments were costing the group in excess of £1M per week. [32]

The other factor was the bear market of 1973/4. In a period of rising rates share prices in general came under pressure. In late 1974 the share price of Grand Metropolitan fell to a meagre 18p by which time the F.T. 500 share index had fallen to 150. [33] Reports in the financial press suggested that the group was hovering on the brink of collapse. [34] Whilst the financial situation was certainly serious the reports were somewhat exaggerated as the group, had it proved essential, would have been able to dispose of sufficient of its many properties to remain financially viable. In the event, £4.5M worth of property was sold. As from the beginning of 1975 the stock market began its long climb to recovery taking the Grand Metropolitan share price with it. By early 1976 the share price had quadrupled from its low point and was back in favour with private and institutional investors alike.

During this difficult period it could be said that the asset value of the hotel properties helped buttress the share price of the company. The 1970's, however, was not such a successful decade for the U.K. hotel industry and the U.K. hotels of Grand Metropolitan contributed but a small proportion of group pre-tax profits.

The economic position of the U.K. improved subsequent to the recession of 1973-1975 and 1977 saw the best year in the decade for the U.K. hotels, largely as a result of it being Jubilee year. [35] In later years selective purchases were made on the Continent of Europe, in particular the Hotel d'Angleterre in Copenhagen which Maxwell Joseph purchased in April 1979 in the face of fierce competition, including a competing bid from Sir Charles Forte. [36] In the following year three de luxe hotels in Paris were acquired - the Meurice, the Prince de Galles and the Grand with a combined total of 1027 rooms. [37] Developments in the U.K. centred on refurbishing the major hotel properties in an effort to move up market and thus maximise revenue. These developments were concentrated on the London hotels such as The New

Mandeville, the Berners and The Mayfair where in each property multi-million pound schemes of refurbishment were implemented.

CHANGING STRATEGIES OF 1980's

Towards the end of the 1970's it became clear to the joint managing director, Stanley Grinstead, that in order to maintain the momentum of the group it would be necessary to expand abroad. Further bids in traditional areas of activity would almost certainly attract the attention of the Mergers and Monopolies Commission. Grinstead's prognosis was duly vindicated when the Grand Metropolitan bid for the gaming and hotel company, Coral, was referred to the Commission in October 1980. The re-organization of Watney was by this time almost complete; a sound divisional structure had emerged allowing a flexible balance between decentralization of management activity and retention of centralized financial control. [38] This, combined with the abolition of exchange control and the pattern of U.K. interest rates, produced a situation where the optimum route to further development lay in acquisitions overseas.

Once this decision had been taken - in the face of initial opposition from Maxwell Joseph himself, who was content to limit his activities to the U.K. and the Continent of Europe, the prime target became the United States of

America. The first major acquisition at a cost of US $570M (£260M), was the Liggett corporation where the principal attraction was the distribution rights throughout the U.S.A. of J & B whisky, the main brand of International Distillers and Vintners. This bid was successfully completed in May 1980. [39]

By early 1981 it was clear to Sir Maxwell Joseph that the acquisition of Liggett was an undoubted success. With a bridgehead in the U.S.A. now established the exploitation of the U.S. market was possible. Whilst the chairman and Stanley Grinstead were not overly concerned with acquiring additional hotels (the U.K. hotel division having been somewhat of a disappointment in the 1970's), when the opportunity arose to purchase Intercontinental, they could scarely resist a strike that would:

a) allow the group to acquire an international hotel business;
b) enable the corporate image to be promoted worldwide in locations used by the international business traveller;
c) promote a degree of synergy between the operating divisions. [40]

In addition the deal effectively allowed Grand Metropolitan to extricate itself from possible involvement in a bid for the Savoy Hotel Group. [41] Taking into account the fact that the early development of the group had centred on hotels the successful conclusion of the bid, conducted by Stanley Grinstead, represented a felicitous climax to the career of the Chairman.

Several of the largest hotel companies in the world are subsidiaries of multi-nationals. Sheraton, for example, the second largest in terms of rooms, is a subsidiary of International Telephone and Telegraph (ITT). The growth of international airlines after the second world war led to the building of a spate of hotels in a manner similar to the growth of the railway hotels a century before. The traumatic aftermath of the quadrupling of oil prices in 1973 left international airlines vulnerable to even slight reductions in turnover. As the recession of 1979 deepened, both tourist and business travel diminished with the result that major airlines found themselves in deep financial trouble. It was against this background that Grand Metropolitan commissioned a major U.S. investment bank to make a study of airlines who might wish, or better, might be forced to sell off an hotel subsidiary. This study was completed in the spring of 1981. [42] By July Grand Metropolitan was in a position to commence negotiations. In the period July 9th to July 10th Stanley Grinstead, whilst in New York, indicated to Pan American that Grand Metropolitan might be interested in acquiring the Intercontinental Hotel Corporation. [43]

In 1946 Pan American World Airways formed a wholly owned subsidiary Intercontinental Hotel Corporation (IHC). Incorporated in the state of Delaware the company was headquartered in New York with divisional offices in Europe, Africa and the Pacific. Legislation forbade Pan Am to operate flights within the U.S.A., thus hotel development was promoted on an international basis. By 1981 the company had grown to the point where it was involved in nearly 100 hotels and hotel projects spread over 51 countries and spanning six continents. Only six hotels were owned via franchise and 15 were at the stage of either construction or design. The total number of rooms available was 31,000 with a medium term target of 40,000.

The acquisition of IHC was carried out by Grand Metropolitan with secrecy and speed with the result that many would-be bidders were left at the starting gate. For U.S.$500M (£270M) Grand Metropolitan was able to secure a truly international hotel corporation at the top end of the market, catering for the business rather than the tourist and with a proven reputation for efficient and effective management. In acquiring IHC Grand Metropolitan was able to recoup its position in the forefront of the hotel industry, increase its exposure to the markets of the U.S.A., withdraw from its middle market operations in the U.K. and provide additional points of sale for its liquor products.

The bid made Grand Metropolitan the ninth largest hotel group in the world on the basis of number of rooms and more important one of the top three, together with Hilton and Sheraton, in the international business market. This up-market move allowed the group to dispose of the vast majority of middle market hotels in the U.K. The provincial hotels fetched £26M and, during 1982 and 1983, sales of selected London hotels raised close on £100M. The proceeds were utilized to reduce group debt which, at its peak, stood close to £1 billion. [44]

It was rapidly decided that IHC would operate as an autonomous division within Grand Metropolitan and would continue to be headquartered in New York. This move, very much in line with the management style of the group, was widely seen as an early vote of confidence in the undoubted quality of IHC management. As a result the other principal hotels within the group, both in the U.K. and the Continent of Europe were incorporated or aligned to IHC. The other major development centred on the de-regulation of airline legislation (which naturally brought about increased competition) within the U.S.A. This had been announced prior to the bid and permitted Pan Am to fly within the U.S.A. and as a result a number of important hotel projects in selected U.S.A. cities were commenced. Such moves aided other hotels in the group as the business traveller in the U.S.A. could then use the same airline and hotel group throughout.

Prior to the bid, Pan Am's efforts in the late 1970's to gain domestic traffic rights gave the impetus to an attempt develop its own network of hotels in the U.S.A. Consequently several hotel projects were initiated and progressed to the planning and design stage. In 1980 Pan Am acquired National Airlines thus enabling market entry. It is ironic that the failure of Pan Am to successfully assimilate this acquisition was a major factor in its subsequent financial embarrassment and the resultant forced sale of IHC. It is also ironic that the internal financial problems of IHC in the post acquisition period stemmed from major hotel projects within the U.S.A. With the exceptions of New York and Washington all proved difficult and were disappointing at operating, let alone post interest and tax levels. [45]

At the time the bid was severely criticized by certain sections of the financial community on the grounds that of the U.S.$500M consideration only U.S.$116M represented tangible assets - the balance represented goodwill - the bulk of it in the Intercontinental brand name. Furthermore the critics made the valid point that the spate of U.S. properties to be developed would take some years to come into profit and consequently it would not be until around 1990 that the division would show a post interest profit. The bid, however, really has to be viewed in the light of the strategic approach taken to such acquisitions both by Sir Maxwell Joseph, who died in the year following the bid, and Stanley Grinstead whose overriding aim was to acquire global brand names that would support each other and which would form the core activities of the expanding international group. In the short term the IHC acquisition adversely affected gearing and impeded group profits.

It should be noted that in 1982, the year after acquisition, the 6 properties that were owned produced 30% of the divisional profit, the 39 that were managed produced 45%, the 19 that were leased 23%, whilst those 23 that were franchised (mainly in eastern Europe) accounted for a mere 2% of the divisional profit. This shows the complex nature of each of the agreements and the substantial sums involved in rent and similar fixed charges. Whilst the properties owned produced a significant percentage of the divisional profit they did, of course, individually account for a very substantial capital investment. [46]

The U.K. hotels of Grand Metropolitan did not carry a consistent image. Indeed, on one occasion they were referred to by a fellow director as "a series of one off property deals engineered by Max Joseph." [47] This is a valid comment and indicates the especial attraction of an international brand such as IHC which is synonymous with a de luxe standard of accommodation, food and drink. Consequently the opportunity was taken to rationalize the U.K. hotel portfolio in 1982 and 1983 as a result of which some £125M was realized. Prominent amongst the disposals was the sale of the 26 Country Hotels to the rapidly expanding Queen's Moat House group in 1982 for £30M, the sale of the Mount Royal to the Mount Charlotte group for £21.5, the sale of the Piccadilly to the Gleneagles group for £15M, whilst the Mandeville and the Berners were together sold for a like sum to private buyers. Part of the proceeds were applied to major refurbishment schemes at the Britannia (£8M), and Mayfair, (£13.6M), in London and the Grand in Paris. Other properties received similar, albeit less costly treatment, and the total expended in this way was close on £60M. [48]

Within IHC, a separate Forum division was set up in the mid 1970's. By 1988 it consisted of 13 large hotels of a standard not quite so high but offering a wide range of services at a competitive price (4 star). At the time of acquisition there were only six but the group has shown a commitment to expanding this area of the division where market opportunities presented themselves such as Glasgow, where the construction of a 300 bedroom hotel with extensive conference and banqueting facilities commenced in April 1987..

The performance of the U.K. hotels of IHC may be seen by reference to Table 4 - 3. It will be noted that the occupancy percentages at the Intercontinental and the Portman improved year on year. At the Britannia and the Mayfair the major refurbishment at each property was the cause of the temporary decline. It is also noteworthy that the income (operating profit) of the other three hotels increased in each of the years under review. This was the result, especially in 1983/4 of high occupancy percentages.

In June 1987 Sir Stanley Grinstead retired after thirty years service with the group. He was succeeded by Allen Sheppard who strengthened the board by a number of non executive appointments, the most notable that of Sir John Harvey-Jones, the former chairman of Imperial Chemical Industries, as Deputy Chairman of the group. [49]

Allen Sheppard appointed Peter Cawdron, formerly of merchant bankers S.G. Warburg & Co. Ltd., to undertake a strategic review of group operations with a view to increasing the overall rate of return on the capital

TABLE 4 - 3

VALUE AMOUNTS IN £(000s)

LONDON OPERATING RESULTS - 1981-1984

1981-1982	LONDON IHC	PORTMAN	BRITANNIA	MAYFAIR
OCCUPANCY	65.9%	69.8%	75.7%	55.7%
TOTAL REVENUE	16,420	6,296	6,566	5,867
INCOME BEFORE FIXED COST	5,273	1,838	1,922	700
1982-1983				
OCCUPANCY	73.0%	73.4%	64.3%	52.4%
TOTAL REVENUE	18,954	6,967	6,584	6,350
INCOME BEFORE FIXED COST	7,055	2,218	1,912	1,261
1983-1984				
OCCUPANCY	81.0%	79.3%	64.8%	46.8%
TOTAL REVENUE	23,024	8,312	7,488	7,174
INCOME BEFORE FIXED COST	9,546	2,552	1,998	1,240

Source: Company Records - Intercontinental Hotel Corporation employed within the company. One suggestion following this review was that Grand Metropolitan should sell Intercontinental. The reasoning behind this was twofold: with only 100 hotels worldwide the group would have difficulty in significantly raising this number as the hotels operated at the top end of the market; furthermore as a result of the continuing increase in the value of hotel property, particularly in the period 1985 to 1988, the rate of return was substantially below company norms. The decision was thus taken to sell Intercontinental and this was achieved in the autumn of 1988 when it was sold to the Japanese conglomerate Seibu Saison for £1.35 billion net. This enabled Grand Metropolitan to make a post-tax profit, after expenses, of more than £500M - a very good return for seven years ownership.

CONCLUSION

It may be seen, therefore, that the hotel interests of Grand Metropolitan underwent radical changes during the lifetime of the company. The 1950's and 1960's reflected the property oriented approach to the hotel industry favoured by Maxwell Joseph. During this period Grand Metropolitan emerged as the leading hotel group in the U.K., especially with regard to advanced management techniques, particularly in the area of sales and marketing, which were later copied by competitors. The

1970's was a disappointing decade for U.K. hotels in general and within Grand Metropolitan growth was restricted essentially to the purchase of selected properties on the Continent of Europe. The 1980's saw marked change with the acquisition and subsequent disposal of Intercontinental, as a result of which the company effectively withdrew from the international hotel industry and retained only a very limited presence in the U.K., via properties which had a small amount of accommodation but which were effectively run as either pubs or restaurants.

The success of the group in the hotel business was due primarily to the property dealing skills of Sir Maxwell Joseph, secondly to the strategic management skills of Sir Stanley Grinstead who co-ordinated the IHC acquisition and last but not least to the management skills within IHC that resulted in its world wide reputation both for the tourist and more especially for the business traveller.

FOOTNOTES

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2. **Bass PLC**

Crest Hotels Chairman Brian Langton

Holiday Inns

HISTORY AND DEVELOPMENT OF BASS

Bass PLC is the leading brewer in the U.K., having 22% of the beer market by volume and is the largest exporter of beer brewed in the U.K. [1] The group also has extensive interests in wines, spirits and soft drinks. In recent years the group has diversified into several sectors of the leisure industry and is now a major player in the travel trade, the hotel industry and in off course bookmaking. [2]

Brewery companies within the Bass group have been traced as far back as 1492, the year in which Hoare and Company of London was founded. Bass itself was founded in the eighteenth century in Burton on Trent. [3] The Bass red triangle is recognized as the world's first registered trade mark, used as the shipping mark on casks of beer sent to Russia and the Baltic States by William Bass in the late eighteenth century. The reputation of the company grew rapidly, the consequent growth resulting in the company being recognized as the largest brewing company in the world by the end of the nineteenth century. In the second half of that century the chairman was Michael Thomas Bass, the grandson of the founder. He was a Victorian in the best entrepreneurial tradition of the industrial revolution. He had a strongly paternalistic attitude towards his employees and provided conditions of service and rates of pay that were generally superior to those of his competitors. During this century Bass merged first with Worthington in 1926 and then with Mitchells and Butlers in 1961. [4]

Charrington and Company together with Tennent Caledonian Breweries formed the two other major constituents of Bass. The origins of Charrington may be traced to 1757 when a brewery was built in the East End of London. John Charrington acquired an interest in this brewery in 1766, bought out his partners a few years later and by 1806 had become the second largest brewer of ale in London. Continued expansion during the next 150 years made Charrington one of the largest brewers in the South East in the post war era. [5]

The Tennent family's association with brewing in Scotland dates back to 1556. In 1793 the family acquired the Wellpark Brewery in Glasgow, which is still the headquarters of the company. In 1885 Hugh Tennent began to brew lager and this became the major product of the company, thus pointing the way for the increasing popularity of lager throughout the U.K. [6]

The structure of the brewing industry in the U.K. changed markedly in the immediate post war era. In 1953 there were 135 quoted companies engaged in brewing - by 1969 this had shrunk to 35. Similarly the number of breweries in the U.K. in 1960 was 358 - by 1969 this had fallen to 211. [7]

The merger of Bass, Mitchells and Butlers with Charrington United Breweries took place in 1967 and from it emerged a strong group with nationwide coverage and distribution, selling 70 major brands of beer. The name of the company was changed first to Bass Charrington Limited, then in 1979 to Bass Limited and in 1981 to Bass PLC. [8]

The last three chairmen of Bass have all been accountants by profession. Sir Derek Palmar took over the chair from Sir Alan Walker in 1976 and served in that capacity until 1987 when he was appointed president, Ian Prosser being appointed chairman. This syndrome has been partially responsible for the development of sophisticated computerized systems of management reporting and the consequent strong position of divisional finance directors. This is not to say that the company is entirely run by accountants - indeed many would say that the principal strength of the company is the consistently high standard of its wide range of beers which, in turn, must be attributed to the professional and technical skills of its brewers. To this should be added the strong distributive skills of the company which ensure that the products leaving the brewery arrive in sound condition at the ultimate point of sale.

CREST HOTELS DIVISION

Most of the companies within the Bass Charrington group owned a few premises which were larger than the traditional pub - in some cases these were pubs with restaurants, in others they were pubs with a few rooms trading as hotels, and there were in addition a small number of motels. One company in particular, Hunt Edmunds Hotels, owned and operated some 25 small hotels in the Cotswolds and these properties were controlled from Banbury. [9] Subsequent to the 1967 merger the combined group decided to form a separate hotel division with separate management to cover all the hotels, of which there were some 120, with locations as geographically diverse as the South East coast to the North of England. The Crest name had been used by one of the companies located in the North of England and it was decided to use this name for all hotels in the combined group. Thus Crest Hotels came into being in 1969. [10]

The first managing director of Crest Hotels was Christopher Price who had been involved in the hotel industry since 1935, subsequent to having taken a degree at Cambridge and having spent two years with a firm of chartered accountants. Having been appointed to the board of Hunt Edmonds, the brewers, in 1950 he had been responsible for forming their hotel company in 1954. When Hunt Edmunds merged with Bass, Mitchells and Butlers in 1965, Price was given responsibility for all hotel properties within the combined group and this responsibility was extended to the Charrington properties in 1967. The deputy managing director was Edgar Gerhardt who had come to England from Germany in the late nineteen thirties. Subsequent to more than a decade with British Transport Hotels, Gerhardt held various management positions with a number of hotel companies before being appointed general manager of the northern hotels of Hunt Edmunds at the time of the merger with Bass, Mitchells and Butlers. He was appointed a director in 1967 and deputy managing director in 1970. [11]

From the outset Price and Gerhardt decided to concentrate on the business as opposed to the tourist market. With the financial muscle of a blue chip company behind them they sought to build from scratch purpose built hotels/motels, sited at strategic points throughout the U.K. to service the steadily growing business market. Carefully sited properties brought with them accessibility for both guests, staff and suppliers.

Original brewery hotel properties which possessed special features, such as the Hunt Edmunds hotels in the Cotwolds, were retained but many of the 120 original properties were either sold or transferred to either the managed or tenanted estate of the brewery. Other properties which were suited to refurbishment and modernization were retained but the emphasis was placed firmly on providing modern facilities for the business traveller. [12]

Typical locations for the early Crest hotels opened in the period 1969 to 1972 were Preston, Walsall, Grimsby, Luton and Carlisle. The average number of bedrooms was 110, all with private facilities and additional features such as trouser presses and mini-bars. [13] The range of facilities offered to clients was superior to many competing establishments and in the early 1970's the room rates were a mere £4.20 per person per night. Capital construction costs were then very modest - the 139 bedroom Luton Crest hotel with an area of 5,620 square metres was built and fitted out at a total cost of £597,000, equivalent to £4,300 per bedroom. [14] It is worth noting that only 15 years later the comparable cost would be at least ten times the 1972 amount. The bar and restaurant areas tended to reflect aspects of local community life - this to encourage local business in all food and beverages areas.

When the hotels opened the average food spend in the evening, the majority of clients being businessmen on expenses, was in the region £1.20 to £1.30. [15]

The parent company was well pleased with the initial performance of Crest hotels and saw its success as vindication for keeping the management of the hotel group completely separate from the managed and tenanted estate. Whilst in retrospect this may seem a "common sense" decision, it was not then the norm for major brewery companies to do so. Competing firms did not, in a number of cases, form separate hotel divisions until much later. As a result, this gave Bass and Crest an added advantage and spurred the hotel division towards a degree of independence. The head office of the hotel division was located in Banbury and has remained there since the formation of Crest in 1969. [16]

In addition to Kit Price and Edgar Gerhardt, top management consisted of a properties and development director, an operations director and two divisional general managers together with functional specialists covering sales & marketing, finance, personnel & training and catering. The catering executive Ken Butcher subsequently became development director. With such a range of expertise the group continued to grow rapidly and having garnered considerable experience in the hotel/motel field set its sights on development outwith the U.K.

ACQUISITION OF ESSO MOTOR HOTELS

The main board of Bass, and the chairman Sir Derek Palmar in particular, were by this time seeing the benefits of investment in the hotel industry and were of a mind to increase their range of activities in this field. Sir Derek had joined Bass in 1970, having been associated with the group in his capacity as a merchant banker with Hill Samuel during the nineteen sixties, where he had responsibility for arranging many of the mergers within the company. He realised the importance of diversification into leisure and related fields for the major brewery companies and was keen to ensure that Bass would be at the forefront of such movement. Accordingly it was he who was instrumental, towards the end of 1972, in starting negotiations with the oil company Esso for the acquisition, at a cost of £27M, of their hotel/motel operations on the continent of Europe. [17]

Esso Europe (Standard Oil of New Jersey) had diversified into the motel business in 1963, the aim being to provide the travelling motorist with facilities for accommodation, food and drink. The motels were sited on the Continent of Europe next to filling stations thus providing a comprehensive package for the client.

The development proceeded in three stages - in the early years Esso concentrated on developments of low rise motels with 50 - 100 bedrooms, immediately adjacent to filling stations throughout Scandanavia. It was found that these were profitable and carried the added advantage of a short pay-back period. Gratified by their initial success Esso followed these with slightly larger properties of two or three stories at sites in the U.K. together with properties in Belgium, Holland and West Germany. As these also proved successful Esso proceeded to the third stage in its diversification into the hotel industry, by constructing several high rise conference hotels including a 339 bedroom hotel at Wembley near London. [18] The capital costs of these properties was considerably greater than the earlier properties, the management and marketing presented greater problems, the pay back periods were inevitably much longer and consequently Esso found that their honeymoon period with the hotel industry was all but over.

In addition Esso found that the operational costs involved were greater than originally anticipated (particularly with regard to the larger third generation properties) and this, together with the costs associated with a labour intensive industry, led them to decide to dispose of selected motels. They retained the 30 or so properties that had been established throughout Scandanavia but offered the remainder for sale. Consequently Bass was able to acquire

24 established properties together with three projects then under course of construction. The properties were widely spread - 9 in the U.K., 9 in West Germany, 4 in Holland, 2 in Italy and 1 each in Austria, Belgium and France. [19] The largest property in the U.K. was the 339 bedroom hotel in Wembley, North London while the largest on the Continent of Europe was a 300 room property in Antwerp which opened in 1974.

Between 1974 and 1978 the new owners, Bass, made further acquisitions - 5 properties in the U.K., 3 in West Germany and 1 in Belgium, thus giving the group a strong presence in Continental Europe. [20] The operation of hotels both in the U.K. and on the Continent of Europe gave Bass the opportunity, ahead of most of its U.K. competitors, to build a group which covered the majority of European countries, which in turn provided the springboard for the international expansion which was to occur in the following decade. That this came about and that a leading European hotel group was developed from what originally had been but a few Cotswold inns, owes much to the strategic vision and foresight of Sir Derek Palmar whose initial determination for Bass to become involved in the hotel and leisure industry was handsomely vindicated.

Bryan Langton joined Crest in 1971 as a divisional manager. Trained at the hotel schools of Westminster and Lausanne and with extensive practical experience gained in Switzerland and West Germany he rapidly made his mark, being promoted to the board of Crest in 1973, to operations director on the Continent in 1975, thence to managing director, Continent of Europe in 1977.

During the 1970's (a difficult decade for the hotel industry in the U.K] he was able, therefore, to play a key role in the development of the group and in particular was able to consolidate and expand on the 1973 acquisition of Esso Motor Hotels.

The 1970's ended on a high note for the group when it purchased, at a cost of £16M, the 10 properties comprising the Dutch Clingendael Group in 1979. This made Crest one of the largest operators in Holland. It brought the number of hotels on the Continent owned by the group to 29 which, together with the 53 in the U.K. totalled some 7,700 bedrooms. [21]

ACQUISITION OF CORAL GROUP

As the group moved into the 1980's the main board of Bass saw clearly the increasing importance of the service industries in general and of the leisure sector in particular. The board was keen to make a further major acquisition in the leisure field and the opportunity presented itself in October 1980. The Coral group's core activity was off-course bookmaking (600 licensed betting offices) supported by casino operations, the holiday camp firm Pontin's, diverse entertainment complexes and by an hotel group, Centre Hotels, which it had acquired in 1977 at a cost of £16.7M. Grand Metropolitan's bid for Coral, valued at £83M, was referred to the Mergers and Monopolies Commission on October 17th, whereupon the chairman of Grand Metropolitan, Sir Maxwell Joseph, withdrew the bid thus leaving the field open to competitors.

During 1980 Coral was confronted with a number of serious problems:

a) profits before tax for the six months to June 1980 were £327,000 compared with £5,851,000 for the corresponding period in the previous year. [22]

b) the principal cause of this fall was sharply increased interest rates which, taking the annual average of the Treasury bill rate, had risen from 8.535% in 1978 to 12.988% in 1979, and to 15.127% in 1980. For a company like Coral with some £55M in loans of various denominations this had proved little short of disastrous as the fall in profits shows. [23]

c) following serious irregularities the authorities had effectively suspended the gaming licences of three of Coral's leading gaming establishments and made the remaining five vulnerable. Bass did not wish to operate in this field but the recent troubles clearly made disposal of such premises more difficult. [24]

d) substantial capital expenditure had been applied to the Pontin's holiday camp business but this had yet to be recouped. [25]

Given these problems Coral was clearly vulnerable to takeover and from the Bass viewpoint it was the way into the holiday camp market, the betting as opposed to the gaming market, together with an expansion of its hotel interests in both the U.K. and the Continent where Centre had properties in Amsterdam. Once the £87M bid was cleared by the trade minister John Nott at the beginning of

December, the Bass board were confident that it would be accepted, especially carrying as it did the backing of the Coral directors who effectively were not capable of solving the problems that confronted them.

The Bass offer was on a share exchange basis - for every 13 Ordinary shares of Coral of 10p, 6 Ordinary shares of 25p each in Bass, credited as fully paid. This indicated a value of 100p per Coral share compared with a market value of only 60p on August 29th, the day before dealings in Coral were suspended following the first bid from Grand Metropolitan. Not surprisingly Bass gained control of Coral by 11th December, the day on which the recommended offer closed. It had been a relatively painless exercise and, to a certain extent, the Bass board considered themselves fortunate in that they had been rather surprised when the original Grand Metropolitan was referred to the Commission. It was a tribute to both them and their merchant bankers J. Henry Schroder Wagg & Co. Limited that they were able to act swiftly and decisively to secure the prize. [26]

It was a major task to successfully integrate all 25 Centre Hotels into the Crest network. On the one hand the location of the Centre hotels gave Crest entry into the London market, and other locations in which they had not been previously represented. On the other hand a number of

Centre properties required extensive refurbishment to bring them up to Crest standard. Furthermore, the main board of Bass were conscious of the deepening recession which accelerated early in 1981 and indicated to Crest that it might be prudent were the company to reduce, where practicable, its hotel portfolio. As a result the roomstock was reduced by some 1,500, the bulk of which were former Centre properties including the St James, the West Centre and the Bedford Corner, all in London. Taking into account the subsequent rise in hotel property values it was probably a strategic mistake to dispose of these hotels. Nevertheless the proceeds of sale provided funds for the refurbishment of selected properties formerly belonging to Centre. [27]

FURTHER EXPANSION IN THE U.K. AND ON THE CONTINENT OF EUROPE

In 1981 Bass acquired the Hollstein group of hotels in West Germany which owned and operated properties at Siegen, Ludenscheid and Friedrichsdorf together with an hotel under the course of construction in Hagen. [28] This was followed in 1986 by the purchase of the five star Villa Magna in Madrid, Spain. This de luxe property was purchased by Bass for £13M - within two years it could have been sold for double that amount. During 1981 and 1982 new hotels were constructed and brought into operation at

Gloucester; Bexley, Kent; High Wycombe, Buckinghamshire and Rochester, Kent which gave Crest coverage in locations where hitherto it had not been represented. It was fortuitous that these hotels opened immediately subsequent to the recession of 1980/81 and therefore enjoyed satisfactory levels of turnover in the early years of operation. [29]

As a result of Crest being able to build a group of readily identifiable hotels catering for the business traveller, the leisure traveller and the short break market, the management of Crest were able to follow a clearly defined marketing policy which aimed to satisfy the needs of each market segment that had been targeted. In turn this led to the provision of specific facilities within Crest hotels such as the introduction of no-smoking bedrooms, the introduction of bedrooms specifically for female executives, the "Lady Crest" rooms and executive rooms which allowed all major office facilities to be incorporated into the accommodation.

As a result of such moves and combined with many programmes of substantial refurbishment and upgrading, Crest was able to follow an assertive pricing policy with prices each year throughout the 1980's rising significantly more than the annual rate of inflation. The fact that the company met with relatively little price resistance demonstrated that it was offering clients value for money and enabled the company to report increasing levels of profitability. [30]

As a result of acquisitions both in the U.K. and on the Continent of Europe, combined with the construction from scratch of properties in the U.K. the company grew to the point where, by the end of 1986, it owned and operated 50 hotels in the U.K., 37 on the Continent of Europe and employed no fewer than 10,300 staff. [31] Moreover the growth pattern had been carefully thought out and researched - it did not follow the somewhat haphazard pattern of some competing companies. Although the growth resulted in Crest becoming one of the four leading hotel companies in the U.K. in terms of number of bedrooms, the main board of Bass was of the opinion that in order to emerge as a major force in the field of leisure and tourism it would be necessary in the long term to acquire one of the leading worldwide brand names in the hotel business. In this respect they had before them the example of Grand Metropolitan which had acquired the Intercontinental Hotel Corporation from Pan American in 1981. The aim therefore was to find a major international company with a well known hotel subsidiary which it was prepared to sell. Clearly only a very few companies fitted this scenario. Research by Bass, however, discovered that the Holiday Corporation, the parent company of Holiday Inns, was in financial difficulty and might be considered, therefore, as a possible target.

The Holiday Inn organisation was founded in 1951 by a U.S.A. businessman by the name of Kemmons Wilson. On vacation with his family he found difficulty in obtaining reasonably priced overnight accommodation. He perceived the absence of such accommodation as a business opportunity. The first Holiday Inn, which he built in partnership with a local construction company, was opened in his home town of Memphis, Tennessee on August 1st 1952. Expansion followed rapidly and the company grew to become the largest hotel corporation in the world with some 1750 properties in 51 countries across six continents.

In 1979 two important acquisitions were made:

a) the Perkins restaurant chain

b) a major hotel/casino operator Harrahs.

Subsequently the corporation undertook a major corporate appraisal and arranged its various operations in six distinct market segments of which Holiday Inn Hotels was one. The name of the parent company was changed to the

Holiday Corporation and a complex scheme of capital reconstruction was undertaken which increased the influence and protected the position of its principal executives.

As far as Europe was concerned, the corporation commissioned hotel consultants Horwath & Horwath to carry out a major study of all European properties in an attempt to target locations where new properties could be developed, and to identify properties which could be sold off. Even at this early stage the parent company saw the sale of properties outwith the U.S.A. as an important part of a defensive strategy aimed at fending off any takeover attempt.

Since the successful integration of the Centre hotel group acquired as part of the Coral transaction, the main board of Bass had been investigating the possibility of a further major acquisition in the hotel business based in the U.K. and the Continent of Europe. In the course of their quest they learned of the various moves being made by the Holiday Corporation and realised that negotiations with that company could well provide the springboard for expansion that they sought. [32]

It was as a result of these moves that Bass was able to purchase in May 1987 four properties from Holiday Inn at a cost of £55M. The properties were located in London, Heathrow, Birmingham and Leicester, the Leicester property being the first opened by Holiday Inns in the U.K. back in 1969. This transaction was quickly followed in June by the acquisition, at a cost of £35M, of four further Holiday Inn properties on the Continent of Europe, the locations being Paris, Eindhoven in Holland, Ghent in Belgium and Brussels airport. It was arranged that these properties would be owned by Crest Hotels but that Crest would operate them under franchise as Holiday Inn Hotels. [33]

The total cost of £90M was largely offset by the sale to Queens Moat Houses of 16 properties, (9 in West Germany, 6 in Holland and 1 in Belgium) mainly freehold, at a cost of £73.75M. This was a good deal for both British groups - it enabled Queens Moat Houses to build on their previous expansion in Europe and it enabled Bass to get into a negotiating position with Holiday Inns for the major acquisition of their hotel properties outwith the U.S.A.

During the summer of 1987 Bass and Holiday Corporation worked out a deal whereby Bass was to acquire the international operations and the exclusive right to the Holiday Inn name outwith the U.S.A., Canada and Mexico. The international business consisted of 5 leased hotels with

1,833 rooms and 135 hotels with 32,083 rooms operated as joint ventures, management contracts or franchise agreements. In addition there were a further 13 hotels within the U.S.A., mainly in Tennessee, South Carolina and Florida. The consideration was U.S. $475M. This was to be paid partly in cash and partly by way of loan notes repayable over a period of 10 years. [35]

It was also decided that the two companies should form a joint venture in order to promote the Holiday Inn brand worldwide. The joint venture agreement ensured that Bass would have continued use of the Holiday Inn reservation system (Holidex); their management development (Holiday Inn University) and marketing programmes as well as agreed monitoring of standards via established quality control procedures. [36]

The net tangible assets acquired by Bass amounted to U.S.$215M, thus the balance of U.S.$260M represented goodwill. [37] This was not dissimilar to the experience of Grand Metropolitan who had acquired Intercontinental at U.S.$460M of which U.S.$344M represented goodwill. [38] For both companies, however, the deals were sound, and for Bass in particular it resulted in a secure foundation for further expansion worldwide.

As an integral part of the agreement it was also decided that Bass should subscribe U.S.$100M for subordinated convertible debentures in Holiday Corporation which would carry rights to convert into Holiday stock at U.S.$38 per share. The effect of this was that, when fully converted, Bass would hold some 9% of the enlarged capital of Holiday Corporation. All the agreements were subsequently ratified early in 1988.

The strong cash flow of Bass largely financed the transaction, thus avoiding the need for a rights issue. As far as Bass was concerned the acquisition represented a major coup for the hotel division but did not radically alter the nature of the company. From the Holiday Corporation viewpoint the agreement was a useful fund raising exercise but in the words of the Wall Street Journal the strategy of divestiture still had "an awful long way to go." [39] There remained over 1,600 hotels in the U.S.A. and it was reckoned that Holiday Corporation would have to sell approximately 20% of its hotel stock in order to adequately strengthen its balance sheet.

SUMMARY OF HOTEL DEVELOPMENT WITHIN BASS 1968 - 1988

The growth and development of the hotel interests of Bass in the period 1968 to 1988 were the result of a coherent strategy of acquisition, cleverly implemented in three major steps - Esso, Coral and Holiday Inns. To this was added the groundwork executed by Christopher Price and Edgar Gerhardt and the building of the formidable management team led by Bryan Langton. All of this was backed by the management expertise and financial muscle of the parent company whose role in the development of the hotel division must not be underestimated, particularly the efforts of Sir Derek Palmar with regard to acquisitions. [40]

The overall result of the combined efforts has been to propel Bass to the forefront of the industry, both nationally and internationally. It is highly probable that Bass will continue to be in the forefront of initiatives and developments within the industry thus consolidating its position not only as the leading brewer in the U.K. but also as an hotel operator of international renown.

HOTEL INTERESTS OF BASS 1968 - 1988

The development of the hotel interests of Bass represent an interesting example of how a major U.K. firm took a strategic decision to diversify into the hotel industry, and having achieved initial success risked substantial additional funds via the purchase first of Esso Motor Hotels and latterly of Holiday Inns, to become a major international player in the industry.

The success of the company at each stage of development in the hotel industry may be mainly attributed to careful planning and choice of experienced staff to head up the hotel division. The acquisition of Esso Motor Hotels was an opportunistic strike as were those of Coral, to include Centre hotels, and Holiday Inns. This latter investment propelled Bass to becoming the major international player in the hotel industry. Nevertheless the main board of Bass were able to view such a prospect with equanimity, secure in the knowledge that the core businesses of the company (beer, wines and spirits) would not be adversely affected and that the substantial amount paid for goodwill, U.S.$260M, was a fair reflection of the value attributable to a global brand name and the goodwill inherent therein.

Once the hotel division was established Bass ensured that the hotel division was amply staffed in sales and marketing personnel, and that all markets for hotel products were fully exploited. The efforts of the corporate marketing staff played a significant part in the profitability of the operating units. It is in the area of sales and marketing that the group most clearly exhibits the determinants of success in the hotel industry.

Compared with other firms Crest has not, perhaps, had quite the struggle or been subjected to as much pressure as other companies where hotels were the core business. Nevertheless, by a carefully implemented strategy of acquisition Bass has built a strong hotel division which has become a significant contributor to group profitability.

FOOTNOTES

1. Kevin H. Hawkins, A History of Bass Charrington (1969, Oxford University Press, Oxford), p 1 to 20..
2. ibid.
3. ibid.
4. ibid.
5. ibid.
6. ibid.
7. Report on U.K. Brewing Industry by Alan Evans of Panmure Gordon & Co., Stockbrokers, London April 1970 Privately Circulated.
8. Bass PLC Annual Review 1981.
9. Interview Ken Butcher 24/5/88.
10. ibid.
11. Caterer and Hotelkeeper 23/11/72 pages 33 to 47.
12. ibid.
13. ibid.
14. ibid.
15. Interview Ken Butcher 24/5/88.
16. Interview Pugh Phillips 5/5/88.
17. Interview Bryan Langton 26/9/88.
18. ibid.
19. ibid.
20. Financial Times 26/2/88.
21. Bass Limited Annual Review 1980.
22. Offer Documents November/December 1980.

23. ibid.

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33. Bass PLC Annual review 1987.

34. ibid.

35. Bass PLC News Release 15/9/88.

36. ibid.

37. ibid.

38. D.A. Stewart 1984, Grand Metropolitan, A Study in Acquisition Strategy M.Sc. Thesis Strathclyde Business School (1984, Glasgow).

39. The Wall Street Journal 16/9/84.

40. Interview Bryan Langton 26/9/88.

3. **Queens Moat Houses** Chairman John Bairstow

FOUNDING OF MOAT HOUSE GROUP

The Moat House group was founded in 1968 by John Bairstow, the present chairman of the company. The early years of his business career were spent in the field of estate agency. Bairstow perceived the need for a simplified service to the general public in the field of house purchase and sale. In 1955, at the age of 23, he commenced business on his own account as an estate agent. Although not formally qualified as a chartered surveyor, his business prospered and during the 1960's expanded to take in some 40 retail outlets. [1]

Bairstow, like other estate agents before him, was drawn to the hotel business and during the period 1968 to 1972 acquired properties at Brentwood, Ingatestone and Harpenden, each near London, together with one in Woodhall Spa, Lincolnshire and another in Powys, Wales. With a fledgling group now established he was keen to acquire another group in order to consolidate progress and be in a position to expand. This was duly achieved by the merger of Queens Modern Hotels with the Moat House Group in September 1972. [2]

The origin of this group may be traced to 1952 in which year the Queen's Hotel (Torquay) was incorporated. In 1965 the name of the company was changed to Queens Modern Hotels at which time it was controlled by J. F. Nash, an accountant and stockbroker from Kettering, Northampton-shire who was a prominent businessman who held directorships in over 100 companies. [3] The year after he became chairman the company purchased a small group, Marylebone Hotels, with properties in Brixham, Cheltenham, Filey and Manchester. [4] During the next two years further hotels were acquired in Skegness, Ross-on-Wye, Poole and Cromer. By the end of the decade group turnover was £1.9M, pre-tax profits £105,686 and post-tax profits £63,884. [5] The group was headquartered at Torquay from 1952 until 1968 when it was moved to Kettering.

QUEENS MOAT HOUSES 1972 - 1979

At the time of the merger it was agreed between the respective chairmen that Bairstow, in due course, would control the combined group. This duly came to pass in 1973 when Nash resigned, disposing of his interests at a substantial profit. The way was thus clear for Bairstow to mesh the hotels into a sizeable group and thereafter expand as and when suitable opportunities arose.

It was unfortunate that the merger took place shortly before the onset of the recession of 1973 - 1975. Nevertheless the position of the group was alleviated by a strategic decision taken by Bairstow to concentrate on the business, rather than the tourist market. [6] As a result the group was shielded from the worst effects of the downturn during the succeeding two years. In the year Bairstow took over as chairman the turnover was £4.1M and the post-tax profits £193,000. By the end of the decade this had more than doubled to turnover of £11.8M and post tax profits of £405,000. [7] This was a period of steady expansion with the majority of original hotels being sold and larger properties purchased in their stead. The only difficult year, in common with other firms in the industry, was 1975 when the dividend was passed. By the end of the decade the group was at the stage where it was poised for significant expansion. By now the group had sixteen hotels with a roomstock in excess of 1,000. [8]

During the 1970's four men emerged as the principal business colleagues of John Bairstow. Martin Marcus, after qualifying as a chartered accountant in 1970, joined John Bairstow as the accountant for the first hotel, the Moat House at Brentford. He was appointed company secretary in 1973, finance director in 1977, joint managing director (with John Bairstow) in 1980, and deputy chairman (at the age of 36) in 1984. David Hersey, also a chartered accountant, subsequent to positions as chief accountant and company secretary, was appointed finance director in 1980. Gerry Bell, having joined the group in 1973, was later appointed director in charge of developments and in 1981 combined this role with that of director of operations. The principal non-executive director was E.R. Earey who, until Martin Marcus' appointment in 1984, was deputy chairman. Amongst them the directors held some 4% of the issued ordinary shares of the company, John Bairstow's holding being 2.5%. [9]

A further and significant advantage lay in the group having a clearly defined business policy. The stated intentions were

1. to concentrate on high quality, commercially situated hotels offering modern facilities thereby obtaining all-year-round revenue without dependence on seasonal tourist trade;

2. to accord a high priority to the businessman's need for first-class conference, exhibition and banqueting facilities, as well as accommodation;

3. to continue the search for suitable hotels for acquisition on a nationwide basis and to extend and upgrade facilities at our existing hotels with a view to enhancing the value of the Group by increasing the assets and earnings in the short and medium term;

4. to provide as much financial flexibility as possible by ensuring that expansion and development is at least partly financed by the issue of futher ordinary shares or loan stock and by medium and long term loans from joint stock banks or their subsidiaries;

5. to keep shareholders fully informed of the real worth of the Group by annual professional valuations of all hotel and catering properties and equipment. [10]

The foregoing represents a concise statement of the desired objectives of an expanding hotel company. Particular attention was placed not only upon the specific locations of group hotels but also the market segment at which they are aimed. Attention was also focussed upon the need for expansion by acquisition. In the case of Queens Moat Houses the property dealing attributes and contacts of John Bairstow were of especial importance. The ultimate criterion of a successful dealer is not only that suitable properties are duly acquired but that they are acquired at prices which enhance the competitive advantage enjoyed by the firm, and moreover are financed in such a way as to benefit, wherever possible, existing shareholders. Annual professional valuations draw attention to the underlying asset value of the equity of a company and indicate to potential vendors the likely price their properties might fetch.

THE EVENTS OF THE 1980's

During 1980 six additional hotels were acquired, bringing the roomstock to 1,437, 94% of which had private bathrooms. To help pay for these acquisitions and to provide additional finance for expansion, the company arranged a 10.5% Convertible Unsecured Loan Stock Issue to the value of £2.7M.

Towards the end of 1981 John Bairstow approached Sir Maxwell Joseph whom he knew well, both having originally trained as estate agents, and as a result an outline agreement was reached that would allow Grand Metropolitan to dispose of its 26 county hotels to Queens Moat Houses for a price of approximately £30M. [11] The agreement was subsequently ratified on 19th April 1982. This acquisition was a critical development in the expansion of Queens Moat Houses. At a stroke it more than doubled the capacity of the group, making it the largest independent provincial hotel group in the U.K. with 51 hotels representing a roomstock of 3,466. The consideration was £26M cash together with Grand Metropolitan taking a 12.5% stake in the equity of the company. The deal was financed via a rights issue of £14M, additional convertible unsecured loan stock of £3M and £10M in medium term bank loans. [12]

The timing of the deal suited both companies. On the one hand Grand Metropolitan wished to withdraw substantially from the U.K. market in order to concentrate on its Intercontinental acquisition. On the other the U.K was just emerging from a period of recession and this was reflected in the price of the deal that was arranged by the respective chairmen. It was in fact the last major deal struck by Sir Maxwell Joseph before his death in September 1982.

Immediately subsequent to the acquisition of the County group, Queens Moat Houses had 49 hotels together with 6 inns and restaurants. All but 5 of the hotels were located south of a line between Derby and Birmingham with almost half within a 30 mile radius of London. The integration of the two groups proceeded rapidly, aided by the fact that nearly all the County hotels meshed, judged by the criteria of location, accessibility to intended markets and by the competence of the County managers who were quick to recognise the opportunities offered by the Queens Moat House incentive management scheme.

This scheme, originally formulated to combat periods of recession, is aimed at giving much greater autonomy to managers than is normally found within group operations throughout the industry. It applies in particular to the smaller hotels within the group. Its implementation results in the company being assured of a certain level of profit from each hotel where the scheme operates. This level of profit is predetermined in consultation with the manager and given to the company - conversely all profits in excess of the agreed amount are retained by the manager. This arrangement acts as a powerful stimulus to managers who effectively run their own business with the group acting in a manner not dissimilar to a franchisor. A further advantage is that such an arrangement minimises the role of the corporate head office which (mid 1987) employs only 25 staff. [13]

In addition to the hotels in the County group Queens Moat Houses also acquired from Grand Metropolitan, in March 1983, the 129 room Drury Lane Hotel in Holborn, London WC2. This was the first London property purchased by the group but in view of the size of the hotel the cost was not disproportionate to similar acquisitions of the period such as the 249 room Hilton property at Stratford-upon Avon, Warwickshire purchased from the Lex Service Group for £5.7M cash. Towards the end of that year the Saxon Inn group of five hotels was acquired from the shipping concern Furness

Withy. These acquisitions brought the total number of hotels to 56 and with the U.K. economy growing strongly the company was poised for significant expansion. [14]

The following year saw further acquisitions in the U.K. when four additional properties were bought. Furthermore, considerable capital investment was made in the refurbishing of selected properties, in the creation of health and leisure facilities and in the construction of specialised conference and banqueting suites. All this was central to the overall company policy of providing high quality, good value facilities for the business community.

In a number of ways 1985 marked the high point of the current business cycle for the hotel industry in the U.K. During that year Queens Moat Houses acquired a further 13 properties taking the total number of hotels to 70 and the total number of bedrooms to 6,120. [15] Early in the year the group purchased the Holiday Inns at Dover and and Bucksburn, Aberdeen. Through their association with the Telford Development Corporation, the group purchased the lease of the Telford Hotel, Golf and Country Club to complement the 100-bedroomed Telford Moat House which was opened in July 1986. Moving North, Queens Moat Houses then acquired two privately owned hotels in Barnsley and Rotherham. A third was built near Doncaster and opened in March 1987. A 49.9% interest in the equity of the

Harrogate International Hotel, originally opened in 1984, was acquired between October 1985 and April 1986, with the option to acquire the remainder in 1989, the development having taken place via the Business Expansion Scheme. These purchases resulted in the group having 600 rooms in Yorkshire.

The start of the following year saw the acquisition, at a cost of £6.8M, of the Dean Park Group with hotels in Watford, Stevenage and Renfrew near Glasgow, in which city the Kelvin Park Lorne was also acquired. The Liverpool Holiday Inn with the 264 rooms and the Royal Hotel in Nottingham with 210 rooms came into the group in March. Later in the year the group acquired a majority holding in the company which owned the freehold of the Bedford Moat House.

Finance for this expansion was provided via a rights issue of Convertible Preference Shares which raised £25M and a placing of £35M debenture stock carrying a coupon of 101/4%. The successful raising of finance has been an important feature of the growth of the group. This success is essentially a function of the experience and reputation of John Bairstow and his long term association with the major joint stock banks. The combination of favourable trading conditions and these major acquisitions resulted in pre tax profits moving from £6.6M in 1984 to £10.5M in 1985 and £14.9M in 1986. [16]

EXPANSION UPON THE CONTINENT OF EUROPE

It has already been noted that in a number of ways 1985 marked the high point in the current business cycle for the hotel industry in the U.K. This fact was not lost on John Bairstow and his fellow directors. Whilst they were still keen to expand in the U.K., opportunistic strikes were by now few and far between and when properties did come to the market the asking prices usually reflected high levels of turnover and profitability. Consequently they became less attractive to potential purchasers, who saw clearly that such acquisitions would carry not only a degree of commercial risk but also would call for a lengthy pay back period to recoup the initial capital investment.

As acquisition costs and construction from scratch costs within the U.K. began to exceed £50,000 to £60,000 per bedroom throughout the provinces, the board of Queens Moat Houses decided to expand abroad. Subsequent to several reconnaissance visits by the development and operations director Gerry Bell, who previously had advocated that such a move might be strategically worthwhile, the board decided that the optimum area for expansion should be North West

Continental Europe. In this region, densely populated and with a standard of living generally higher than in the U.K. hotel property prices nevertheless were much more reasonable. Historically U.K. companies had enjoyed mixed success with Continental acquisitions, but Queens Moat Houses pursued their objective of aiming for hotel groups which catered for the business rather than the tourist market.

Their first acquisition came in November 1986 when they purchased the entire share capital of the holding company of the independent Bilderberg group, the largest in Holland. This group comprised 6 restaurants and 12 hotels with a total of 912 bedrooms, but having space to add bedrooms in some of the locations. [17] All the hotels and restaurants were within one hour's drive of Amsterdam, Rotterdam and The Hague. The total cost of acquisition of the Bilderberg Group was Dutch Florins 50.6M equivalent to £15.5M, the consideration being satisfied by £1.66M cash and the balance by the issue to the vendor of £22.5M new ordinary shares in QMH which were placed via their main brokers Capel-Cure Myers. [18]

The acquisition came about in a typically interesting fashion. The Bilderberg Group enjoyed an enviable reputation in Holland, offering as it did a premium service in the business conference, business travel and domestic leisure markets. Seven of the properties were freehold with the remaining two being held on long lease. The group, however, was burdened with a high level of debt and the principal shareholder decided to sell. He instructed merchant bankers Goldman Sachs to find a buyer but initial discussions in the U.S.A. came to naught. Almost by chance John Bairstow, whilst attending a race meeting at Ascot, was introduced to the bank and fruitful discussion ensued. [19]

At the time of acquisition the book value of the properties of the Bilderberg Group were £38.5M, although QMH valued them at a significantly higher figure. Nevertheless the Bilderberg Group had outstanding loans of £27M denominated in Dutch Florins and carrying interest above the then current market rate. Consequently QMH was able to structure a refinancing package in which the interest rate was cut from 10% to 7% thus saving some £810,000 per annum. [20]

In the spring of 1987, expansion continued with the purchase of two further Holiday Inns, one in Kassel, West Germany and the other in Liege, Belgium. These were followed in May by the purchase of the Hotel De Keizerskroon in Apeldoorn and the 5 star Maastricht Hotel which, together with the management contract for another hotel in Maastricht, brought the total number of hotels in

Holland to 15. To these important acquisitions was added in July the Hotel Admiral in Switzerland bringing the total number of bedrooms on the Continent to 1,800. [21]

In September 1987 the group commenced the acquisition of two further groups on the Continent of Europe:

a) the Globana Group which comprised seven international city centre and airport hotels and one provincial hotel, all in West Germany. These hotels were previously managed by companies within the Holiday Inns group under management contracts which were terminated upon completion. Each of the hotels was of four star standard and the total number of rooms was 1,706. The total purchase consideration for these properties was £73.83M. [22]

b) the Crest Group which constituted part of Crest Hotels, a subsidiary of the Bass brewing group based in the U.K. of the properties acquired 9 were in West Germany, 6 in Holland and 1 in Belgium. The hotels were all of a three or four star standard and the majority were freehold. In this case the purchase consideration was £73.75M. [23]

In each case the purchase price reflected an open market valuation of the properties carried out by Weatherall, Green & Smith, Chartered Surveyors to the company. These two major acquisitions brought the number of hotels within the group to 116 with a room stock of 11,730. The acquisition made Queens Moat Houses the largest U.K. operator on the Continent of Europe with 36% of its hotels and no less than 43% of its bedrooms now located across the channel. [24]

There was strong commercial logic in these acquisitions as each of the Continental Groups had been built on the business as opposed to the tourist market. The properties were all situated in vibrant commercial centres where the expertise of Queens Moat Houses could be rapidly applied to any situation where profits were not optimal.

The acquisitions were financed partly via a rights issue of £86M, 95.1% of which was taken up by existing shareholders with the balance being sold during September 1987 at a premium of more than 20p per share in the market. The balance was financed via a £300M multi European currency loan at interest rates significantly lower than those prevailing in the U.K. [25] Moreover it allowed the company to match its assets on the Continent of Europe with borrowings in local currencies.

It is worth noting that the origins of these two important deals lay in a global strategic appraisal by the Holiday Corporation (the parent company of Holiday Inns). Subsequent to a major report by hotel consultants Horwath & Horwath, strategic decisions were taken to sell off many Holiday Inn properties outwith the U.S.A. as a defensive measure against a possible unwelcome take over approach. Consequently the brewing group Bass significantly strengthened its position in the hotel industry via a £300M purchase of Holiday Inn properties throughout Europe and in turn decided to relinquish control of the sixteen hotels mentioned above. Some of these had been held by Bass since its first foray into the hotel industry when in 1973 it purchased, for £27M, hotels owned and operated by the oil company Esso. [26]

ANALYSIS OF SUCCESS OF QUEENS MOAT HOUSES

On detailed examination six reasons can be advanced for the continuing success of the company. To a significant extent they rest with the ability of the top management to bet successfully against the crowd.

1. concentration on business market
2. composition of sales mix
3. avoidance of London market

4. expansion on Continent of Europe
5. autonomy for unit general managers
6. timing and content of property deals.

1. The early decision of John Bairstow to concentrate on the business as opposed to the tourist market. This was taken at a time when many of the larger groups were moving in the opposite direction. The decision was vindicated not only by the recession of 1973 to 1975, but by subsequent events which have resulted in many of the hotels becoming focal points within local communities. Linked to the management incentive scheme this has resulted in an extraordinary small turnover of unit general managers. In the words of one of the main board directors the aim of the company is for the local community to perceive the unit general manager as "the local vicar." Where, in matters secular, this can be achieved, the rewards both to the company and the manager involved are considerable. [27]

2. An interesting knock-on effect of this strategy has been that the sales mix in the U.K. provincial hotels shows a higher than average turnover of food and beverage. Whilst these areas of hotel operation carry a smaller profit margin than accommodation, the fact that volume in these areas has been higher than average has resulted in greater than average contributions to overall unit operating

profit. Furthermore it has resulted in improved occupancy percentage as a proportion of food and beverage clients invariably constitute a market segment for accommodation.

3. The decision to steer clear of the London hotel market with its very high entry costs and its reliance on the tourist market. To date the company has only the relatively small Drury Lane hotel in its portfolio. This property was purchased towards the end of the Grand Metropolitan rationalization at, by London standards, the modest cost of £2.25M. The purchase price was substantially less than subsequent individual purchases in the provinces and on the Continent of Europe.

4. The decision, subsequent to the near saturation of the U.K. market, to focus growth on the Continent of Europe as opposed to the U.S.A. To date U.K. firms have had but mixed success across the Atlantic - Imperial made a disastrous foray with the purchase of the Howard Johnson chain of restaurants and suffered considerable capital losses on its ultimate disposal, whilst the Intercontinental acquisition by Grand Metropolitan in 1981 was never fully vindicated in profit terms.

5. The early decision to grant greater than customary autonomy to individual hotel managers. This has resulted not only in increased levels of operating profit but has had the welcome additional benefit of helping to keep head office staffing levels and costs to a minimum. Furthermore, as has already been mentioned, it has resulted in very low levels of staff turnover at unit manager level, with consequent cost savings.

6. The principal reason, however, for the success of the group, which stems essentially from the many years of experience in property dealing of John Bairstow, has been the ability to identify properties which have been acquired at realistic prices and subsequently have been capable both of extension and of being rapidly meshed into the expanding group. Allied to this has been John Bairstow's ability to raise finance which he modestly describes as "knowing my way round the city". [28] The best example of this was the timing of the rights issue of £86M and the parallel multi-currency loan of £300M, both of which were finalized just before the stock market crash of October 19th 1987. Whilst it is fair to say that there was an element of luck about the timing of these transactions, it is equally true to say that there is almost always a very strong correlation between luck and competence. The enduring relationship the company enjoys with the major joint stock banks is indicative of the competence and reputation of the

board of directors. In fact, it is fair to say that, in the post-war period in the U.K. John Bairstow may be ranked second only to Sir Maxwell Joseph as a dealer in hotel property.

A further point of interest is that the top management of the group consists essentially of Bairstow, a property dealer, two chartered accountants and an operations director whose background was in the field of architecture and interior design. None are or have been practising hoteliers. The company thus represents a further example of a group of professionals directing and encouraging individual hoteliers in the arts of business.

There can be little doubt that for all concerned with the company, Queens Moat Houses has been an outstanding financial success. Shareholders lucky enough to have acquired shares in the early days of the company when, for example, they could have been bought for 3p, have seen the value of such shares rise steadily to the point where, at the end of 1988 they were valued at 97p. [29]

In this time the value of freehold and leasehold property, spurred by the sharp acceleration of the property prices in general in the period 1985 to 1988, has risen to more than £1 billion. [30] The billion pound barrier was broken consequent to the 1988 revaluation of properties which disclosed a surplus of £170 million. This underpins the shares value making it all but invulnerable to any short term trading downturn. The company is capitalized at £620 million representing a continuous growth trend in both turnover, which moved from £59 million in 1984 to £234 million in 1988, and pre-tax profit which, in the same period moved from £6.6 million to £42 million. [31] A high level of retentions, £23.7 million in 1988, ensures that profits are ploughed back into the business, primarily to maintain and upgrade the standard of property, plant and equipment. The company now (1989) operate 82 hotels in the U.K. with a further 55 on the Continent of Europe. [32] This balance between U.K. and Continental operations is a further advantage enjoyed by the group compared with those competitors who have no overseas properties.

FOOTNOTES

1. Interview John Bairstow 22/6/87.
2. Extel Card March 1988.
3. ibid.
4. ibid.
5. ibid.
6. Interview John Bairstow 22/6/87.
7. Annual Report and Accounts 1980.
8. ibid.
9. Annual Report and Accounts 1979.
10. Annual Report and Accounts 1983.
11. Interview John Bairstow 22/6/87.
12. ibid.
13. Annual Report and Accounts 1984.
14. Annual Report and Accounts 1986.
15. ibid.
16. Offer Document 15/11/86, Charterhouse Bank Limited.
17. Offer Document 21/8/87, Charterhouse Bank Limited.
18. ibid.
19. Interview Gerry Bell and David Hersey 19.11.87.
20. Phillips & Drew, Stockbrokers - Research Report May 1987.
21. Company Document re acquisition June 1987.
22. Offer Document 21.8.87, Charterhouse Bank Limited.
23. ibid.
24. Company Press release via The McCann Consultancy

December 1987.

25. Document ex lead bank National Westminster October 1987.

26. Financial Times 24/3/73.

27. Interview Gerry Bell and David Hersey 19/11/87.

28. Interview John Bairstow 22/6/87.

29. Annual Report and Accounts 1989.

30. ibid.

31. ibid.

32. ibid.

4. **Trusthouse Forte PLC**

Chairman Lord Forte of Ripley

ORIGINS OF TRUST HOUSES

The history of Trust Houses can be traced to the beginning of this century. At that time inns and inn-keeping in England were in a poor way. The standard of hospitality offered was generally low and drunkenness rife. In the light of these adverse social conditions the fourth Earl Grey, a public figure of influence and standing, later to become Governor-General of Canada, resolved to improve the role of the English inn, and at the same time campaigned to reduce the level of alcohol consumption throughout the population. [1]

Earl Grey conceived the idea that each county in England should form a Public House Trust Company to acquire the leases of inns as they fell due for renewal and then to reform these establishments by installing managers who would be paid a salary together with commission on the sale of accommodation, food and non-alcoholic drink. The sale of alcohol would not be forbidden but it would not be encouraged. [2]

The time was ripe for the redevelopment of the English inn. The advent of the motor car was to launch a massive upsurge in private and commercial travel. As a consequence of the efforts of Earl Grey, several public house trust companies were incorporated. One of the first was the Hertfordshire Public House Trust Company which was formed in 1904. [3]

The first property to come under its control was The Waggon and Horses, Ridge Hill, at St Albans in Hertfordshire. This was to be the forerunner of the established Trust Houses as we know them today. The second was a property at Elstree and the third, The Rose and Crown at Tring (each in Hertfordshire), which was built by Lord Rothschild and leased to the company. [4]

From a commercial viewpoint the early years were not easy and six years passed before the first modest dividend of 2.5% was paid. [5] Nevertheless this vein of altruism was indicative of the nature of the company and this policy persisted until after World War 2. [6] The company grew steadily and by 1919 operated some 100 inns and hotels throughout England and Wales and in addition acquired offices in High Holborn, London as headquarters. In that year the company Trust Houses was formed and the heraldic sign of a stag rampant (from the hart couchant of the old Hertfordshire Public House Trust Company) against a background of sun and star, to denote day and night service, with a garland of wild clematis, or traveller's joy, underneath, was adopted. [7]

The inter-war years were marked by a determination of the part of the company to constantly improve and modernise its properties in a pro-active manner to anticipate the needs and demands of the travelling public. This trend was accelerated subsequent to World War 2 when it became clear that rising standards of living, allied to the high level of hotel operation on the Continent of Europe and in the United States of America, would result in higher standards of service and facilities being demanded by hotel customers throughout the U.K. [8] By 1949 the company owned and operated some 200 properties, in many ways remaining faithful to the original spirit of the trust, a vein of altruism running parallel with the aim to operate profitably.

In 1958 Sir Geoffrey Crowther (later Lord Crowther) became Chairman of the company. He brought to the office a distinguished career extending over the previous thirty years - President of the Cambridge Union in 1928, for nearly twenty years the editor and latterly the chairman of The Economist, an important role in wartime government service, holder of several blue-chip directorships and in 1957 awarded a knighthood. [9] He thus added the qualities of leadership and influence to the experienced management of the company, which at that time was effectively run by three general managers, Messrs Matthews, Tregonning and Breen.

The contribution made by Lord Crowther can best be seen in the many redevelopments and reconstructions of traditional Trust House properties which he initiated, and in the implementation of the first wave of Post Houses which were to serve the travelling public from the mid-sixties. These were shrewdly located usually at or near to motorway junctions. The first one was constructed at Hemel Hempstead near the M1 motorway and was opened in 1965, others following in rapid succession. In addition, steps were taken to increase the roomstock within central London. The Hertford Hotel in Bayswater with 77 rooms, all with private bathroom, was opened in 1961 and the St George's Hotel in Langham Place W.1. was opened in 1963. This occupied the top six floors of a fifteen story block and thus afforded a panoramic view over the metropolis. [10]

During this decade Trust Houses also expanded via acquisition adding Grosvenor House in Park Lane, London W.1. in 1964 at a cost of £9M, and Queen Anne's properties in 1965. In 1968 the company acquired all the remaining shares in Gardner Merchant (in which it had held a controlling interest for some time), the largest industrial catering company in the country, with vending and other catering interests together with a total of some fifteen hundred catering contracts. During the twelve years in which Lord Crowther was chairman (1958-1970) the annual pre-tax profits of the company advanced from less than £1M to more than £4M. Subsequent to the amalgamation with Forte Holdings Limited the pre-tax profit of the company advanced to more than £11.6M by 1971. This was due to the additional £4M profits from Forte Holdings plus improved margins and economies following the amalgamation which, in the first year, resulted in an increase of £3.6M. [11]

FORTE: THE EARLY YEARS

The history of the Forte family is centred on the remote Italian village of Mortale, set on a rocky promontory some 2,500 feet above sea level, south of Rome and north of Naples, overlooking the picturesque Valle di Comino. Here the Fortes have lived for at least five centuries, the most numerous and, in times of peace, the most prosperous family in the locality. [12] This comfortable existence was shattered, however, in 1870 when a member of the Forte family was kidnapped by brigands who demanded a large ransom for his release. The result of raising the required sum was that the entire family was impoverished and many subsequently sought their living outwith Italy, remitting savings home in order to help clear the family indebtedness. [13]

One such Forte was Pacifico, a second or third cousin of Charles Forte's grandfather. He made his way to Scotland, having been told by an Englishman travelling in Italy that Scotland might afford opportunities to young men who wished to pursue a career in either the grocery or catering trades. Pacifico opened a tiny shop in Kincardine-on-Forth and having made that succeed, took on larger premises first in Dundee and then in Loanhead and Biggar, both to the south of Edinburgh and both run by Alfonso Forte, an uncle of Charles Forte. The success of these members of the clan affected Rocco Forte, the father of Charles Forte. He saw that whilst the tranquil life at Mortale (or Monforte as it is now officially known) had certain attractions, the economic prospects for his children were not encouraging. Consequently he determined to go to Scotland himself with the intention that his wife and children would follow him should he meet with success similar to his relatives. In fact this is what transpired and, just one year after leaving Italy, Rocco Forte wrote to his wife Maria Luiga asking her to come to Scotland. It was thus in 1913 that Charles Forte, aged four, arrived at the Waverley station Edinburgh. [14]

Charles Forte lived with his parents in Scotland until he was twelve and a half, first attending a private kindergarten in Alloa, then Alloa Academy and, for a short time St Joseph's College, Dumfries. There he was not happy and his father arranged for him to attend a leading boarding school in Italy where he completed his formal education. [15]

On his return to Scotland, Charles Forte worked for a while in the Savoy Cafe in Alloa, part of his father's catering business. Then it was arranged that he should work with Dominic Forte, a second cousin of his father, who, in partnership with him, owned and operated cafes in the south west of England centred on Weston-Super-Mare. He worked with Dominic Forte for eighteen months. [16] At that time his father decided to sell up his Scottish business ventures and concentrate on the South coast of England where he purchased premises first in Bournemouth, and then in Weymouth and Brighton where Charles Forte, at the age of twenty-two, was given his first management appointment in charge of the Venetian lounge.

Eager and ambitious to set up in business on his own account, Charles Forte set about investigating the possibilities of operating milk bars which were the coming thing in London during the 1930's The result of these investigations led him to open The Meadow Milk Bar in Upper

Regent Street close to the headquarters of the British Broadcasting Corporation. The opening took place in 1935 when Charles Forte was twenty-six. [17] The capital outlay was between £3,000 and £4,000 of which Charles Forte subscribed £500, his father Rocco £1,000 with the balance made up by family friends and business acquaintances. The venture was an immediate success and further units were added, so that by 1939 at the outbreak of World War 2 Charles Forte operated six such bars in central London and had taken into partnership Eric Hartwell who had joined him, aged, 20, to open the most palatial of the bars, located in Leicester Square. Much later Eric Hartwell was to become joint chief executive of Trusthouse Forte. [18]

Charles Forte was able to operate, albeit on a restricted scale, all of the milk bars throughout the war. For a short time he himself was interned as an alien on the Isle of Man but this incident did not, in the long term, diminish his affection for the U.K. By the end of 1946 when Eric Hartwell was able to rejoin him, Charles Forte was eager to expand on all fronts. [19] In the period 1945 to 1955 Charles Forte acquired the Rainbow Corner in Shaftsbury Avenue for £35,000 in 1948, won the catering contract for The Festival of Britain in 1951, acquired the Criterion Building on the south side of Piccadilly Circus for £800,000 in 1953, and The Cafe Royal in Regent Street for £240,000 in 1954. [20] These acquisitions resulted in Charles Forte becoming one of the principal players on the post-war catering scene in London.

The next business venture was to prove crucial to the career of Charles Forte - the acquisition of his first hotel, in 1958. This was the Waldorf Hotel in the Aldwych at the eastern end of the Strand, less than one quarter of a mile from the illustrious Savoy Hotel. The Waldorf was a freehold site and the hotel was part of Frederick Hotels Ltd., of which Sir Stuart Goodwin was chairman. Because of various other business interests he determined to sell the hotel. Although he did not know Forte he decided to let him have the opportunity to purchase the Waldorf ahead of other interested buyers for the very reasonable price of £600,000. It was a great opportunity and Forte swiftly concluded the deal. Charles Forte financed the bulk of the purchase price by selling the headlease on the Cafe Monico site for £500,000 and implementing a major refurbishment scheme at the Waldorf through a sale and leaseback arrangement with the Prudential Assurance Company, whereby the freehold passed to the Assurance Company in return for which he was granted a ninety-nine year lease. [21] This was altogether a most satisfactory arrangement and launched the now forty-nine year old Charles Forte on his second career as an hotelier.

The operation, management and administration of large hotels is essentially different to the business of catering and Charles Forte was quick to perceive this. He engaged a former general manager of the Dorchester to oversee the Waldorf, and he readily acknowledged the debt he owed John Lee who introduced him to the intricacies of the hotel business and who ensured the success of the Waldorf. [22]

Further diversification in catering took place during the 1950's. A Forte company was awarded the first catering concession at Heathrow Airport and this marked the beginning of the important and profitable airline catering division of the company. Forte also won the first motorway catering concession in the U.K. and the first motorway service station was opened at Newport Pagnall, Buckinghamshire in 1959. [23] By the end of the decade Charles Forte had not only consolidated his original core business of milk bars, but had successfully diversified into the fields of large scale catering and what was to be of greater importance in the long term - hotels.

The following decade was one of continued expansion. The company went public in 1962, the Offer for Sale being oversubscribed forty-three times. [24] In that year pre-tax profits were £603,400 but rose in the following year to £1,342,800. [25] The entire Frederick Hotel Group was acquired through the good offices of Sir Stuart Goodwin and the beginning of an international division was made through the purchase of three major Paris hotels - The George V, The Plaza Athenee and The Tremoille. [26] These were acquired from Madame Dupre, the widow of the former proprietor, and were a notable coup for Charles Forte as they were obtained in competition with his great rival Maxwell Joseph of Grand Metropolitan. In addition, joint ventures were entered into in partnership with British Airways, at that time divided into British Overseas Airways Corporation (BOAC) and British European Airways (BEA), while overseas hotel developments took place in the Mediterranean and the Caribbean. [27]

Less successful was diversification into other fields, the most notable of these being the acquisition of the ice cream firm Mr Whippy. This was subsequently sold at a loss of £500,000. [28] Such mistakes were rare, but in general diversification outwith the by now traditional fields of hotel and catering tended to meet with less success than was originally anticipated. In some cases such as the chocolate firm of Joseph Terry & Sons of York, which was acquired in 1963 at a cost of £4.3M, the company was retained for a number of years eventually being sold in the mid 1970's for £19M. [29] In other cases like the travel firms of Hickie Borman, Milbanke Travel and Swan's, there was a shorter time span between acquisition and disposal, as Charles Forte soon realised the lack of synergy between such firms and his core businesses.

MERGER OF TRUST HOUSES AND FORTE HOLDINGS - TRUSTHOUSE FORTE 1970 - 1988.

By the end of the 1960's it was becoming clear to professional commentators that a merger between Trust Houses and Forte Holdings was a real possibility. Trust Houses had established itself over a long period as a significant force in the hotel and catering industry, as had Fortes in a much shorter time. As shown in Table 4 - 4 each company was of a broadly similar size although, as was to be expected, Fortes displayed a significantly higher degree of gearing. The interests of the companies were similar yet they were in direct competition in surprisingly few locations. Both companies saw that a merger would produce advantages from the deployment of general management, from the build up of marketing systems both within the U.K and overseas, and from the recruitment of suitable staff. Both chairmen perceived it as a merger that would "provide a base on which a truly world-wide company can be built, operating in one of the world's most rapidly expanding industries". [30] The future, therefore looked bright for both partners.

TABLE 4 - 4

TRUST HOUSES LIMITED

Consolidated Balance Sheet (Abridged) at 31st October 1969

CAPITAL EMPLOYED

Fixed Assets		52,304,000
Investments		6,663,000
Current Assets	14,646,000	
Current Liabilities	13,588,000	1,058,000
		£ 60,025,000

FINANCED BY

Ordinary and Trust Shareholders Investment	34,040,000
Preference Shareholders	1,618,000
Minority Interest	69,000
Provision for Rationalisation Costs	1,514,000
Loan Capital	22,784,000
	£ 60,025,000

FORTE HOLDINGS LIMITED

Consolidated Balance Sheet (Abridged) at 1st February 1970

CAPITAL EMPLOYED

Fixed Assets		57,056,000
Premiums on Consolidation of Subsidiaries (Goodwill)		11,429,000
Investments		3,082,000
		£ 71,567,000
Current Assets	20,715,000	
Current Liabilities	19,299,000	1,416,000
		£ 72,983,000

FINANCED BY

Ordinary Shareholders Investment	27,533,000
Preference Shareholders	4,718,000
Taxation Equalisation	1,356,000
Minority Interest	3,709,000
Loan Capital	35,667,000
	£ 72,983,000

Source: Merger Documents, Trust Houses Ltd and Forte Holdings Ltd 1970

Even at this early stage, however, a perceptive observer might have discerned potential problems as far as the overall direction of the combined group was concerned. Fortes were in a position whereby the optimum route to expansion lay in further acquisitions and Trust Houses was an excellent vehicle to achieve this end, having as it did a wealth of fine freehold properties and a recent history of substantial capital projects which would ultimately improve the overall profitability of the group. The original agreement provided that after the merger the board of the new company - Trust House Forte Limited - was to consist initially of an equal number of directors from each existing board. Lord Crowther was to remain chairman of the combined company until May 1972 when, having attained the age of 65, he was to be succeeded by Charles Forte, (knighted in 1970) who in the interim was to serve as Deputy Chairman. Sir Oliver Chesterton of Trust Houses and Sir Leslie Joseph of Fortes were to be Vice-Chairmen. [31] Mr Michael Pickard of Trust Houses was to be Group Managing Director and Mr Dennis Hearn of Fortes was to be Deputy Group Managing Director. [32]

As in many mergers and takeovers, from what to the outside world was a gentlemanly agreement inferring equal partnerships in the new venture, there emerged a power struggle with Lord Crowther declaring his intention of going back on the definite agreement to resign as Chairman, in direct contradiction to a legal agreement between the two parties. In due course, however, the majority of the directors voted in favour of Sir Charles and most of the original Trust House directors resigned, leaving Sir Charles as the key boardroom personality.

In the period subsequent to the merger, which was formally ratified by each board in May 1970, one of the main subsidiaries of the new group under the chairmanship of Lord Crowther was to be responsible for the operation of the U.K hotels. Another subsidiary, under the chairmanship of Sir Charles Forte, was to be responsible for the various catering operations within the U.K. Sir Charles was also to be responsible for the direction of Gardner Merchant (formerly a Trust Houses Company). It soon became clear that in this climate of rivalry, indeed hostility, a new element was introduced through the approach by Allied Breweries to Lord Crowther suggesting a merger.

Displaying an excellent sense of timing, Allied Breweries chairman Sir Gerald Thorley together with two of his directors, Keith Showering and Bernard Carfoot, approached Lord Crowther at the latter's High Holborn office on 18th October 1971 with a view to negotiating a merger - this a mere sixteen months after the Trust Houses/Forte marriage. The proposed merger put a price tag of £127M on THF.

By this time the boardroom clashes within THF were the subject of widespread press comment. [33] Personality differences surfaced, the main one involving Michael Pickard, the first Group Managing Director. Subsequent to criticism of him in a Board of Trade report, not connected with THF, he resigned both his executive responsibilities and his directorship. Ironically he was latterly exonerated from the Board of Trade criticism. In retrospect this was a stroke of luck for Sir Charles and a severe blow to Lord Crowther, widely regarded as Pickard's mentor.

A further development then took place which was to have a critical effect on the outcome of the bid and which was advantageous to Sir Charles and disadvantageous to Lord Crowther. This was the appointment at the instigation of Sir Charles of a new group chairman, Lord Thorneycroft, on November 24th 1971. [34] A former Chancellor of the Exchequer in Harold MacMillan's administration he was a person of considerable influence and reputation. Nevertheless Sir Charles now faced a battle on two fronts - on the one hand the board was split between Lord Crowther and himself, on the other Allied Breweries now wished to take over the entire company, thereby jeopardising both his own future and that of his supporters. One tactical move which he was able to implement between the time of the initial offer and the formal bid made to the shareholders was to increase his personal stake in the company by some 5M shares. His largest single purchase, made with borrowed money, was on December 15th 1971 when he secured 1,905,000 shares at an average cost of 178.3p per share. [35]

In the run up period to the formal offer all parties had been hard at work. December 3rd was a significant day for both sides. Allied Breweries announced that the Council of Trustees of THF which held a special block of shares would not stand in the way of a bidder for the company. It is not known to what extent the council approved of the way in which the power struggle was proceeding within THF. The fact that the Council took no action suggests that they knew full well the implications behind the power struggle and the original agreement which Lord Crowther proposed to break.

Lord Thorneycroft advised the shareholders to take no action until such time as the company met with its financial advisers, merchant bankers S. G. Warburg & Co. Ltd. Allied Breweries were being advised by N. M. Rothschild & Sons.

The formal bid from Allied Breweries was sent to THF shareholders on 17th December 1971. According to Allied Breweries a successful bid would create a company of "outstanding potential, on a world scale". The reason for the delay in the bid was that THF had rejected the informal overtures of Allied Breweries. In the meantime press comment surrounding THF was adverse to the extent that there were suggestions that the company was to be dismembered, presumably in an attempt to thwart any bidder. [36]

The THF response to the bid was sent to shareholders on 20th December. It was made clear that the THF board saw the offer as totally inadequate. By ascribing a price earnings multiple of 20 it valued its own shares at 300p. as against the bid price of 181p. In retrospect this was valuing THF shares somewhat optimistically according to Lord Crowther, who, in fact, very much favoured the bid against the interest of his own shareholders. THF did in fact subsequently meet its hotly contested profit forecast (again contested by the Crowther faction) for the year to October 1972 - proving that the merger was working well under new management, doubling profits in less than two years. Furthermore Sir Charles had made it clear that 300p. was the minimum price at which he would recommend, however reluctantly, THF shareholders to accept the Allied Breweries bid. [37]

The reconstituted board of THF set out its reasons for rejection of the bid in a more detailed statement sent to shareholders on 30th December.

By the early New Year Lord Thorneycroft was in optimistic mood when he wrote to shareholders on January 4th 1972. He indicated that he was of the opinion that, unless substantially raised, the offer from Allied Breweries must surely fail. At the same time he disposed of criticism that had been made by Lord Crowther regarding profit forecasts which, as mentioned previously, were not only achieved but exceeded. Lord Thorneycroft reiterated his earlier advice to shareholders to ignore the Allied Breweries bid. [38]

FINAL APPEAL IN SUPPORT OF BID BY LORD CROWTHER

On the same day Lord Crowther, with the backing of six other directors made his counter appeal. It is a somewhat curious document and on careful reading one has the feeling that it was written in a tone of pique - that the writer and his supporters had been outmanoeuvred - as indeed they had. [39] In retrospect one can see that, from a personal standpoint, Lord Crowther made a serious strategic error when he first agreed to the merger between Trust Houses and Forte Holdings. From that time on his own position was made increasingly vulnerable.

FINAL APPEAL BY ALLIED BREWERIES

On the following day, January 5th, Allied Breweries sent out what was to be its final major appeal to THF shareholders. This indicated that the Allied Breweries offer was now worth 188p. [40] per share as against 125p. immediately prior to the bid. Were the bid to fail informed opinion suggested that the share price would fall back to around 150p. [41] THF shareholders had only days to accept as the offer was due to lapse on January 10th. Allied Breweries pointed out, incorrectly, that under the chairmanship of Lord Crowther, pre-tax profits of Trust House had advanced over a twelve year period from £645,000 to £11,000,000. [42] (The profits, in fact, had advanced from £645,000 to £4,000,000.) Against this, they indicated that Lord Thorneycroft (by applying a p/e ratio of 20) had valued THF shares at 300p. as against the current stock market valuation of 175p. Allied Breweries went on to make the further point that it was apparent that the rifts at board level in THF were irreconcilable and that the best outcome for shareholders lay in Allied Breweries taking control. [43]

FINAL APPEAL BY LORD THORNEYCROFT AND SIR CHARLES FORTE

On the same day Lord Thorneycroft and Sir Charles issued their final appeal to their shareholders. Sir Charles indicated that, in his opinion Allied Breweries were trying to get THF "on the cheap" thereby discounting the growth potential of the shares. He went on to say that in the six weeks immediately prior to the letter he and his friends had purchased £7M worth of THF stock in order to ward off the Allied bid. [44] This could be construed as a neat example of "putting your money where your mouth is". Sir Charles also made the telling point that, as at that date January 6th, there were only two executive directors - Lord Crowther and M. R. Matthews - in the opposing camp.

REPULSE OF BID

By January 10th, the day on which the offer was due to lapse, Allied Breweries had secured only slightly more than 9% of the THF shares. The bid thus failed. On 13th January Lord Thorneycroft and Sir Charles wrote to THF shareholders informing them of the outcome and thanking the majority who had displayed allegiance to the group. Ominously for Lord Crowther it was stated that the uncertainty surrounding his position and those directors who had sided with Allied Breweries was to be resolved as soon as possible. [45]

Allied Breweries retained its holding in THF until August 1978. For sometime after the bid it nurtured hopes that a merger might be feasible but Sir Charles remained implacably opposed to any such notion. Over the years it was not a particularly good investment for Allied Breweries. Also there were a number of informed observers who, from the outset, had disputed the logic behind an Allied/THF merger. In particular they pointed to the ability of the top management of Allied Breweries who might have been unable to successfully assimilate THF and to the fact that two dynasties in one boardroom - the Fortes and the Showerings - was at least one too many.

So the battle was over. It was at times acrimonious but such were the stakes that losing was no small matter, especially for Charles Forte whose family had a significant shareholding in the company. Within a year both Lord Crowther and the chairman of the THF council, The Rt. Hon. The Lord Hacking, were dead. Relationships between THF and Allied were strained in the extreme, and the motivation behind Allied Breweries continuing stake in the company is difficult to vindicate on purely commercial grounds.

The successful repulse of the bid was undoubtedly a watershed in the history of the company. Freed from external constraints the new board rapidly established the strategy for the 1970's which success is best illustrated by the profit statement and consolidated balance sheets shown in Tables 4 - 5 and 6.

It was fortunate for THF and for Sir Charles in particular that the repulse of the Allied Breweries bid happened when it did. It allowed the company during 1972 to largely complete the first wave of Post Houses which had been the main modernising thrust of Trust Houses and which had been implemented by Lord Crowther. The Post House strategy had received a major boost via the Hotel Development Incentives Scheme (HDIS) under the Development of Tourism Act 1969 which made available government grants of up to £1,000 per bedroom for new projects commenced before April 1971 and completed before April 1973. [46]

Close to the latter date the recession of 1973 to 1975 was sparked by the quadrupling of oil prices following the Israeli/Arab conflict. Hotel companies were badly hit by the recession and THF was no exception. Pre-tax profits suffered to the extent that in the financial year to October 1975 the ordinary dividend to shareholders had to be partially met out of reserves. [47] Once the recession was over THF continued to expand both in the U.K., on the Continent of Europe where several de luxe hotels such as the Ritz in Madrid were acquired, in the Middle East, in the United States of America and in Australasia. [48]

TABLE 4 - 5

TRUSTHOUSE FORTE LIMITED AND SUBSIDIARIES

PROFIT STATEMENT 1970-1977 - £

	1970	1971	1972	1973	1974	1975	1976	1977
Trading receipts	141.1	180.1	212.7	271.3	304.0	369.8	451.7	531.0
Trading Profit	13.4	16.4	22.4	29.9	23.8	30.2	40.6	54.3
Profit before Taxation	9.4	11.1	15.7	24.0	11.4	13.3	23.7	38.0
Profit attributable to shareholders (note 2)	6.2	8.7	12.1	16.2	8.9	5.9	10.6	24.5
Earnings per Share (note 3)	7.63p	10.66p	14.50p	19.02p	10.37p	6.84p	11.75p	24.40p
Dividends (note 4)	3.7	6.0	5.6	6.1	6.2	6.2	7.4	8.3
Depreciation	3.5	4.9	5.9	8.7	10.1	11.8	13.3	13.6

Note 1 The figures for 1970 are those for the Forte Holdings Group for the nine months to 31st October 1970, and Trust Houses Group for the twelve months to 31st October 1970, following the merger in June of that year.

Note 2 The profit attributable to the Ordinary and Trust Shares has been adjusted to reflect the change of accounting policy relating to deferred taxation and for 1972 to 1979 is before charging extraordinary items.

Note 3 Earnings per share are based on profits before extraordinary items. The share capitals in issue at the balance sheet dates have been adjusted for bonus issued and for the merger items and for the rights issue in April 1976.

Note 4 From 1972 onwards the dividends exclude the relevant imputed tax credits.

Source: Trusthouse Forte Limited. Published Accounts.

TABLE 4 - 6

TRUSTHOUSE FORTE LIMITED

CONSOLIDATED BALANCE SHEETS (ABRIDGED) 1970-1978 £000

CAPITAL EMPLOYED	1970	1971	1972	1973	1974	1975	1976	1977	1978
FIXED ASSETS	120,788	144,905	205,136	236,166	253,912	270,250	285,200	343,700	432,900
INVESTMENTS	11,420	11,024	14,069	24,450	26,138	25,359	57,800	45,300	40,700
CURRENT ASSETS	44,568	45,233	45,362	62,262	68,803	75,799	101,600	121,600	156,200
TOTAL ASSETS	176,776	201,162	264,567	322,878	348,853	371,408	444,600	510,600	629,800
LESS CURRENT LIABILITIES	42,852	42,206	50,947	60,505	76,838	85,226	91,100	100,300	124,000
	£133,924	£158,956	£213,620	£262,373	£272,015	£286,182	£353,500	£410,300	£505,800
FINANCED BY									
ORDINARY TRUST SHAREHOLDERS									
SHARE CAPITAL	19,634	19,983	20,633	20,814	20,897	20,918	25,100	25,200	25,200
CAPITAL RESERVES	19,842	21,509	55,831	55,459	52,715	55,642	85,500	123,600	206,200
PROFIT RETAINED	14,156	16,749	22,962	32,028	19,055	14,314	15,100	43,800	62,800
SHAREHOLDERS' INVESTMENT	53,632	58,241	99,426	108,301	92,667	90,874	125,700	192,600	294,200
MINORITY INTEREST	2,541	2,656	2,921	5,837	5,344	6,427	3,800	4,600	6,900
PROVISION FOR RATIONALISATION COSTS	843	286	-	-	-	-	-	-	-
LOAN CAPITAL	76,908	97,773	111,273	148,235	156,381	170,596	207,700	212,600	203,200
DEFERRED TAXATION					17,623	18,285	16,300	500	1,500
	£133,924	£158,956	£213,620	£262,373	£272,015	£286,182	£353,500	£410,300	£505,800

Source: Trusthouse Forte Limited. Published Accounts.

The U.K. hotel division was significantly enlarged in 1977 via the acquisition from J. Lyons & Company Limited of three hotel groups:-

a)	Strand Group of Hotels	14 hotels	4735 rooms
b)	Falcon Inns Group Hotels	19 hotels	1517 rooms
c)	Royal Hibernian group Hotels	2 hotels	186 rooms
TOTAL		35 hotels	6438 rooms

[49]

The background to this acquisition lay in various problems confronting Lyons as a result of considerable capital investment in their food manufacturing capacity which had been financed in foreign currency. The value of sterling, in the meantime had dropped, the investments had not yet realised their potential and even a £10.5M rights issue in the previous year had been insufficient to stem the adverse financial position. As a way out of their problems the Lyons directors resolved to dispose of those parts of their business that were not central to their long term strategy of food manufacturing. Their significant portfolio of hotels which, for operational purposes, was divided into three divisions afforded them an optimal solution and their initial offer to THF was taken up with enthusiasm. [50]

As a result of the acquisition the position of THF in London was considerably strengthened by the addition of The Regent Palace with 1,140 rooms, The Strand Palace with 786 rooms and The Cumberland at Marble Arch with 910 rooms. Furthermore, in the provinces the Albany hotels in Birmingham, Nottingham and Glasgow gave THF three modern properties with a combined roomstock of 660 bedrooms. The remaining hotels were of varying size and age - the majority were melded into the regional structure of THF whilst a minority which proved unsuitable were sold. (These were mainly situated in remote parts of the U.K. such as Ardnamurchan in the Highlands of Scotland and Gatehouse-of-Fleet in Kirkcudbrightshire.) The major London hotels and the three Albany hotels were held on long leaseholds while the majority of the remainder were freehold. [51]

A further advantage lay in the timing of the deal which was finalised in January 1977. That being Jubilee Year room occupancies, especially in London, were markedly above average with the result that the new owners were given a flying start and the number of redundancies was kept to a minimum.

From a financial viewpoint the total consideration for the 35 hotels was £27.9M which approximated to a cost per bedroom of £4,300. By any standard this was a financial coup for THF, as to have built from scratch at that time would have cost in excess of £20,000 per room. The consideration was satisfied by an initial payment of £7,2M on completion, with the balance via promissory notes of £5M payable on 31st December 1978, £5M payable on 31st December 1980, £5M payable on 31st December 1982 and the balance of £5.7M payable on 31st December 1984, with each of the notes bearing interest at 5%. [52]

The principal Lyons' directors Geoffrey and Neil Salmon had originally valued their hotels at £35M and it was this sum that they initially mooted with THF. It is a measure of their need to dispose of the properties and the corporate strength of THF that the final figure was not only reduced to £27M, but that it was paid in instalments, the final payment being made nearly eight years subsequent to completion.

Although the acquisition of the hotels of J. Lyons gave THF a pre-eminent place in the U.K. hotel industry there was one particular group to which Sir Charles had long been attracted and which he wished, for a number of reasons, to control. This, of course, was the Savoy Group which comprised not only The Savoy but also the equally prestigious Claridges together with The Connaught in Carlos Place, London W.1. and The Berkeley in Knightsbridge, London SW.1.

Whilst the Savoy may have a reasonable claim to a special place in the affections of the British public and its international clientele it has never actively sought to maximise the rate of return on its invested capital and consequently has on many occasions been vulnerable to the takeover predator. In post war times the best known of these was Harold Samuel via his company Land Securities which bid for the Savoy Group in 1953. This attack was thwarted only after intricate defensive manoeuvres which were highly criticised by the subsequent Board of Trade report produced by Milner Holland Q.C. [53]

During the recession of 1979/1981 the profitability of the Savoy Group was severely diminished to the extent that the group lost £837,000 in the first half of 1980. Knowing that it was highly unlikely that the second half performance would eradicate such losses, Sir Charles, ably advised by S. G. Warburg & Co. Ltd., launched his initial bid for the Savoy Group in March 1981, a month before the Savoy results for the preceding year were due to be announced. The bid was worth £58.4M.

The defence of the Savoy was entwined with its voting structure (deemed by most observers to be archaic) which gave four times as many votes to the "B" class of shares as to the much more numerous "A" shares.

One of the major problems facing the Savoy lay in the open market valuation of its own shares. Were it to suggest that a reasonable bid should be, say at least £75M, it should then have been able to back that with an adequate rate of return on that amount via its pre-tax profits. This, of course, it was unable to do.

Much of the defence, and some of the attack, was taken up in personalised slanging matches between Sir Charles and his son Rocco on the one side and Sir Hugh Wontner and his managing director Giles Shepard on the other. This really did nothing for the respective share prices but merely resulted in additional column inches in the press. Indeed up until the sale of one third of the Savoy accommodation to Ladbroke who redeveloped the area for office space, Sir Charles and Sir Hugh had enjoyed a genuine, albeit low profile, personal friendship. [54] However, the sale of part of the Savoy property (considered by many in the industry as sacrilege but depicted by the Savoy Management as a move in defence of the hotel), spurred Charles Forte to make what can be considered as a "hostile bid".

In June 1985 THF increased the value of its bid for the Savoy. The improved terms were 190p for each "A" share or 126 THF shares for every 100 Savoy "A" shares together with £22.46M or 15 THF shares for every 2 "B" shares. The Kuwait Investment Office accepted this offer as did a number of private individuals and institutions, the result being that THF currently control approximately 70% of the Savoy equity but only some 42% of the votes - owing to the voting structure surrounding the "A" and the "B" shares and various trusts.

Significant blocks of "B" shares are controlled by two Savoy trusts:

a) The Savoy Educational Trust, established as a charity by the Savoy directors, has nearly 250,000 shares with a current (mid 1987) value in excess of £3M. Were this to be invested it would produce an annual income of at least £250,000. In 1985 the income was a mere £6,000.

b) The D'Oyly-Carte Charitable Trust also controlled by directors of the Savoy holds some 324,500 shares with a current (mid 1987) value of between £4M and £5M. Whilst this might be expected to produce investment income close to £.5M, in 1985 the actual income was a mere £8,000. [55]

At the time of writing the overall position remains uncertain. Voting control of 5% of the "B" shares is vested in these two trusts. As may be seen, in neither case does the income represent a reasonable return in relation to the capital value. It is likely that sooner rather than later the Savoy directors will have to adopt a more realistic attitude towards the operation of each of the trusts which currently serve to frustrate the efforts of THF to gain control of the Savoy Hotel Company.

Certainly as each layer of the Savoy defence has been stripped away, latterly via court action, the position of both the Savoy group and its intractable directors is becoming increasingly vulnerable. Assuming that THF do eventually gain control it will then be up to Lord Forte and his successors to vindicate their claim that they can significantly improve the profits of the Savoy group, whilst simultaneously preserving its high standards of service and unique ambiance - as they have successfully achieved in other notable purchases including the three luxury hotels in Paris and the Ritz in Madrid.

INTERNATIONAL DEVELOPMENT OF TRUSTHOUSE FORTE

Outwith the U.K. Trusthouse Forte have a significant number of hotels on the Continent of Europe together with three in the Middle. East and extensive interests throughout the United States of America. In addition there are seven properties in the Caribbean and Bermuda.

Trusthouse Forte commenced serious expansion on the Continent of Europe in the late 1960's when, subsequent to Maxwell Joseph being unable to persuade the widow of the proprietor Francois Dupre to sell, Charles Forte engineered the acquisition of three of the best known hotels in Paris - the George V, the Plaza Athenee and the Tremoille. Further acquisitions followed in the 1970's and 1980's, the most notable being that of the Ritz Hotel in Madrid in 1981. By the end of the decade the 22 hotels on the Continent of Europe had 3,968 bedrooms, generated £130M turnover and £17M operating profit. Seven of these were incorporated into the Exclusive group of THF hotels whilst the remainder were essentially resort hotels. The European hotels gave the company a distinctive presence on the Continent but their geographical dispersion did not allow the economies of scale that it enjoyed in the U.K. and to a lesser extent in the U.S.A.

The origin of the company's involvement in the United States of America may be traced to 1967 in which year Trust Houses, along with various other operators, acquired TraveLodge International of San Diego, California who operated a chain of 438 motels and motor hotels in the U.S.A., Canada and Mexico. Subsequent to the 1970 merger Trusthouse Forte increased its shareholding to 95.5%, simultaneously selling Travelodge, Australia which had been the vehicle for Trust Houses original investment in the Travelodge operation. [56]

Initially the TraveLodge operation was very downmarket. Some 250 of the outlets were joint ventures with individual operators, Trusthouse Forte providing the land and the centralised reservation service. A further 160 TraveLodges were franchised and the remaining few operated via a management contract. For some 10 years Trusthouse Forte adopted a hands-off approach to the TraveLodge operation. Performance and profitability remained poor, however, so during the 1980's THF assumed a hands-on approach, overhauling the operation, raising standards and generally moving the operation gently up-market. Of the 473 units operated in 1988, 403 were basically rooming operations and 68 provided in addition full food and beverage facilities.

The geographical dispersion of TraveLodge covered 44 states with a strong concentration in the west, California alone having 159 lodges. TraveLodge is the fourth largest operation of its kind in the U.S.A. with 37,980 rooms, but even with this number it is less than half the size of the market leader Day Inns/Lodges. The profit performance of TraveLodge is mainly restricted by the fact that still nearly half the operations are joint ventures, and for these THF receives only a franchise fee together with royalties extending to 3% of gross room revenue. [57]

In addition THF operates five Exclusive hotels totalling 1512 rooms, the largest of which is the 442 room Plaza of the Americas in Dallas, Texas. The third THF operation in the United States of America is the Viscount chain of 14 hotels with 3897 rooms. These rooms are mainly of four star standard but face considerable competition from larger better known brands such as Marriott, Hilton and Sheraton.

By the end of the 1980's THF hotels in the U.S.A. generated some £250M turnover and £18m operating profit. Whilst these are significant figures they are small in relation to total company turnover and operating profit and small in proportion to the number of properties they represent. [58]

THE COMPANY PHILOSOPHY

The company philosophy was formulated during the early 1970's and clearly reflects the commitment of the company to both customers and staff. [59]

1. To increase profitability and earnings per share each year in order to encourage investment and to improve and expand the business.

2. To give complete customer satisfaction by efficient and courteous service, with value for money.

3. To support managers and their staff in using personal initiative to improve the profit and quality of their operations whilst observing the Company's policies.

4. To provide good working conditions and to maintain effective communications at all levels to develop better understanding and assist decision making.

5. To ensure no discrimination against sex, race, colour or creed and to train, develop and encourage promotion within the Company based on merit and ability.

6. To act with integrity at all times and to maintain a proper sense of responsibility towards the public.

7. To recognise the importance of each and every employee who contributes towards these aims.

The implementation of the philosophy has been executed at all levels in the company. By adherence to such a philosophy the company demonstrated its professionalism and commitment towards both customers and clients. In being the first major company to adopt such a philosophy it did the industry a notable service, displaying an increasing degree of maturity in an industry which had often been rebuffed by commentators who had contemptuously dismissed hotels and catering as a "candy floss" industry. Subsequently other major groups in the industry published philosophies not dissimilar to that of THF.

RECENT PERFORMANCE OF TRUSTHOUSE FORTE

Since the recession of the early 1980's THF has made impressive strides as indicated in Table. By 1984 sales were in excess of £1 billion and pre-tax profits exceeded £100M. Sir Charles (who was made a Life Peer in 1982, taking the title of Lord Forte of Ripley in the county of Surrey) handed over the role of chief executive to his son Rocco in May 1983. Rocco Forte qualified as chartered accountant after taking a degree in modern languages at Oxford and has considerable practical experience of the hotel and catering industry. In his own words his aim has been "to create a structure and a team" capable of leading what is now a major international concern. [60]

Until recently THF was perceived as having a weakness insofar as it did not have a global brand image in the hotel business as compared with Hilton, Sheraton and Holiday Inns. Rather its hotels, to a certain extent, were perceived as individual properties, many of which were in the de luxe category but lacking uniformity. Of late, however, this weakness is of minimal concern as, internationally, discerning hotel guests are now showing evidence of preferring individualistic properties rather than ones which are uniformly similar as a result of belonging to a chain operation.

FACTORS PRESENT IN SUCCESSFUL DEVELOPMENT OF TRUSTHOUSE FORTE

The successful development of Trusthouse Forte exhibits many of the determinants of success in the hotel industry. From a corporate viewpoint the ability to grow through acquisition and acquisition at competitive prices have been major factors. Linked to these has been the invaluable range of professional advice enjoyed by the company, especially with regard to the repulse of the Allied Breweries bid and the long running battle with the Savoy Group.

The entrepreneurial style of Lord Forte was of major importance in the early years of Forte Holdings Ltd and played an important part in the post merger thinking of the combined board. The best example of this is demonstrated in the successful negotiations for the Strand group of hotels from J. Lyons. The statement of company philosophy which directed efforts towards improving profitability and serving customers represented a clear aim or corporate mission which was executed at all levels in the company. It is relevant that competing organisations in the hotel and catering industry were quick to follow the lead set by Trusthouse Forte in this respect.

Subsequent to the 1970 merger Trusthouse Forte rapidly built and maintained a sophisticated marketing department which was latterly expanded on an international basis to cover all their properties worldwide. The marketing effort is such that the company can guarantee that once an hotel is acquired by THF the occupancies can be raised by as much as 10%, as a result of the sophistication of the international reservations systems that have been installed. It has already been explained that much of the incremental income so generated will filter through as operating profit.

It has to be noted that Trusthouse Forte have adopted a different approach to branding as compared with Hilton, Sheraton or Holiday Inns. Because their hotel properties are so diverse it is difficult to portray any commonality between them. Consequently THF has categorised its hotels e.g. the Post House group, the London Hotels and the exclusive international hotels each with its own marketing and advertising function.

From an operational viewpoint perhaps the principal factor in the successful development of THF has been the considerable annual expenditure on training and personnel programmes designed to improve the skills of operative and supervisory staff. The benefits of such programmes are twofold - they result in higher standards of service to customers and enable staff to achieve job satisfaction and high morale. In turn this can, in many cases, result in promotion to management positions.

FINANCIAL COMMENTARY

A financial evaluation of the performance of Trusthouse Forte reveals a company producing increasing levels of sales and pre-tax profits year on year, backed by a high quality portfolio of property assets whose value has risen dramatically in recent years and in particular during the period 1985-1988 as shown in Table 4 - 7 and 8. Since the merger between Trust Houses and Forte Holdings shareholders have seen their funds grow from £54M in 1970 to £300M by the end of that decade; by 1985 they had reached £916M and by 1988, mainly as a result of hefty revaluation surpluses, to £2.2 billion. These figures are indicative of the asset backing enjoyed by the company, £1.5 billion of which is invested in freehold property.

Profits and earnings display a similar trend. Although pre-tax profits in 1970 were only £9.4M these grew to £38M by 1977 (Jubilee Year). In the 1980's pre-tax profits advanced from £52.3M in 1981 through £129.6M in 1985 to £132M in 1988. Earnings per share rose from 9.8p in 1984 to 22.0p in 1988. Evidence of the increasing strength of the company may be seen also by the rising trend in dividend cover - 2.0 in 1985, 2.1 in 1986, 2.3 in 1987 and 2.6 in 1988.

TABLE 4 - 7

TRUSTHOUSE FORTE PLC AND SUBSIDIARIES

FIVE YEAR RECORD 1981-85

		1985	1984	1983	1982	1981
Sales	£m	1,245	1,131	963	907	833
Gross Trading Profit	£m	184.3	152.1	121.7	107.8	97.7
Trading profit before interest	£m	142.3	114.9	89.6	77.3	71.9
Profit on ordinary activities before taxation	£m	129.6	108.9	84.0	57.4	52.3
Profit attributable to Shareholders	£m	86.7	76.8	63.8	47.6	44.2
Earnings per share (net)	p	11.11	9.84	8.18	6.10	6.94
Dividends	£m	42.5	37.0	32.2	27.5	22.2
Dividends per share	p	5.45	4.74	4.125	3.5	3.0
Dividend cover	times	2.0	2.1	2.0	1.7	2.0
Total assets less current liabilities	£m	1,193	1,126	871	805	763
Shareholders' investment - total	£m	916	829	642	583	553
- per share	£	1.17	1.06	0.82	0.75	0.71
Net borrowings	£m	265	270	215	238	168
Net borrowings ratio to Shareholders' investment	ratio	0.29:1	0.33:1	0.33:1	0.41:1	0.30:1
Current cost - earnings per share (net)	p	9.65	8.33	6.52	4.60	5.12
- dividend cover	times	1.8	1.8	1.6	1.3	1.5
- Shareholders' investment per share	£	1.42	1.24	0.97	0.88	0.83
- assets employed	£m	1,391	1,281	1,002	949	837

Notes:

1. The above figures have been restated where necessary to reflect the current accounting policies of the Group.
2. Profit attributable to Shareholders and earnings per share are before extraordinary items. The earnnings and dividends per share and Shareholders' investment figures have been adjusted for the scrip issue in April, 1984.

Source: Trusthouse Forte Limited. Published Accounts.

TABLE 4 - 8

Trusthouse Forte PLC and Subsidiaries

FIVE YEAR RECORD 1984-1988

		1984	1985	1986	1987	1988	% Growth
Sales	£m	1,131	1,245	1,477	1,778	2,044	16
Trading profit before interest	£m	115	142	158	197	240	22
Profit before taxation	£m	109	130	136	180	232	23
Profit attributable to shareholders	£m	77	87	97	128	172	22
Earnings per share (net)	pence	9.8	11.1	12.4	16.3	22.0	22
Dividends per share	pence	4.74	5.45	6.00	7.10	8.40	15
Dividend cover	times	2.1	2.0	2.1	2.3	2.6	-
Total assets less current liabilities	£m	1,126	1,193	1,568	2,017	3,027	28
Shareholders' Investment - total	£m	829	916	1,100	1,580	2,245	29
Shareholders' Investment - per share	£	1.06	1.17	1.41	2.02	2.87	28
Net borrowings	£m	270	265	515	436	860	-
Net borrowings ratio to shareholders' Investment	ratio	0.33:1	0.29:1	0.47:1	0.28:1	0.38:1	-

Notes:
1. The above figures have been restated where necessary to reflect the current accounting policies of the Group.
2. Profit attibutable to shareholders and earnings per share are before extraordinary items.
3. The percentage growth column above reflects compound growth over a five year period from 1983.

Source: THF Annual Report 1988.

the principal source of trading profit remains hotels which, in 1988, on sales of £759M generated £153M out of a total of £240M. This was followed by public catering with sales of £484M generating £58M, and contract catering where sales of £741M produced operating profits of £30M. Contract catering is an especially competitive field where margins are relatively small. On a geographical basis the U.K. produced sales of £1.5 billion out of a total of £2.0 billion with the remainder split roughly 50:50 between the Continent of Europe and the United States of America.

Over the years borrowings have tended to be lower than average for the industry, and certainly lower than some of their major competitors such as Norfolk Capital, Mount Charlotte and Grand Metropolitan. At the end of 1988 net borrowings stood at £860M compared with shareholders funds of £2.2 billion. A gearing ratio of 38% is very reasonable for such a strongly based company and places no undue pressure on the level of operating profits. Overall it is fair to say that Trusthouse Forte has made impressive strides since the merger of 1970. Not only is it now one of the leading hotel companies internationally but it also has the financial strength and standing, should it decide to make further major acquisitions both on the Continent of Europe and more especially in the United States of America.

FOOTNOTES

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3. ibid, p. 14.
4. Jean Wakeman, Trust House Britain (1963, Hodder & Stoughton, London), pp 1 - 20.
5. ibid, p. 21 - 25.
6. ibid, p. 14.
7. ibid, p. 15.
8. ibid, p. 15.
9. Who's Who (1970) London.
10. Jean Wakeman, Trust House Britain (1963, Hodder & Stoughton, London), p. 32 - 35
11. Document issued by Lord Crowther and six directors 4th January 1972.
12. Lord Forte, The Autobiography of Charles Forte (1986 Sidgwick & Jackson, London), p. 2.

13- 13. ibid, pp 7 - 10.

14. Sunday Telegraph Magazine 28th January, 1981, p. 35.
15. ibid, p. 36.
16. Lord Forte, The Autobiography of Charles Forte (1986 Sidgwick & Jackson, London), p. 25 - 29.
17. Sunday Telegraph Magazine 11th December, 1977, p. 69 - 70.

18. ibid, p. 71 - 74.

19. Interview Lord Forte of Ripley 1/4/87.

20. Lord Forte, The Autobiography of Charles Forte (1986 Sidgwick & Jackson, London), pp 57 - 80.

21. ibid. p.. 92.

22. ibid. p. 93.

23. Sunday Times Magazine 11th December 1977, p. 64.

24. Lord Forte, The Autobiography of Charles Forte (1986 Sidgwick & Jackson, London), p. 96.

25. Forte Holdings Limited Annual Report 1963.

26. Lord Forte, The Autobiography of Charles Forte (1986 Sidgwick & Jackson, London), p. 107 - 110.

27. Sunday Times Magazine 11/12/77, p. 66.

28. Lord Forte, The Autobiography of Charles Forte (1986 Sidgwick & Jackson, London), p. 96.

29. ibid, p. 103.

30. Merger Document Trust Houses Limited and Forte Holdings Limited, May 1970.

31. ibid.

32. ibid.

33. Financial Times et al. October 1971.

34. ibid.

35. THF Defence Document 20/12/71 passim.

36. Financial Times et al. December 1971.

37. THF Annual Report 1972.

38. THF Defence Document 20/12/71.

39. Document issued by Lord Crowther and six directors 4/1/72.

40. Document sent to shareholders ex Lord Thorneycroft 4th January 1972.

41. Document sent to THF shareholders by Allied Breweries 5/1/72.

42. ibid.

43. ibid.

44. Document issued to shareholders ex Lord Thorneycroft and Sir Charles Forte 4/1/72.

45. Document issued to shareholders ex Lord Thorneycroft and Sir Charles Forte 13/1/72.

46. S. Medlik and D. Airey, Profile of the Hotel and Catering Industry 2nd Edition (1978, Heinemann, London), p. 129 - 130.

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48. ibid.

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50. ibid, p. 7 - 8.

51. ibid, p. 9 - 12.

52. ibid, p. 13 - 17.

53. George Bull and Anthony Vice, Bid for Power (1961 Elek Books, London), p. 81 - 87.

54. Interview Dennis Hearn 25th June, 1987.

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56. Kleinwort Grieveson Securities 1988. Trusthouse Forte PLC The British Power in World Hospitality (privately circulated) p. 3 - 9.

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58. ibid, p. 21 - 25.

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COMMENTARY ON AND EVALUATION OF INTERNATIONAL GROUPS

From the case studies it may be seen that each group grew and developed in a different manner. It can fairly by argued that, to a large extent, each group grew and developed independent of the state of the economy in general. Whilst the senior management of each group was broadly aware of economic trends within the economy the nature and methods of acquisition employed owed more to opportunistic decision making rather than a response to the economic circumstances of the economy as a whole. This was particularly the case with Grand Metropolitan whose modus operandi was to buy as and when the opportunity presented itself. For THF, of course, the principal deal was the merger of Trust Houses and Forte Holdings - the subsequent acquisition of Strand Hotels from J Lyons, and other lesser deals, were essentially opportunistic purchases. Likewise within the UK, Queens Moat Houses acquired a large number of properties during the 1980's without an overall acquisition strategy being clearly in evidence. What was in evidence was the method of financing - initially via short term debt and in the longer term by a series of successful rights issues.

Also it can be fairly argued that the only company to be managed in a genuinely strategic fashion, at least until the 1980's, was Bass. [61] The formation and expansion of Crest, the acquisition of Esso Motor Hotels and latterly the purchase of Coral, once the Grand Metropolitan bid had been ruled out of court, all bear the hallmarks of underlying strategic direction.

An evaluation of the performance of those companies which operated on an international basis may be linked to the determinants of success in the hotel industry. In particular, to a greater or lesser extent each of the companies portrayed perceived the dual nature of the industry as both a property and a retail business, and capitalised upon this perception.

In the case of Grand Metropolitan, for example, it was the application of this perception allied to advanced sales and marketing methods that resulted in the company coming to the forefront of the U.K. hotel industry, and being acknowledged as the leader in management techniques applicable to the industry during the 1960's. A similar perception of the industry was formed by Queens Moat Houses. This was not surprising, as the respective chairmen were close friends. Indeed, it is reasonable to suggest that, over the years, John Bairstow of Queens Moat Houses acquired considerable knowledge of the intricacies of hotel property deals from Sir Maxwell Joseph, the chairman of Grand Metropolitan - Bairstow was a full twenty years younger than Joseph.

These two companies, it could be argued, adopted the notion of the dual perception of the industry to a greater extent than did either Bass or THF. All four companies, however, would attest to the importance of the timing and cost of their acquisitions, as these played a major part in their successful development.

This determinant of success was particularly evident in the cases of Grand Metropolitan and Queens Moat Houses plus, to a lesser extent, THF. Each company owed its initial rapid development to the property expertise of its founder Joseph Bairstow and, to a lesser extent, Forte. For Grand Metropolitan in the period 1955 to 1968, and Queens Moat in the period 1975 to 1985, the acquisition of property at prices keener than their competitors laid the foundations for their relative superior profitability. In the case of THF the acquisition of the hotels of J. Lyons consolidated the position of the company in the U.K. in general and London in particular.

It should not be forgotten that the location of the hotels acquired by the international groups was a prerequisite for their success. A superior location for any property is the springboard for the successful retailing of accommodation, food, liquor and leisure. If the location is inferior, even the most efficient retailing operation cannot overcome the drawbacks which result.

A further factor which is worthy of mention in the evaluation of international groups is the quality of professional advice. Although this is something which tends to be overlooked by many commentators, it was of significant importance in each of the four cases described. Without the services of the merchant banking firm of S. G. Warburg & Co. Ltd., Grand Metropolitan would not have been able to pull off the spectacular series of acquisitions in the period 1966 to 1972, and in particular the vital bids for Truman, Hanbury and Buxton in 1971, and for Watney in 1972. Likewise, S. G. Warburg was to the fore in the successful repulse of the Allied Breweries bid for Trusthouse Forte in 1971/2. Bass and Queens Moat Houses have been well served by Schroders and Charterhouse respectively.

It could be argued that Bass is the U.K. company where strategic management skills have been most in evidence in the period under review. It is certainly fair to say that the formation of Crest Hotels in 1969, the acquisition of Esso Motor hotels in 1972, Coral in 1980 and Holiday Inn in 1987 were all strategically conceived and implemented. As previously indicated the Holiday Inn acquisition allowed Bass to become the largest hotel operator worldwide. In contrast the growth of Grand Metropolitan, Trusthouse Forte and Queens Moat Houses - certainly in the period 1960 to 1980 - owed more to opportunistic decision making than to formal systems of strategic thinking and strategic planning.

Having identified the factors that led to the success of these international groups, an attempt will be made in the latter stages of the thesis to relate them to the factors present in the earlier case studies, so that a series of factors common to all may be evaluated.

CHAPTER 5 EVALUATION OF CASE STUDIES AND CONCLUSIONS

THE INDEPENDENT SECTOR

The three sectors presented in the case studies - The Independent, The U.K. and the International represent the main elements of continuity and change in the industry since 1945, and delineate the main stages in the growth of the industry. As was shown in Chapter 1, the hotel industry has long been characterised and dominated by the very large number of small independent enterprises. Currently (1993) this sector represents approximately 90% of all hotels but only 67% of the bedstock in the industry. This sector, and the group of case studies, consequently represents both the foundations of the industry and its most enduring features, even although it has suffered major contraction under pressure of competition from inter alia low cost package holidays, overseas travel by U.K. residents, and significant rising costs of operation.

A further consequence is that the case studies in this sector demonstrate the qualities, tactics and strategies of men who not only survived but succeeded in a very difficult market environment. The case studies demonstrate that, traditionally, the small independent hotelier catered mainly for the local market in food and drink. Thus Arthur Neil built a market for The Open Arms at Dirleton, East

Lothian by identifying the demand for food and drink in the immediate area and in the environs of Edinburgh, some 20 miles distant. Having succeeded in this respect he was then able to gradually build the accommodation side of the business which produced additional food and drink revenue. In turn this contributed to profit in two ways; on the one hand accommodation carried a higher margin and the additional food and drink income, in general, attracted only material cost, labour and overheads to a large extent being fixed (Chapter 2).

For some there was a second element of business customers. In the case of George Goring, in addition to a significant and steady stream of overseas customers, particularly from the U.S.A., there were many business clients from central London, some of them high spending. The Goring carried another advantage by virtue of its proximity to Buckingham Palace which resulted in yet another market segment in the form of visiting royalty and members of the diplomatic service (Chapter 2). The balance between the two was determined essentially by the capacity of the individual hotel.

Lastly most small hoteliers also derived some of their sales from a highly seasonal, and erratic, holiday market. The obvious example in this regard is the Metropole where David Baird-Murray had to contend with erratic volumes of business derived mainly from coach parties which did little more than cover fixed costs and thus made but a minimal contribution to profit (Chapter 2). The extent to which Arthur Neil developed the outside catering division of The Open Arms was much greater than that normally encountered in small hotels. His success in this area stemmed both from the power and influence of his personality and his early recognition of the potential of this market segment.

Notwithstanding the great changes in this industry outlined in Chapter 1, it is clear that many small independent hotels still survive on this type of sales mix, but the more successful in this sector have moved ahead by developing niche marketing, specialised advertising (usually through the medium of consortia) and specialised catering facilities. As shown in Chapter 2, Douglas Barrington built the reputation and profitability of The Lygon Arms at Broadway by his sales and marketing forays overseas, mainly to the U.S.A. but also to continental Europe and Australia. Without such efforts, The Lygon Arms would have become just another country house hotel. As it was, the foresight, determination and professionalism of Douglas Barrington enabled it to secure a unique niche in the market.

David Baird-Murray of The Metropole was one of the founders of Best Western which grew to become the largest consortium for middle market independent hotels in the U.K. In a similar vein Douglas Barrington of The Lygon Arms not only was a founder member of Prestige, a consortium embracing some 30 upmarket properties in the U.K. but also participated in the international consortium Relais & Chateaux which allowed only 17 U.K. members. Such efforts exemplify the foresight and business acumen displayed by the proprietors profiled in the case studies.

These three elements, food and drink; business customers and holiday customers, independent of location, have been exploited by the respective proprietors and are demonstrated in different ways by the representative case studies.

Behind this group of strategies, however, lies an unquantifiable and highly subjective element - the personalities and professionalism of proprietors who have succeeded in making a commercial virtue of a personalised 'mine host' service, creating for clients an individual and personal style served in a world increasingly dominated by standard methods of operation. To a certain extent their success may be attributed to a reaction against uniformity and standardisation. For people who are willing and who have the means to pay for a highly personalised style and level of service the rewards both for the customer and the hotelier can be considerable; for the former in terms of comfort and satisfaction both physiological and psychological, for the hotelier in terms of incremental sales and profit.

Furthermore, the professionalism of the hotelier will be evident insofar as he will not, unlike his less experienced competitors, underestimate the spending power of his customers. Indeed, they may well spend more than they intended but will still be satisfied and feel they have received good value for money in terms of accommodation, food and drink consumed together with services rendered.

It is clear that success in this sector is hard won, but that the rewards in lifestyle generally have been regarded, certainly by the hoteliers themselves, as more significant and important than pure financial return.

THE U.K. SECTOR

In contrast, the case studies of the U.K. operators present a quite different set of characteristics. As income and leisure opportunities expanded for the British people in the 1960's, market opportunities beyond that of local areas began to be more attractive, thus encouraging efforts to create and promote nationally based hotel groups. In the formative stage these groups were particularly attracted to developing services to exploit two trends, namely the rapid growth of the business market, and the segmentation of the traditional undifferentiated hotel market into more specialised cost and profit centres based on the provision of accommodation, food and drink. Each had its own customer base in addition to the combination afforded traditional hoteliers.

The development of different market segments created, in turn, opportunities for diversification by horizontal acquisition. A specific and highly influential aspect of this trend was the movement of the brewery groups into the hotel sector thereby seeking to develop retail outlets for their liquor while adding to their market share and turnover. Moreover, and more important, it simultaneously enabled them to diversify into the potentially more profitable provision of accommodation.

In a similar vein Bass (Chapter 4) formed Crest Hotels in 1969 and, from a group of small country hotels, developed new properties during the 1970's aimed specifically at the business traveller. In turn the acquisition of the Coral group in 1980 brought additional hotels in London and extended group coverage within the U.K.

It is also clear from the case studies that the speed and success of the emergence of these U.K. groups was much enhanced by the skills of a small group of men who took advantage of rising property values to combine property acquisition (and in some cases a degree of speculation) with the creation of national group hotel facilities. In this respect the example of Centre/Comfort/Friendly is the most revealing, showing as it does how the Chairman, Henry Edwards and his management team were able to carve out a middle market niche based on:

a) stringent control of costs - not only those related to development and construction but also to operations;

b) marketing techniques aimed at securing not only optimum room and bed occupancy but also high volume food and beverage turnover by way of conference and banqueting business;

c) package deals for both the tourist and buisness market which offered better value for money, in respect of the range of services provided, than their immediate competitors.

In common with the independent group the power of personality is highly significant. In contrast to the independents, where personality was directed to creating the ambience of individual service, in the emergence of the U.K. groups personality was directed to creating individual empires usually accompanied by strong autocratic leadership of groups that were property led rather than hotel services dominated. These circumstances applied both to Robert Peel and the development of Mount Charlotte and to Henry Edwards with regard to Centre/Comfort/Friendly.

It is with the development of this group of hoteliers and hotels that the management of the industry began to develop a more professional character. Indications of this emerged from the late 1960's onwards as corporate management developed national groups of properties by a combined strategy of new build blended with acquisitions followed by refurbishments to group standards. This latter syndrome was much in evidence in the development of the Norfolk Capital Group where the property expertise of Peter Eyles meshed with the merchant banking talents of Anthony Richmond-Watson.

These groups combined property strategies and business values with traditional accommodation and food services, but did so in such a way as to create brand images as part of their identity and market appeal. Thus Peter Tyrie was able to translate the worldwide appeal of the Gleneagles Hotel to both the Caledonian in Edinburgh and the Piccadilly in London.

Finally, the strategies were directed not only at capturing and increasing market share but by moving upmarket, creating specific market areas together with appropriate qualities and standards of provision of a wider range of services than before. Groups who succeeded to a significant extent in this were Mount Charlotte and Norfolk Capital. The former achieved this by adding value to their acquisitions via refurbishment and upgrading, thus enabling higher prices to be charged which benefited profitability. The latter pursued a similar policy with acquisitions in London and by moving their home counties and provincial properties upmarket subsequent to acquisition.

These case studies clearly demonstrate a combination of features, more complex, and quite distinct from the independent sector, designed to ensure national market objectives linked to operational standards of income and costs resulting in levels of profit at unit and corporate level sufficient to produce satisfactory streams of dividends and retentions.

THE INTERNATIONAL SECTOR

The growing maturity of the U.K. hotel industry, linked as it was to a swelling tide of international users, business and holiday, who demanded international standards of provision, triggered the third phase of development in the industry, namely the launch of international hotel groups from a U.K. base and the simultaneous penetration of the U.K. market by groups based in the U.S.A.

Thus new groups of international operators did not develop independently of earlier trends. Two elements developed in the U.K. group phase of development combined to launch the international sector groups. One was the ambition of large U.K. brewery companies to gain international exposure; the other was the property acquisition and financial skills developed in the shaping of the U.K. groups. In embarking on an international strategy the case studies make clear that access to skilled professional advice from merchant bankers, accountants and valuation surveyors was effectively linked to the deployment of well developed property acquisition skills and financial expertise.

In the 1970's Bass expanded in continental Europe through the acquisition of Esso Motor Hotels. Further acquisitions enabled the company to acquire properties in West Germany, Austria, Holland, France and Belgium. By the 1980's, subsequent to the U.K. acquisition of Coral and Centre, Bass aspired to global coverage and this was achieved initially by the acquisition of the international operations of Holiday Corporation in 1987 and latterly by the further acquisition of Holiday Corporation properties in the U.S.A, Canada and Mexico. Grand Metropolitan, having started out as a property driven hotel company, was generally perceived, consequent to the acquisition of Truman in 1971 and Watney in 1972, as a brewery company. The acquisition of Intercontinental in 1980, however, enabled it, at a stroke, to become a global player in the hotel industry. In each of these illustrations professional advice, particularly from merchant bankers (Schroders in the case of Bass and S. G. Warburg in the case of Grand Metropolitan) played an important part in helping each company achieve its objective.

The European expansion of Queens Moat Houses was very much property driven, in a manner not dissimilar to its previous expansion in the U.K. Not having a globally respected and recognisable brand name was one of the reasons for the link with properties owned or operated by Holiday Inns, the result being that by the end of the 1980's Queens Moat Houses emerged as the largest Holiday Inn franchisee in continental Europe. By contrast it was noted in Chapter 4 that the overseas expansion of Trusthouse Forte reflected more of a piecemeal approach. Not having secured a major overseas group during the 1980's was one of the reasons why Trusthouse Forte latterly embarked on a comprehensive rebranding exercise and change of corporate name.

In the international sector, even more than in the U.K. sector, a major factor was that strategy was built upon the assumption of potential capital gain on the properties in addition to dividend and retention streams. This was much in evidence when, in 1987, Grand Metropolitan sold Intercontinental at a profit in excess of £500M after all costs and charges. A further example was the sale, by Scottish & Newcastle Breweries of its Thistle hotel group to Mount Charlotte for £645M in 1989. This represented a strategic withdrawal by the brewery company from the U.K. hotel industry. Simultaneously, the purchase made Mount Charlotte the biggest U.K. operator apart from Trusthouse Forte.

Furthermore, there is the credible contention that the power of personality, so much in evidence in the creation of the U.K. sector, was less significant and was replaced to an extent by institutional managerialism in the creation of these international groups. This was particularly the case with Bass, Ladbroke and Grand Metropolitan. The respective hotel divisions, Holiday Inns, Hilton International and Intercontinental were headed up by executives who were main board directors together with other divisional heads and functional specialists. As main board directors they had considerable power and influence but not as much as those who headed up companies whose only or main activity was hotels. Examples of the latter were Lord Forte of Trusthouse Forte and John Bairstow of Queens Moat Houses.

In total, each of the case study groups identifies significant features on which survival, growth and success come to depend in quite different market environments. In the independents the focus is on personality linked to intuitive niche markets and specialised, indeed, personalised service. In the U.K. groups, market segmentation, managerial professionalism, diversification and property acquisition driven by powerful personalities shaped and influenced the national structure of the hotel industry. Lastly, with the emergence of the internationals, institutional managerialism and professional advice meshed with a potential capital gain property acquisition strategy to create large groups with diversified interests. In the international group strategies of hotel management and the development of potential and, in some cases, realised capital gains strategies appear to operate in virtually unique spheres. This gives a quite unique character to the hotel industry at this level.

In turn this clearly identifies the dual nature of the hotel business. On the one hand it represents a multi product retail operation with differing margins on each product; it is labour intensive with high break even levels above which incremental revenues, especially with regard to accommodation, mostly filter through as incremental operating profit. On the other, it represents investment in property with potential capital gain determined by the cost of initial acquisition together with the profitability of the retail operation. It is this duality that makes the hotel industry different from others and from which the industry derives its uniqueness.

CONCLUSIONS

Having now examined and evaluated selected companies in the independent, property and international sectors of the U.K. hotel industry, it is possible to discern certain factors which have been at the core of their successful growth and development. The growth and development of major firms have been influenced by their ability to perceive the dual nature of the industry as both an investment in property assets which, in the period under review, appreciated in value, and a retail operation with inherent added value characteristics. The criteria for success, and the lack of it, can be distinguished within this essential duality on the property side, by the importance of location and the techniques associated with successful acquisition. Furthermore, the quality of professional advice enjoyed by certain of the major firms has been crucial to their success.

From the retail perspective the successful implementation of management techniques associated with marketing, the maintenance of standards and the control of operating costs have been crucial in optimizing profitability.

1. DUALITY OF INDUSTRY AS PROPERTY INVESTMENT AND RETAIL OPERATION

The evaluation of the twelve case studies reveals that an important contributory factor to the success of any company has been the ability of the hotel operator to recognize, adopt and exploit a dual perception of the business. It is via the expert matching of the inherent and potential value of the property in terms of environment, location and size to the retailing of accommodation, food, liquor and leisure that the potential capital gain attributable to the property may be realised. Indeed, this syndrome has applied to the industry in general throughout the period under review and was particularly relevant to the period 1981 to 1988, during which there was a marked upsurge in property prices at all levels throughout the industry.

The post war period in general and the 1980's in particular were marked by an increasing awareness by companies large and small of the techniques available to specialist retailers. In this context, mention should be made of Peter Tyrie, who spearheaded the retailing of health and leisure facilities in the Gleneagles group which was formed in 1981, and the major brewing groups, of which Bass is perhaps the best example, who pursued sophisticated retailing policies by means of the implementation of strong brand names for both accommodation through Crest, which name they adopted in 1969, and the Holiday Inn acquisition of 1987, together with food and beverages through the medium of the Toby restaurant chain.

2. LOCATION

The importance of location in the hotel industry has been stressed by many writers, commentators and operators, none better known than Conrad Hilton whose dictum regarding potential hotel profitability was "site, site and site". This dictum was adapted slightly by Lord Forte who, in his autobiography, wrote of "site, site and management". (1)

Each of the case studies demonstrates to a greater or lesser degree the importance of location. In the independent sector the location of The Goring Hotel, equidistant from Buckingham Palace and Victoria Station, has been, since its opening in 1910, the underlying factor in its continuing success. By contrast, the location of The Metropole in Llandridod Wells with a population of 4,200 and only 20,000 people within a radius of 25 miles, has been the underlying factor and largely explains the relatively poor profitability of that hotel throughout the post war era.

Country, as opposed to urban locations can only be profitable when they have the backing either of a natural tourist destination as is the case with The Lygon Arms, Broadway, Worcestershire or where they have the backing of an internationally known name as in the case of Gleneagles. Clearly the better the site in an urban location the more expensive the property will be to acquire. It is in this field that the property skills of such men as Sir Maxwell Joseph and John Bairstow laid the foundations for their respective hotel empires.

The importance of location is evident in other studies though perhaps not to quite to the same extent. Certainly many of the purchases made, for example, by Henry Edwards, (Green Park Hotel, Mayfair) Robert Peel, (Kingsley Hotel, Holborn, London) and Peter Tyrie, (Piccadilly Hotel, London) were the result of careful research, expert advice enhanced by intuitive recognition for above average value for money, combined with development potential. The acquisition of Celebrated Country Hotels, engineered by Peter Eyles, represented an important stage in the development of the Norfolk Capital Group. It gained the company a clutch a four country properties set in extensive grounds in sought after locations. Moreover, the timing of the deal was such that within a year one hotel could have been sold at the price paid for all four. Robert Peel's acquisition of the Mount Royal and the Kennedy in London from Grand Metropolitan are good examples of the skilful development of Mount Charlotte Investments.

It is clear that where the location of a property is sound the potential for profit and capital appreciation is considerable, whereas even the most efficient standard of operation cannot overcome the inherent disadvantage of an inferior location.

3. TECHNIQUES AND TIMING OF ACQUISITION

It is a truism that no business can remain the same size for long; it will either lose ground to its competitors and diminish, or it will build its market share and grow by a variety of methods according to circumstances. Within the hotel industry it is true to say that the majority of the major firms have grown from modest beginnings since the end of the Second World War. To a large extent this is also the case internationally where such firms as Hilton, Sheraton, Intercontinental and Holiday Corporation are all essentially post war creations.

To a significant extent expansion by acquisition may be perceived as one of the principal themes of the thesis. Indeed without the expansion of what are now the major firms within the industry the thesis could not have been written in its present form. What the development of the industry displayed was the ability of such men as Bairstow, Forte, Joseph and Peel to build large firms from very modest beginnings. In the case of Bairstow the first hotel was his own house suitably enlarged and converted.

Successful expansion for each of the major companies called for a broad range of top management skills. Prominent amongst these is intuition, which applied to the four hoteliers mentioned above, though not in equal measure. It was an attribute Joseph enjoyed in abundance; Forte's acquisitions owed much to his being in the right place at the right time; Bairstow's empire grew essentially as a result of a series of opportunistic strikes whilst there is much of the "wheeler dealer" in Peel's personality. The importance of intuition may be illustrated clearly by reference to the quotation of George Steiner and John Miner.

"It is our view that the apparently "intuitive flash" is more the result of digestion of masses of information blended with experience, insight and an intellectual capability of a manager to sift through the irrelevant and focus quickly on the critical. There is no superior approach to superb strategy identification than a brilliant intuitive mind." (2.)

The cost of acquisition is of prime importance to any operator whether the property be short lease, long lease or freehold. The price paid must be such that the operator can finance any loan element of the consideration without undue pressure being put on the operating profit of the hotel. Should too high a price be paid the operator will have great difficulty in obtaining a satisfactory rate of return on capital invested. Indeed if he is highly geared from the outset and pays an excessive price for his property any downturn in business may well have the effect of reducing operating profits (as a result of the high incidence of fixed costs) to the extent that there is insufficient to meet financing costs. Should such a situation persist bankruptcy will loom large. The hotel industry is strewn with examples of properties where the original capital investment linked to the capital structure was such that liquidation inevitably followed. One can cite a trail of examples from the Piccadilly, London, opened in 1908 and bankrupt within eighteen months, to the Harrogate International Hotel in which, within two years of opening, a controlling interest was acquired by Queens Moat Houses in 1987.

Conversely, the acquisition of property at less than full price will be highly beneficial. For an operator starting out in business it should help him through the early critical years; for established operators competitive purchases should help ensure that satisfactory rates of return on capital invested are earned and that any short term downturn in sales volume can be borne without critical impact on post interest profit margins. Such was the case in the early years of Grand Metropolitan where, between 1956-1962, Sir Maxwell Joseph's skill as a valuer enabled him to acquire a series of properties at prices which laid the foundations for the profitability of the rapidly expanding group.

The costs of acquisition are inextricably linked to the timing of all transactions. Clearly large and established companies will be in a position to drive hard bargains when sales are forced upon reluctant sellers. Conversely, in a seller's market even large and established companies have been forced to pay "over the odds" for particularly desirable properties. In this context mention should be made of the acquisition of Gosforth Park Hotel North of Newcastle by Swallow Hotels (a subsidiary of Vaux the brewer) from Mount Charlotte Investments for £27M in 1989 and the purchase of the Caledonian Hotel in Edinburgh by the Norfolk Capital Group from Guinness for £18.5M in 1986. It will be recalled that the Caledonian had been valued on an open market basis by Christie's only five years earlier in 1981 for just £2.3M.

The case studies present many examples of acquisition at less than full price. In the independent sector the purchase by Arthur Neil of The Howard Hotel in 1970 for £46,000 may usefully be cited. In a slightly different vein it will be recalled that the initial open market valuation of Gleneagles, The Caledonian and The North British, carried out by Christie & Co. in 1981, was £12,730,000. Owing to the then weakness in hotel property prices the purchase agreement with British Transport Hotels was for £10,350,000 - a discount of 18%. No more than five years later the three hotels were collectively worth some £75M - a sevenfold increase. The overall result, was that, as indicated in the text, the Guinness group, by their disposals of other properties at a significant profit, effectively acquired the Gleneagles Hotel itself for nothing.

In all cases notable acquisitions have been made with due regard to careful timing. The most striking example of this in the 1970's was the acquisition of the hotel interests of J. Lyons by Trusthouse Forte. In this instance over 6,000 rooms were acquired at an average cost of £4,300 - less than 20% of the cost of construction from scratch. It was the ability of Trusthouse Forte to move rapidly and decisively once it was known that the hotels were on the market that made the coup possible.

In the 1980's the best examples concern Grand Metropolitan and Ladbroke. The acquisition of Intercontinental by Grand Metropolitan in 1981 was the result of patient research and planning followed by an opportunistic strike that resulted in negotiations lasting less than one week. The timing was such that the defending company was left isolated and vulnerable whilst other would be bidders were left at the starting gate. In the case of Ladbroke the acquisition of Hilton International, masterminded by Ladbroke chairman Cyril Stein, was rightly acknowledged the deal of the decade. The properties that Ladbroke purchased in 1987 for £645 were worth at least twice as much by the end of the decade. Again it was the timing of the bid that paved the way for success.

From the perspective of raising finance there is a classic contrast between the success of Queens Moat Houses timing a rights issue just before the crash of October 1987, and the failure of Norfolk Capital Group to complete a similar exercise just a few weeks later with the result that 85% of the issue was left with the underwriters.

4. PROFESSIONAL ADVICE

As the major firms within the industry grew it became clear to the founder directors that in addition to building management structures appropriate to the size of their companies that they would have to rely on a variety of professional advisers, prominent amongst whom were merchant bankers, lawyers, chartered accountants and chartered surveyors.

The outstanding example of the importance of professional advice and the contribution it has made to the development of the U.K. hotel industry in the post war era may be seen by reference to the London merchant banking firm of S. G. Warburg & Co. Ltd. They were advisers to Sir Maxwell Joseph of Grand Metropolitan and were instrumental in helping him achieve his series of successful take over bids both in the period 1966 to 1972 during which major international firms were acquired - viz Liggett (J & B), International, Heublein (Smirnoff) and Pillsbury. Indeed, without their particular expertise it is highly unlikely that he would have been successful in acquiring Watney in 1972. At that time it was the largest take over bid in U.K. business history. During the same period S. G. Warburg & Co Ltd. were also advisers to Trusthouse Forte and played an important and possibly vital contribution to the successful repulse of the attempted take over by Allied

Breweries in the period October 1971 to January 1972. Subsequent to these events both Grand Metropolitan and Trusthouse Forte acknowledged privately and publicly the debt which they owed to S. G. Warburg & Co. Ltd.

Other merchant banking firms have played a prominent part in the development of such firms as Norfolk Capital Group where the chairman of the company, Anthony Richmond-Watson, was a deputy chairman of Morgan Grenfell whose expertise paved the way for the rapid expansion of that company. All major hotel companies retain merchant banks to act for them and the special skills of these firms have played an important part in the growth and development of the industry particularly of those firms which have expanded principally by acquisition.

Reference has already been made both to the perception of the hotel industry as a property business and to the importance of location. It follows, therefore, that the skills of chartered surveyors are much in demand by hotel companies, particularly those bent on acquisition of existing properties. In this field the firms of Knight, Frank and Rutley on the one hand and Weatherall Green & Smith on the other are generally reckoned to be pre-eminent.

In the evaluation of successful companies the role of professional advisers is rarely mentioned. It is fair to say, however, that in the case of the hotel industry the major firms owe a significant debt to the collective and combined efforts of the professional expertise outlined above.

5. TECHNIQUES OF MANAGEMENT

Throughout the case studies examples of specific management techniques were discussed. The most important of these related to marketing, standards and cost control.

In the period under review the two companies that excelled in marketing were Grand Metropolitan in the 1960's and Bass/Crest Hotels in the 1980's. The marketing ability of the former helped the company make the most of its streamlined retailing operation and with all aspects of the property side covered, the profitability of Grand Metropolitan Hotels was second to none in that decade. The marketing skills of Bass/Crest helped bring that company to the forefront of the U.K. hotel industry and this position was consolidated by its Holiday Corporation purchases of 1987 and 1989, which resulted in Bass becoming the largest hotel operator worldwide.

The link between marketing and standards is closely bound up with branding. Once companies can consistently produce standards of accommodation, food and drink that satisfy a particular market the strength of the brand name can be consolidated and goodwill built. It was relevant that each of the major companies operated at several levels in the market, producing standards according to price, brand and market niche.

From the perspective of cost control it was suggested that Mount Charlotte Investment hotels were perhaps the most adept of the major firms in controlling costs. It was noted that this was a major area of difficulty for all groups and the higher the standard of operation the more this was so, because of the increased number of cost centres.

The evidence presented in this thesis has demonstrated the nature of and reasons for the growth and development of the U.K. hotel industry in the period 1945-1989. This has been shown in the independent sector, the sector geared to the U.K. market and the sector where growth and development has been on an international scale.

The most important factor has been the dual nature of the industry as both a property business and a specialised retail business. Within this duality, however, it is crucial to recognize that the property aspects are the more important. In cases where the property aspects are sound, profitability can be ensured by competent management of the retail side. The reverse, however, does not apply. Even the most competently managed retail operation cannot bring about optimum profitability unless all the necessary property aspects are initially in place.

FOOTNOTES

1. Interview Lord Forte of Ripley 1/4/87.

2. George A. Steiner and John B. Miner _Management Policy and Strategy Text, Readings and Cases_, (1977, MacMillan).

APPENDIX I

NOTE ON METHODOLOGY AND BIOGRAPHICAL DETAILS

In order to investigate each company thoroughly it was judged essential to conduct face to face interviews with chairmen and managing directors. In all interviews the optimum degree of informality was arranged; likewise there were no lists of pre-arranged questions or conditioned responses. Rather the interviews, which ranged from 30 minutes to 2 hours, sought to explore the personality and motivation of the subject, to probe the management style of each operation and to evaluate the performance of each company relative to its experience, resources and record of growth. In chronological order the principal interviews were as follows:

Date	Company	Interviewee	Position
1985 November	The Open Arms, Dirleton	Arthur Neil	Managing Director
1986 March	The Goring Hotel	George Goring	Managing Director
March	The Lygon Arms	Douglas Barrington	Managing Director
March	The Metropole	David Baird-Murray	Managing Director
1986 October	Gleneagles	Sir Alan Smith	Chairman
1987 April	Hotels	Ian Q. Jones	Director
		Ian F. Brown	Director
		John Tee	Director
		Sir Alexander Glen	Director
1987 April	Trusthouse Forte PLC	Lord Forte of Ripley	Chairman
June		Dennis Hearn	Deputy Chief Executive

1987	April	Grand Metropolitan	Edward S. Trippe	Director
	June	Intercontinental Hotel Corporation	Sir Stanley Grinstead	Chairman
1987	June	Queens Moat Houses	John Bairstow	Chairman
	Nov		Martin Marcus	Deputy Chairman
			Gerry Bell	Operations Director
			David Hersey	Finance Director
1988	March	Centre Hotels	Henry Edwards	Chairman
		Comfort Hotels	Henry Edwards	Chairman
		Friendly Hotels	Henry Edwards	Chairman
1988	March	Norfolk Capital	A. Richmond-Watson	Chairman
			Peter Eyles	Managing Director

1988 May	Bass PLC		
	Crest Hotels	Pugh Phillips	Managing Director
Sept.		Brian Langton	Chairman
1988 Oct.	Mount Charlotte Investments	Kenneth Pawson	Director/ Company Secretary

In addition video recordings, which are available for use, were made in 1985 with Peter Tyrie, Managing Director of Gleneagles Hotels PLC and in 1986 with Arthur Neil of The Open Arms, Dirleton, East Lothian.

Arthur Neil (2/11/1929) trained at The Central Hotel, Glasgow and The Scottish Hotel School. After a period of National Service he worked in London and on the Continent of Europe. He was engaged as assistant manager at The Open Arms Dirleton in 1954. He became the proprietor and subsequently purchased The Howard Hotel in Edinburgh in 1970 for £46,000. He sold it in 1989 for £1.25M in order to concentrate on the extension and upgrading of The Open Arms.

George Goring (19/5/1938) is a third generation hotelier. Trained at the prestigious Lausanne Hotel School. Proprietor of The Goring Hotel, London, SW1 and The Spa Hotel, Tunbridge Wells, Kent. Over the years has made The Goring one of the best run and most popular hotels in London aimed specifically at the discerning individual traveller.

Douglas Barrington (9/10/1920) was an Australian naval gunnery officer in World War 2. Immediately upon demobilisation he was offered the job of manager The Lygon Arms in Broadway at the time a little known Cotswold village. Subsequent to marketing trips to the U.S.A. the hotel, which he acquired outright, became very well known and was awarded the Queen's Export Award to Industry, the first time such an award had been bestowed upon an hotel. Douglas Barrington sold the hotel to The Savoy Hotel Company in 1986 for £4.75M.

<u>David Baird-Murray</u> (21/3/1931) is a fourth generation hotelier who took over the family property The Metropole in Llandrindod Wells, Powys, Wales at the age of 23. Against the odds he slowly built a sound business. It was not until the construction of a health and leisure centre at the hotel in 1986/87 that the financial future of the business could be called stable. Over the years David Baird-Murray has been prominent in hotel marketing circles and in the promotion of tourism in Wales.

<u>Peter Tyrie</u> (3/4/1946) trained at the Westminster Hotel School in London. After a period in London and the far east he was appointed, at the age of 34, as managing director of Gleneagles Hotels PLC in 1981. He remained in this position until the company was first of all taken over by Bells, the whisky group and then by Guinness the brewers. He then returned to the far east as managing director of the exclusive Mandarin Group.

<u>Lord Forte of Ripley</u> (26/11/1908) Charles Forte was brought to the UK in 1913 at the age of four. After education in Scotland and Italy he entered the family catering business in the south west of England. He went into business on his

own at the age of twenty six setting up a string of milk bars in central London. His catering career expanded rapidly after the war and in 1957 he entered the hotel business when he purchased the Waldorf Hotel in London. In 1970 his firm merged with Trust Houses. He then fought off a takeover bid from Allied breweries. This action resulted in his becoming the dominant personality in the THF boardroom. The firm went from strength to strength in the following years with Lord Forte's son, Rocco succeeding him as chief executive.

Sir Maxwell Joseph (31/5/1910) Born the son of an London east end tailor Maxwell Joseph went into business as an estate agent on his own account at the age of nineteen. After world war two he started to invest in hotels. With the aid of Fred Kobler and Henry Edwards he created Grand Hotels (Mayfair) which he merged in 1962 with Mount Royal (Marble Arch) to form Grand Metropolitan Hotels. This was to become the most profitable hotel company in the UK in the nineteen sixties. Throughout this period Joseph was unsurpassed as a property dealer and his skill paved the way for a spectacular series of takeover bids culminating in 1971 and 1972 with the acquisition of the brewery companies Truman and Watney. These were followed in 1980 and 1981 by acquisitions in the U.S.A. Joseph died aged 72 in September 1982.

Sir Stanley Grinstead (17.6.1924) After war service as a pilot in the fleet air arm Grinstead qualified as a chartered accountant and spent some years in the profession. He joined Maxwell Joseph's organisation in 1957. As managing director of Grand Metropolitan he shaped the direction of the company subsequent to successive acquisitions. He co-ordinated the acquisition of Liggett in 1980 and Intercontinental the following year. On the death of Sir Maxwell Joseph he became chairman, a post he retained until his retirement in 1987. His last major act was the acquisition of Heublein which brought with it the production, manufacturing and brand name of Smirnoff vodka.

John Bairstow (25/8/1930) Subsequent to building a successful chain of estate agents in south east England John Bairstow entered the hotel industry when he converted his own house in Brentwood, Essex into an hotel in 1968. Over the next twenty years the company grew strongly by acquisition first throughout the UK. and then on Continental Europe. By 1989 the company owned and operated over 140 hotels with a combined valuation of some £1.4 billion. Queens Moat Houses is reckoned to be the outstanding success story of the UK hotel industry in the nineteen-eighties.

Henry Edwards (Circa 1924) was brought to the UK as a teenager in the late nineteen-thirties. In the mid nineteen-fifties he joined Fred Kobler and Maxwell Joseph in the formation of Grand Hotels (Mayfair) where he became general manager. At the end of 1964 he left to form first Centre Hotels and when that company was taken over by Coral in 1977, Comfort Hotels. This firm grew rapidly but attracted the attention of Ladbroke who acquired it in 1984. Nothing daunted Edwards founded a third company Friendly Hotels and established it as a sound middle market group.

Anthony Richmond-Watson (8/4/1941) Educated at Edinburgh University B. Com. Anthony Richmond-Watson joined Morgan Grenfell becoming deputy chairman in 1989. His main experience was to lead for the bank in the successful takeover of Bells by Guinness. Morgan Grenfell had also advised Norfolk Capital and the chairman of the hotel group Lady Eileen Joseph, widow of Sir Maxwell, invited Richmond Watson to become chairman in 1984. As a result of the financial muscle of Morgan Grenfell, Norfolk Capital was able to mount a series of acquisitions which initially were successful but latterly were acquired at more than a full price. Subsequent to an unluckily time rights issue in 1987 Norfolk Capital Group became vulnerable to the attention of predators.

Peter Eyles (22/4/1946) Trained in marketing Peter Eyles married one of Lady Eileen Joseph's daughters. The marriage ended in divorce. In 1981 Sir Maxwell Joseph appointed him managing director of Norfolk Capital. In the period 1982 to 1987 the group enjoyed considerable success but latterly Eyles was criticised for paying too high a price for properties especially the St James clubs purchased from Peter de Savary. The position of Eyles became vulnerable subsequent to the 1987 rights issue.

Brian Langton (6/12/1936) After training at the hotel schools of Westminster and Lausanne Brian Langton played a notable part in the rise of Bass/Crest hotels of which he is chairman. He co-ordinated the purchase of Holiday Inns on the continent of Europe and latterly, in conjunction with Bass chairman Ian Prosser, saw Bass become the largest hotel operator worldwide with the acquisition first of Holiday Inns International in 1988 and then the Holiday Corporation itself in 1989.

Kenneth Pawson (24/9/1923) Kenneth Pawson has been associated with the rapid growth and development of Mount Charlotte Investments. Acting as deputy to Robert Peel the pair have been responsible for taking Mount Charlotte from an obscure company which owned a string of run down properties to the second largest hotel company in the UK. The acquisitions culminated in 1989 with the £645M acquisition of the Thistle chain from Scottish & Newcastle in 1989.

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As indicated in the acknowledgements a principal source for this thesis was the Business Information Division of The Financial Times, Bracken House, London. The manager of the division, Anthony Northeast generously made available individual company files stretching back to 1945. The majority of press cuttings in these files were drawn from the following newspapers.

The Times
The Financial Times
The Independent
The Daily Telegraph
The Daily Mail
The Glasgow Herald

In addition the files contained numerous commentaries from a very wide cross section of stockbrokers' reports which proved most useful.