

Initial PLC

History and development

4.1. The major development in the history of Initial occurred in 1968 when it merged with Allied Industrial Services Ltd (Allied), another company engaged in the textile maintenance industry. Their activities overlapped to some extent, but were broadly complementary.

Initial Services Ltd

4.2. Initial Services Ltd (Initial Services) had its roots in an enterprise launched in 1903 to provide a linen rental supply service, a concept virtually unknown in Europe at that time. Each item was, and still is, marked with an initial for a personal service and the name 'Initial' was used from the start. Using the services of an outside laundry in London, Initial Services grew rapidly and by the outbreak of the First World War had established provincial branches in Glasgow, Manchester and other cities. Initial Services moved to its present premises in Goswell Road, London EC1, in 1913 and later used part of the site to set up its own laundry, the first to specialise in processing rental linen in this country. The first public limited company using the name 'Initial' was formed in 1928.

4.3. Between the wars Initial Services broadened the scope of its activities by:

- (a) introducing workwear rental in 1928;
- (b) starting to manufacture workwear in 1935; and
- (c) acquiring a licence to operate the 'continuous towel' system in 1937.

At the same time it acquired domestic laundries and so built up its own network of linen processing plants and a substantial domestic laundry business. In 1959 the company undertook a major reorganisation to strengthen its organisation and encourage increased investment in the business. Separate trading divisions were later set up to handle the different aspects of the company's business, and the largest of these was sub-divided on a regional basis. Reporting lines were established from the divisions to the Board of directors.

4.4. Following this reorganisation Initial Services continued to grow internally and to expand and diversify by acquisition. Its principal acquisitions included:

- (a) The Scottish National Towel Service with its 24 linen supply routes in and around Glasgow;
- (b) Interior and Structural Cleaners Ltd (later re-named Initial Service Cleaners Ltd) which specialised in the cleaning of the interiors of buildings; and
- (c) The Dudley Hill Engineering Co Ltd (since re-named Dudley Industries Ltd) which specialised in the manufacture of towel cabinets.

4.5. **Strattwell Development Ltd (Strattwell)**, a joint venture company formed by **Advance Services PLC** and **Initial Services** to provide assistance with research and development, was established in 1961. This company is now registered by the **British Standards Institution** and provides testing facilities and technological assistance to many sectors of industry. One of its major developments was a machine for continuous processing of cabinet towels.

Allied Industrial Services Ltd

4.6. Allied owed its origins to a business founded in 1864 to operate a laundry service collecting, washing and drying rags used for cleaning industrial machinery. In 1900 this enterprise merged with two other businesses and in 1914 the company commenced the manufacture of its own cloths. The company's services were diversified by the introduction of a cleaning cloth rental service, and in 1928 it entered the workwear rental business.

4.7. Allied was floated in 1934; the business continued to expand, and made several significant acquisitions, notably:

- (a) in 1958 the Scottish laundry group of **A Bell & Sons Ltd** was acquired with its laundry, dyeing and dry cleaning businesses and its interests in industrial and hotel linen supply services;
- (b) in 1961 Allied purchased the cleaning cloth business of **Saul D Harrison Ltd** in Rochdale;
- (c) in 1962 **General Industrial Cleaners Ltd**, also in the workwear business, was acquired; and
- (d) in 1965 Allied purchased an interest in **Metlex Industries Ltd**, a manufacturer of bathroom equipment.

Developments between 1968 and 1983

4.8. The merger of **Initial Services** and **Allied** formed a group of companies with assets of £26 million employing some 6,000 full-time and part-time employees at 170 premises. It brought together major companies in complementary markets. **Initial Services** specialised in 'clean work' such as towels and coats while **Allied** dealt principally in 'dirty work' (boilersuits and cleaning cloths).

4.9. Expansion continued after the merger both by internal growth and by acquisition. In the early 1970s dust mat rental was introduced. Mats impregnated with an oil that attracts and holds dirt and dust were rented out, regularly exchanged, washed and re-impregnated. In 1973 further ancillary services such as perfumed air sprays and dispensers for soaps, industrial hand cleansers and barrier creams were brought in. In 1977 **Initial Supplies** was formed to sell and deliver a wide range of janitorial supplies such as safety boots, cleaning fluids, industrial soaps and hand cleansers, and cleaning equipment such as brushes and mops. More recently **Initial Automatic Services** has added warm air dryers to the range of washroom services offered. All these items were closely related to the main functions of

the business and the acquisition of Kex Industrial Services Ltd in 1977 added an established business in the rental of cleaning cloths, dusters, mops and mats.

4.10. By 1983 Initial had operating subsidiaries in Holland, Ireland, Germany, Belgium, Spain, Australia, Singapore and Malaysia and the United States of America. All these operations are in laundry, textile rental or contract cleaning and a great deal of hospital laundry work is involved. It also had an interest in a company in France.

Events since 1983

4.11. In May 1983 the Commission recommended that a proposed bid by Initial to take over Johnson should not be permitted. Initial thereupon sought opportunities to extend and diversify its activities at home and to invest further in its traditional operations overseas.

4.12. In the United Kingdom against the background of reductions in the traditional textile rental markets the following features have emerged:

- (a) an extension of washroom services to heavy industry;
- (b) an attempt to negotiate tenders for laundry contracts in the public sector, particularly for the NHS (four such contracts have been won);
- (c) an extension of manufacturing to cover warm air dryers, printed textiles and a new type of dust mat;
- (d) the formation of Fleet Advisory Management Services to provide consultancy and technical services for owners of commercial vehicle fleets; and
- (e) the further development of the group's interests in film production through Titan Productions involving a net investment at 31 March 1984 of nearly £8 million.

4.13. In the same period Initial acquired the relatively small Alpine Services Ltd (a contract cleaning company) and Descaling Contractors Ltd (involved in pipe and sewer maintenance and cleaning). Approximately £500,000 has been invested in Arrow Surveillance Services, a new venture concerned with electronic surveillance and security systems.

4.14. Recent overseas investments include further expenditure of £11.1 million in the USA and £6.6 million in Holland, with the smaller sums in Germany, Spain, Australia and Saudi Arabia and Initial is continuing to seek investment opportunities abroad. Overseas operations accounted for about 40 per cent of Initial's turnover and yielded some 22 per cent of its operating profit in 1984.

Structure

4.15. Initial is structured so that all rental services are provided through trading divisions of the parent company. Manufacturing and other activities unconnected with Initial's principal operations were conducted through subsidiary companies but in 1982 the two textile manufacturing subsidiary companies were restructured as trading divisions. The present corporate structure is shown at Appendix 5.

4.16. Initial operates a decentralised management structure, each unit being responsible for the management of its own operation through either divisional or subsidiary company Boards.

4.17. The Initial Board consists of a non-executive chairman, six full-time executive directors and four non-executive directors. The executive directors form an executive committee responsible for the development of policy and the co-ordination of consequential action. Some facets of its rôle are conducted through sub-committees which include representatives of line management. Administrative decisions are implemented through the Secretarial and Finance Departments. Corporate instructions cover the form and timing of management reports to the Initial Board, particularly on accounting matters, but overall corporate policy is deliberately kept to a minimum so that operating units can remain as autonomous as practicable. Some services are provided by Head Office on a voluntary basis, and operating units run their own sales forces and personnel departments. New trading divisions or subsidiaries can thus be created or added without disturbing the basic structure provided that an Initial director is answerable for each such unit.

4.18. The structure of each operating unit is dependent upon its size and geographical spread. Initial Services Division, with 2,910 employees and 64 locations spread throughout the United Kingdom, is the largest single unit and its structure is shown in Appendix 6. Other units have similar but less complex structures.

4.19. Financial controls are exercised in four principal areas:

- (a) planning;
- (b) management reporting;
- (c) cash flow; and
- (d) capital expenditure.

4.20. Detailed forecasts of trading results, cash flow and capital expenditure are submitted through the supervisory Boards (see paragraph 4.16) to the Initial Board and, once approved, form yardsticks against which performances are measured. A Funds Management Committee, which works closely with the Finance Department, monitors the group's financial activity with particular reference to working capital, taxation, capital expenditure and funding.

Initial and BET

4.21. The extent of BET's holding in Initial is given in paragraphs 3.8 and 3.10. BET is currently represented on the eleven-man Board of Initial by two non-executive directors, one of whom is the present chairman. The independent position of Initial was stated to the Commission in 1982 as follows:

Although, since 1959, the Chairman of Initial has always been a director of BET, BET does not exercise direct management control over Initial.

The effective management of Initial's business is carried out by its executive committee, and no representative of BET attends meetings of that committee.¹

BET told us that this was still the case.

Activities

4.22. Initial's business can be divided into five main activities:

- (a) rental services;
- (b) contract cleaning;
- (c) manufacturing in support of rental services;
- (d) other manufacturing interests; and
- (e) unrelated activities.

Table 4.1 shows the five groups of activities. Items (d) and (e) are of little interest in this inquiry.

TABLE 4.1 Activities of Initial

Function	1984		No of employees†		Nature of business	
	Turnover Home £m	Turnover Abroad	Home	Abroad		
(a) Rental services	96.5	87.0	4,519	3,909	Washroom services, workwear rental and linen hire services. Rental of cleaning cloths. Warm air dryers (on sale or hire). Air filtration and related equipment. (Domestic and contract laundering is included under this heading.)	
(b) Contract cleaning	25.7	15.0	4,828	4,082	Cleaning of working areas in shops, offices, factories, supermarkets and hospitals. (Pest control, janitorial services, sewer cleaning and street sweeping recently added.)	
(c) Manufacturing in support of rental services	17.8	—	858	—	Textile products — cleaning cloths, cabinet towels and dust mats. Workwear garments, washroom equipment, including towel cabinets and warm air dryers.	
(d) Other manufacturing	8.0	—		—		Office beverage service equipment and bathroom fittings.
(e) Unrelated activities	0.4	—		324		—
Total	148.4	102.0	10,529	7,991		
	250.4*		18,520			

Source: Initial.

* Including £20.6 million intra-group transactions.

† Some are part-time. Figures given are full-time equivalents.

¹ Paragraph 7.17 of the 1983 report.

Turnover and market shares in textile maintenance

4.23. Initial told us that the overall range and scale of its participation in the textile maintenance market was as shown in Table 4.2.

TABLE 4.2 Initial: turnover in the textile maintenance home market, 1983

Sector	Turnover £m	Percentage of Initial turnover	Percentage of home market
Cabinet towels	23.4	25.2	39.0
Linen rental	0.6	0.6	1.3
Workwear rental	29.4	31.6	23.5
Dust mat rental	7.8	8.4	26.0
Industrial wiping cloths	15.3	16.5	80.5
Laundry	1.9	2.0	3.8
Ancillary rental	14.6	15.7	58.4
Total	93.0	100.0	17.9

Source: Initial.

Rental services

4.24. Rental services account for some 62 per cent of the group's turnover in the home market and are controlled by four operating divisions. The activities of these divisions overlap at some points. Both Initial Services and Initial Workwear Services deal in workwear rental in different parts of the market, and Initial Industrial Services distributes some cabinet towels processed by Initial Services.

- (a) *Initial Services* provides washroom services, workwear rental and specialised linen hire services. It has 15 processing plants which support a network of 40 distribution branches from which deliveries are made to, and collections from, about 200,000 locations. Specialised services are provided from separate units which are established for that purpose including integrated laundry and distribution units providing linen services to hospitals in the public and private sectors. The division uses 450 commercial vehicles provided on a centrally administered basis and has limited interests in domestic and contract laundry.
- (b) *Initial Workwear Services* provides rented workwear to approximately 450,000 wearers in commerce and industry. The divisional offices are in Bradford where most of the processing is carried out. In general Initial Workwear Services concentrates on larger customers, leaving those with only small numbers of wearers to Initial Services. A 'Clean Room' garment service is provided for those customers who require exceptionally high standards of product protection (in the fields of pharmaceuticals and micro-electronics, for example).
- (c) *Initial Industrial Services* provides three separate services. The rental, washing and distribution of cleaning cloths (approximately 83 per cent of turnover), dust mats (about 16 per cent) and cabinet towels (1 per cent). Cloths and dust mats are processed in one plant at Bradford and distributed through eight depots to customers mainly in the engineering and printing industries. In addition some cabinet towels processed by Initial Services are delivered each week through the same distribution depots to the same customers.

(d) *Initial Automatic Services* has been recently established to develop the market in warm air dryers, air filtration and related equipment. In the main its customers are those whose washroom facilities are open to the general public where vandalism may occur. Dryers are either rented or sold and are covered by servicing contracts. Initial estimates its market share to be about 8 per cent.

Contract cleaning

4.25. Contract cleaning is carried out by Initial Service Cleaners Ltd and its subsidiaries. Its operations cover the cleaning of working areas in shops, offices, factories, supermarkets and hospitals. Pest control, janitorial services and associated supplies, sewer cleaning and street sweeping have recently been added to the range of activities. There are 24 operation centres under five general managers, employing some 640 full-time staff and about 12,400 part-timers. Initial believes its share of the comparatively small part of the total market held by contract cleaning companies to be about 4.5 per cent.

Manufacturing in support of rental services

4.26. (a) *Initial Service Textiles* provides textile products for the rental services divisions. It is currently producing cleaning cloths for Initial Industrial Services, cabinet towels and other towels¹ for Initial Services, and dust mats for both divisions. Sales to external customers including exports have recently increased from 10 to 20 per cent of total production.

(b) *Initial Garment Manufacturing* employs some 340 people producing garments for Initial Workwear Services and Initial Services which make up the vast majority of their requirements. Any small deficiency is made good by purchases from outside suppliers.

(c) *Dudley Industries Ltd*, an engineering subsidiary employing about 110 people, manufactures the majority of the washroom equipment required by Initial Services (such as towel cabinets, warm air dryers, soap dispensers and air fresheners). This accounts for 48 per cent of turnover and the balance goes to Initial's overseas companies (18 per cent) and external sales (34 per cent).

Other activities

4.27. These include:

- (a) Drinkmaster Ltd providing an office beverage service;
- (b) Metlex Industries making bathroom fittings;
- (c) Titan Productions producing films; and
- (d) Equipment leasing.

Financial information

4.28. Initial makes up its accounts to 31 March each year using the historical cost convention.² Table 4.3 summarises its balance sheets at 31 March for each of the last six years.

¹ These towels are mainly hand towels, tea towels etc used in executive washrooms and kitchens.

² Initial discontinued publishing current cost accounts after 1982-83.

TABLE 4.3 Initial: summarised balance sheets

	31 March					£ million
	1979	1980	1981	1982	1983	1984
Fixed assets	59.5	68.4	70.5	91.9	107.1	126.9
Current assets less liabilities other than borrowings	12.9	8.0	8.9	11.8	14.9	28.6
Capital employed	72.4	76.4	79.4	103.7	122.0	155.5
Borrowings*	(16.4)	(14.7)	(11.9)	(26.6)	(31.0)	(50.7)
Net assets	56.0	61.7	67.5	77.1	91.0	104.8
Share capital and reserves	53.9	59.5	65.4	74.8	87.7	59.8
Minority interests	2.1	2.2	2.1	2.3	3.1	3.9
Equity	56.0	61.7	67.5	77.1	90.8	63.7
Deferred taxation†	—	—	—	—	0.2	41.1
	56.0	61.7	67.5	77.1	91.0	104.8
Gross debt/equity ratio (%)	29.3	23.8	17.6	34.5	34.1	79.5

Source: Initial.

* Borrowings consist of loans and overdrafts.

† The increase in deferred taxation in 1984 was largely attributable to the corporation tax changes contained in the Finance Act 1984.

4.29. Table 4.4 summarises Initial's profit and loss accounts for each of the last five years.

TABLE 4.4 Initial: summarised profit and loss accounts

	Year to 31 March					£ million
	1980	1981	1982	1983	1984	
Turnover	128.0	145.3	173.9	210.2	229.7	
Operating profit	17.2	20.3	22.7	28.6	30.6	
Non-trading income	0.1	0.3	0.3	0.2	0.1	
Related companies	—	—	(0.1)	(0.2)	(0.2)	
Interest receivable	0.4	0.9	1.9	2.4	1.9	
Profit before interest payable	17.7	21.5	24.8	31.0	32.4	
Interest payable	(2.0)	(1.8)	(1.9)	(3.9)	(3.7)	
Profit before taxation	15.7	19.7	22.9	27.1	28.7	
Taxation	(4.7)	(7.5)	(7.3)	(8.2)	(8.1)	
Profit after taxation	11.0	12.2	15.6	18.9	20.6	
Minority interests	(0.3)	(0.4)	(0.4)	(0.4)	(0.5)	
Extraordinary items*	(0.4)	(0.7)	(0.2)	(0.9)	(0.2)	
Profit attributable to shareholders	10.3	11.1	15.0	17.6	19.9	
Dividends	(4.0)	(4.8)	(5.7)	(6.8)	(7.8)	
Retained profit	6.3	6.3	9.3	10.8	12.1	
Earnings per ordinary share before extraordinary items (pence)	20.2	22.4	28.6	34.7	37.1	

Source: Initial.

* In 1984 a further £35.4 million was provided out of retained profits in respect of the corporation tax changes contained in the Finance Act 1984.

4.30. Initial's turnover and operating profits for each of the last three years are analysed by activities and by territories in Appendix 7.

4.31. Table 4.5 shows Initial's returns on average capital employed and on net assets for each of the last five years.

TABLE 4.5 Initial: returns on average capital employed and net assets

	1980	1981	1982	1983	1984
Average capital employed (£m)	74.4	77.9	91.5	112.9	138.7
Profit before interest payable and tax (£m)	17.7	21.5	24.8	31.0	32.4
Return on average capital employed (%)	23.8	27.6	27.1	27.5	23.4
Average net assets (£m)	58.8	64.4	72.3	84.1	97.9
Profit before tax (£m)	15.7	19.7	22.9	27.1	28.7
Return on average net assets (%)	26.7	30.5	31.7	32.2	29.3

Source: MMC.