

policy with that of the French and of the United States and Canadian companies to take advantage where possible of favourable import tariffs*. Referring to these developments and to technical assistance given to the French and North American subsidiaries, the *Annual Review* of Courtaulds' Viscose Division for 1964/65 noted that much progress had been made 'in the co-ordination of sales policies in world markets'.

CHAPTER 4

Vertical Integration: Development of Courtaulds Limited's Interests in Raw Materials, Textiles, Garments and Hosiery, Distribution

53. Courtaulds' interests in fibres and textiles range from the production of raw materials to the retail distribution of made-up garments. In this chapter we describe the stages by which the company has reached its present degree of vertical integration. Courtaulds was already established in the silk textile industry when it acquired the United Kingdom rights under the viscose patents in 1904. The first fabric woven from the new fibre was produced in the company's own mills (see paragraph 15) and Courtaulds has stressed the continuing importance of this type of co-operation in overcoming the initial technical difficulties of manufacture and use of new fibres. The company's original continuous filament weaving interests are now incorporated in its subsidiary Samuel Courtauld & Co. Ltd. In 1936 Courtaulds began the commercial production of viscose staple; to demonstrate the use of the new fibre on traditional machinery the company acquired cotton†- and wool‡-spinning mills. In 1935 Courtaulds acquired a small warp-knitting unit and in 1937 a second subsidiary making men's wear. It was at this time Courtaulds' policy to provide demonstration units and technical service to encourage the textile industry to use its fibres, while at the same time maintaining its customers' goodwill by competing with them as little as possible§. The acquisitions described above were intended to serve this end and the company did not extend its textile interests further until the 1950s.

54. Meanwhile the company had already taken the first steps towards securing adequate supplies of certain raw materials by building (in 1916) its Trafford Park works for the production of carbon disulphide and sulphuric acid required in viscose manufacture. In 1950/51, at a time of world shortages and high prices, it added to its chemical interests by taking shares in a joint venture (United

* South American markets were, for example, to be supplied from the United States and Canada; European and Middle Eastern markets from the United Kingdom and France.

† Arrow Mill, Rochdale, purchased in 1934.

‡ Westcroft Mill, Bradford, purchased in 1937.

§ Courtaulds' records suggest that the company was sensitive to the reactions of its customers to its textile activities. Thus, in September 1955 the Courtaulds board discussed the policy of the company's Textile Division and 'fabric selling prices with particular reference to the influence which the Textile Division's selling prices had, or could have, on the business done by other companies producing fabrics from Courtaulds' yarns'. Another minute in the same year refers to 'possible repercussions from buyers of yarn outside the Group if the company obtained an increasing share of a market which was diminishing due to the fall in exports of rayon fabric'.

Sulphuric Acid Corporation) to make sulphuric acid from anhydrite (a native material) besides equipping a new unit to make sulphuric acid from pyrites. At the same time (1951) Courtaulds also sought to secure supplies of wood pulp by the formation of SAICCOR (see paragraph 38), a company intended to produce pulp from eucalyptus saligna. Courtaulds has said that it set up the South African factory with a view to securing 'a cheaper source of cellulose for its viscose operations'. (Pulp made from eucalyptus saligna is not suitable for the production of all types of cellulosic fibres.) The company claims that 'the effect of the venture was not only to provide an additional source of wood pulp, but also to reduce and stabilise world pulp prices', which were liable to sharp rises due largely to the increased and fluctuating requirements of the paper trade.

55. British Celanese, unlike Courtaulds, started as a fibre producer but from a relatively early stage in its life acquired both textile and chemical manufacturing interests. Courtaulds has told us that British Celanese, faced on the one hand by the fragmented structure and the 'backwardness' of the British textile industry (particularly the knitting and silk-weaving sections) and on the other by the need to compete with viscose which had enjoyed a fifteen years start, in effect decided that as the textile industry could not use its yarn the company must use it itself, thereby in turn encouraging others to do so. In the 1920s the company installed large knitting, dyeing, finishing (and later printing) units at Spondon; in the 1930s it set up a series of garment-making subsidiaries besides nine selling subsidiaries using Celanese brand names. By 1957, the date of the merger with Courtaulds, British Celanese had moved towards self-sufficiency in chemical production and had achieved a large degree of vertical integration in the textile and garment fields.

56. Meanwhile, Courtaulds itself had moved towards a more extensive participation in the textile industry. The company's records show that by the second half of 1955 it was reviewing its existing spinning and weaving interests and considering the need to increase both total United Kingdom production of textiles and the company's share of such increased production. Courtaulds has said that it had become increasingly aware of the inherent weakness of the United Kingdom textile industry, traditionally organised on a horizontal basis with each firm specialising in a single process. By 1957 the company had also become aware that its traditional practice of selling its fibres direct to the immediate customer (the spinner, weaver or knitter) was becoming 'inadequate' as the centre of power in textiles was passing to the merchant converters* and large retailers. The company has explained that in a weak textile industry these large customers are able to exercise very great pressure for price reductions with, in Courtaulds' experience, disastrous results on profit margins of textile manufacturers. They are also able to influence the types of fibres to be used; one large retailing organisation had, for example, announced that it was 'eliminating rayon from the major part of the lines sold in its stores'.

57. Over the years, Courtaulds had gradually expanded its original warp-knitting interests, and in 1958, as a first step towards greater integration, the company transferred these interests (together with the former knitting interests of British Celanese) to a new company (Furzebrook Knitting Company) formed

* The merchant converter buys loom state cloth and has it bleached, dyed or printed by a finisher working on commission.

for the purpose and later described by Courtaulds as the largest warp-knitting unit in Europe. At the same time it was also considering plans embracing the textile industry generally and had discussed with certain leading textile companies 'the desirability of setting up a large vertical organisation in the industry with a view to strengthening the competitive position and of removing obstacles from the specialisation of production'.

58. In December 1961, before any further steps had been taken, Imperial Chemical Industries Ltd (ICI) made an offer for the whole of Courtaulds' issued share capital*. This offer Courtaulds successfully resisted. The company has explained that from 1957 onwards it had met increasing difficulties. Between 1957 and 1959 demand for fibres (other than carpet staple) had been reduced to 'a very low level'; a recovery in mid-1959 (when Courtaulds' profits reached a record) had been followed by a further decline in mid-1960 and by poor trading in 1961. The company's Stock Exchange quotation was correspondingly low and did not reflect the effects of technical achievements which Courtaulds knew to be 'just round the corner'. Courtaulds has said that it considered ICI's offer unacceptable both because the price was in itself insufficient (a contention, Courtaulds submits, which has since been amply justified) and because of the 'structure of the companies concerned'; while some members of the Courtaulds board stressed the need to establish 'a fibres company of sufficient strength and range of product to compete successfully against giant concerns in the USA and Europe', others feared that 'the massive strength of ICI as a chemical manufacturer would distort the balance of a fibres company which they said should be textile, rather than chemical, orientated'. Courtaulds' records indeed suggest a divergence of view concerning the seat of control and the point at which vertical integration should begin. The unsuccessful bid resulted in some financial re-organisation on Courtaulds' part, but left the company's aims and its internal structure materially unchanged. It did, however, leave ICI the owner of 38 per cent of Courtaulds' equity capital between March 1962 and August 1964, when the holding was exchanged for Courtaulds' 50 per cent interest in British Nylon Spinners (see paragraph 32) and a payment by ICI of £10m over a five-year period†.

59. Having defeated the take-over bid, Courtaulds returned to its plans for reorganising the textile industry. The company has said that by the early 1960s it was becoming increasingly apparent to it that the provisions of the Cotton Industry Act 1959‡ were insufficient to ensure the future and strength of all sectors of the textile industry; new capital and management were needed to achieve re-equipment and re-organisation into the different and more streamlined groups essential if the industry was to become economically viable. Accordingly, in the autumn of 1962, Courtaulds conceived a plan which it called its Northern Project and it entered into negotiations with five major textile groups, namely Lancashire Cotton Corporation Ltd, Combined English Mills (Spinners) Ltd, English Sewing Cotton Co. Ltd, Fine Spinners & Doublers

* ICI and Courtaulds had earlier discussed the formation of a joint company for the production of melt-spun fibres. ICI first raised the question of a merger with Courtaulds in 1960.

† The exchange was effected in August although the fact that Courtaulds and ICI had agreed to it was announced in April 1964.

‡ The purpose of the Act is to promote efficiency in the cotton industry, chiefly by eliminating excess capacity. It contains provisions for compensation payments and for grants for re-equipment.

Ltd and Tootals Ltd. It was at first envisaged that Courtaulds would acquire the five companies but this was later modified to a scheme whereby the five would exchange their existing shares for shares in a new joint company and Courtaulds would buy shares in the new company by providing relatively large amounts of cash to finance re-equipment. The Board of Trade were informed of the intended re-grouping.

60. At the end of 1962 the then Chairman of Courtaulds decided to inform ICI (as the holder of 38 per cent of Courtaulds' equity) of the plan. ICI was prepared to support it in conjunction with Courtaulds and to take up 45 per cent of the latter's share, although it saw serious shortcomings in the venture. ICI has explained that in its view the Project would have created a large spinning group, but would have perpetuated the horizontal structure of the textile industry and left the need for progressive rationalisation of the later stages of the industry up to the finished fabric stage. ICI believed it much wiser to promote the formation of large textile companies with a considerable measure of vertical integration from the purchase of fibre to the merchandising of the finished fabric, and with versatility in the fibres used and the fabrics produced. Between December 1962 and April 1963 Courtaulds, ICI and the five textile companies concerned together examined the Northern Project in detail. The project was subsequently dropped because of failure to agree on financial terms with one of the textile companies. Thereafter Courtaulds and ICI each pursued policies designed to build up stronger groups in the textile industry.

61. Courtaulds has said that the idea underlying the Northern Project remained fundamental to the company's thinking and indeed gained in importance when the United Kingdom failed to enter the EEC in 1963 and the company realised that it would be dependent on the home textile industry as the main user of its fibres. Results in part similar to those hoped for from the Northern Project were achieved by other means. The initiative was first taken by English Sewing Cotton which in June 1963 successfully negotiated a merger with Tootals. Courtaulds and ICI jointly made available £6m with the promise of a further £4m, for approved development, on terms to be mutually agreed. From May 1963 onwards Courtaulds and ICI agreed that each should retain freedom in this field to act either jointly with or independently of the other and the Courtaulds board decided that in future it should take 'such action independently as the board thought best'.

62. In June 1963, after conversations lasting over several years, Courtaulds acquired 10 per cent of the equity in Carrington & Dewhurst Ltd (Carrington) and in December ICI acquired an equivalent interest. Between December 1963 and January 1965 both companies increased their holdings and Carrington greatly increased its business by making a number of successful take-over bids. Thereafter, while ICI increased its holding, Courtaulds decided not to do so, with the result that by January 1965 ICI held 15 per cent and Courtaulds 7½ per cent of Carrington's enlarged equity capital. Between July and August 1964 Courtaulds acquired the whole of the equity capital of Lancashire Cotton Corporation and Fine Spinners & Doublers, becoming thereby the owner of some 30 per cent of the spinning capacity of the Lancashire textile industry; it also acquired the whole of the equity capital of Greenhalgh & Shaw Ltd and J. & J. Hayes Ltd. Courtaulds had already acquired a number of garment and textile manufacturing companies and from 1964 onwards it has continued to extend its interests in these fields.

63. Meanwhile ICI had also been extending its interests, pursuing a rather different policy from Courtaulds. ICI has explained that, while both companies pursued the same aim, Courtaulds, a textile company as well as a fibre manufacturer, did so by acquisitions designed, ICI presumes, 'to build up tied markets for their fibres and to strengthen their own operations in textiles and garments (see Appendix 14, paragraph 44). ICI, a fibre manufacturer only, sought to assist the building up within the textile industry of two or three major groupings by providing financial assistance to selected companies, hoping that they would develop into strong vertical units, not however, controlled by one fibre manufacturer'. In December 1963 ICI acquired 20 per cent in the then equity of Viyella International Ltd (Viyella) together with a substantial preference shareholding, promising additional funds to a total of £10m in the form of an unsecured loan; thereafter Viyella itself began to make extensive acquisitions including British Van Heusen Co. Ltd and Bradford Dyers' Association Ltd. In April 1964 ICI acquired 20 per cent of the equity shares of Klinger Manufacturing Ltd (makers of textile machinery), with promises of substantial loan capital, and in December the same year 20 per cent of the equity shares of Lister & Co. Ltd. In July 1966 ICI acquired 20 per cent of the equity shares of the Northgate Group.

64. As a result of these activities and of similar action by other companies in the textile industry, a number of groupings of textile interests has taken place. The result has been to bring the industry generally and more particularly the Lancashire industry into a smaller number of larger units, each (though in varying degrees) vertically integrated, in place of the horizontal and fragmented structure which, Courtaulds has said, has in the past 'been a cause of unnecessary costs and intensification of the trade cycle' of boom and slump. The following table based on 'very approximate' estimates by Courtaulds shows some of the leading companies engaged in the spinning and fabric making stages and the percentage of total United Kingdom production controlled by each in October 1967. It indicates the effect of the re-groupings referred to above*.

Cotton-type spinning		Fabric making							
		Weaving				Knitting			
		Continuous filament		Spun yarn		Warp		Circular	
Group	%	Group	%	Group	%	Group	%	Group	%
Courtaulds	30	Carrington & Dewhurst	30	Viyella	10	Courtaulds	30	Courtaulds	15
Viyella	10	Courtaulds	20	Courtaulds	3	Viyella	10	Nottingham Manufacturing	5
English Sewing Cotton	3	Viyella	10	English Sewing Cotton	3				
Crosses & Heaton	4			Ashton Bros. Carrington & Dewhurst Taylor & Hartley	3 2 2	Northgate Carrington & Dewhurst	5 5	N. Corah (St. Margaret)	5

Note: ICI has direct or indirect interests in Carrington & Dewhurst and Northgate. The company's interest in Viyella was disposed of in September 1967.

* Courtaulds' estimates are not necessarily accepted by the other companies concerned. Viyella has estimated its percentages of total production as:

Spinning	8 per cent	Spun yarn weaving	6 per cent
CF weaving	8 per cent	Warp knitting	11 per cent

Statistics produced by the Textile Council show that in 1966 about 36 per cent of cotton-type spinning capacity, 27 per cent of weaving capacity and 33 per cent of converters' deliveries were in the hands of 27 integrated companies other than Courtaulds, each of them operating at all three stages; no more than a third of total capacity at each stage was in the hands of companies which operated at one stage only.

65. Courtaulds itself has made what it regards as 'a good start' in the modernisation and re-equipment of its textile interests, including the elimination of redundant spinning capacity. The company has estimated that in March 1967 it controlled about nine per cent of total United Kingdom woven and knitted fabric-making capacity. Over the years Courtaulds has acquired a certain number of retail interests, in most cases as the result of the take-over of a manufacturing company which happened to have such interests. Recently it has also acquired certain wholesaling companies (particularly in the Birmingham area), two of them associated with voluntary groups of retailers. Courtaulds has explained that the purpose of these latest acquisitions was to reduce distribution costs and to strengthen the weak position of small retailers. Its total investment in the textile industry and in the related fields of garment making, hosiery and distribution in the period from April 1960 to March 1967 amounted to more than £100m. A list of subsidiaries and divisions within the group is given in Appendix 11; the relationship between the different parts of the group is described more fully in paragraphs 86 to 93.

66. In April 1967 Courtaulds announced its intention of building four new units for weaving spun yarns, thereby redressing the balance between its spinning and spun-yarn weaving capacity. The company has explained that, although numerous offers of existing installations (both spinning and weaving) had been made to it, on investigation it had considered these obsolescent and not ultimately viable in today's highly competitive world situation. The new mills now projected, the first of which is expected to go into operation early in 1968, will be equipped with the most advanced types of looms available, are intended to be highly capital-intensive in terms of investment per operative and will, it is envisaged, operate three shifts seven days a week. To handle their potential output Courtaulds considers it necessary to set up its own merchant converters. If the project is successful, weaving installations within the Courtaulds group will eventually absorb about 25 per cent of the output of the company's spinning capacity and it should within a few years have 'one of the most modern spinning, weaving and finishing installations in the world', highly competitive and able to offer 'an extraordinarily wide range of superior, high quality cloths'.

67. From the description given above it will appear that Courtaulds has acquired its textile interests from various motives. Originally the company was actuated by 'the wish to get closer to the ultimate consumer'. Courtaulds has said that it placed (and still places) 'considerable value on the knowledge' which its interest in weaving and knitting, dyeing and printing, hosiery and garments, converting and merchanting 'bring it of the practical problems of converting its man-made fibres into consumer goods and of the marketing problems of selling those goods. The company believed that those links would enable it to respond much more quickly to the changes it had to face, and that its fibre customers would welcome its practical knowledge of the technical and commercial problems they have to face' in conditions of acute competition.

The company has pointed out that its fabric and garment enterprises, although quite large in themselves, absorb only a small part of the fibres it produces (see paragraph 85). Individually they were expected to remain 'properly profitable' and for this the company recognised that 'they must remain free to buy their materials from any source'.

68. Courtaulds acquired its interests in the cotton industry because it wished 'to play an active part in ensuring that there would in the future be a prosperous Lancashire industry to take its fibres'. The traditional Lancashire industry had been in decline for many years and in the early 1960s it was 'ill-equipped to face the problems posed by its declining sales'; it was absorbing some 30 per cent of Courtaulds' viscose staple output and the company was developing new fibres (namely polynosics, see paragraph 32) to compete with cotton. It was thus Courtaulds' aim both to ensure a continuing market for its fibres and to raise the productivity of the Lancashire industry so that spinning, weaving and finishing would become capital-rather than labour-intensive. As the result of its investment Courtaulds has now acquired 'a sufficient share' in these sections 'to act as a pace-setter'. The company submits, however, that the provision of capital for investment must be dependent on confident long-term planning, which in turn means that the industry must have 'some assurance, in the next few vital years, that the United Kingdom will not continue to be the world's dumping ground for cotton-type textiles'.

69. The company acknowledges that the extent of its textile interests now far exceeds anything necessary purely in terms of know-how and of contact with the consumer. Partly as a result of the more intimate knowledge of individual sections of the industry derived from its acquisitions and faced with a situation of over-supply and the existence of powerful buyers, the company has come increasingly to the view that to survive the textile industry must be able to compete with the best the large buyer can obtain from overseas (including Far Eastern) sources. In Courtaulds' view this is possible only to closely integrated vertical organisations, of which there might be two or three operating in competition with one another. The company's own policy has been modified accordingly and its subsidiaries are likely to enjoy less freedom of action than they did in the past. (See also paragraph 89.)

70. Courtaulds has explained that it was originally a textile manufacturer and in the nineteenth century exercised great influence in the silk industry. In the early 1900s it began to make its own 'artificial silk'; with the 'fantastic financial success' of rayon in its early years the company became a fibre producer and in turn a chemical manufacturer. In the late 1950s, when groping for its 'new role in the scheme of things', it diversified, acquiring interests in such fields as paint and packaging materials, of some of which it has since divested itself. It is now finding its true vocation, becoming 'a major textile company on a world scale which happens to make some of its own' fibres. The company's approach throughout has been empirical and its policy on development and the acquisition of subsidiary interests has been decided in the light of prevailing conditions and the opportunities available to it. It has judged it wise to move into pulp and textiles but not to seek complete self-sufficiency in chemicals, preferring to provide a 'captive market' for other manufacturers who can produce more economically. The company is thus integrating forwards rather than backwards. It has a large existing capital investment in fibres, on which

accordingly it seeks to ensure an economic return; vertical integration is consistent with this objective. The whole trend is towards the formation of a multi-fibre, multi-process textile industry and the traditional distinctions between the various sections of the industry are disappearing; as a group Courtaulds uses all fibres, including cotton and wool, and is much more comprehensive than any other British textile fibre organisation. The company submits that some major continental fibre interests are adopting a similar policy of vertical integration.

71. The company anticipates that its textile subsidiaries will in future absorb a higher proportion of its fibre production than they do at present, but it has not taken any decision on the extent of any further vertical development. The Chairman of Courtaulds has, however, expressed the view that the company 'would work up to something of the order of a 25 per cent share in most branches of the textile industry'*.

CHAPTER 5

Courtaulds Limited

Organisation

72. Courtaulds Limited, incorporated as a public company in 1913, is the successor of Samuel Courtauld & Co. Ltd (see paragraph 15) and the parent company of the Courtaulds group. It has an authorised capital of £123,000,000 (issued £76,735,263). There are 200,000 shareholders; no shareholder or group of shareholders controls over 10 per cent of the voting rights.

73. The governing body of Courtaulds is the main board (composed of Chairman, Deputy Chairman and fifteen directors), with which are associated the central services and functional departments of the group. Under the overall authority of the board are two committees of board members, namely the Operations Executive with responsibility for the main trading activities of Courtaulds' divisions and subsidiaries at home and overseas, and the Policy Executive with responsibility for Courtaulds' minority interests in associated companies at home and overseas. For administrative purposes there is no distinction between subsidiaries of Courtaulds and divisions of the company.

* At Courtaulds' annual general meeting in July 1967 the Chairman gave the following further estimates of the company's actual and possible future shares of total United Kingdom capacity in various sectors of the industry:

Bulking of filament man-made fibre yarns ('a growing part of the processing trade')—15 per cent, expected to increase 'quite quickly' to 20 per cent.

Hosiery knitting—10 per cent, with a target of 20 per cent.

Stockings—'rather more than 20 per cent', with a 'massive modernisation programme in hand'.

Made-up clothing—'modest stakes, except in one or two areas... women's underwear... 20 per cent for example'.

The company's dyeing, finishing and printing works were 'all being modernised and expanded'.

All Courtaulds' Lancashire spinning mills should be profitable by 1970 and the company should then have a fully modernised Spinning Division which, it is estimated, will represent some 35 to 40 per cent of Lancashire spinning capacity. The company's Lancashire weaving interests (currently 'quite small') should by 1969 give it capacity equal to about one-quarter of its spun yarn output, a figure which may have to be increased to 50 per cent by the early 1970's.