

## Views of other parties on the proposed merger

### Trade unions

8.1. We received evidence from the Scottish Trades Union Congress (STUC), the Amalgamated Textile Workers' Union (ATWU) and the Union of Shop, Distributive and Allied Workers (USDAW).

8.2. The STUC, which told us that it was also representing the views of the TUC, considered that a takeover of House of Fraser by Lonrho would result immediately in the demerger of Harrods. That development would bring about the closure of a number of House of Fraser stores and the shelving of major development programmes for other House of Fraser stores. Thus the STUC believed there would be an adverse effect on consumer choice, not only in the major cities where the loss of House of Fraser stores could have a serious impact on city centre development but also on those smaller communities where House of Fraser represented the only department store in the town centres. Further the STUC submitted that a takeover of House of Fraser by Lonrho could have a serious impact on manufacturing industry in the United Kingdom. House of Fraser bought substantially from United Kingdom industry (notably in textiles) and any curtailment of House of Fraser's activities or the sourcing of supplies from elsewhere would thus affect it.

8.3. For the reasons given in the preceding paragraph the STUC believed that a takeover of House of Fraser by Lonrho 'would have a serious negative impact on competition, consumer choice and employment across a range of communities and industries in Britain'.

8.4. The ATWU was opposed to any merger between House of Fraser and Lonrho on three grounds. First, in recent years House of Fraser had increased its sourcing from United Kingdom suppliers of textiles and clothing. Employment in these industries was increasingly dependent upon the willingness of retailers in the United Kingdom to sell their products. Lonrho might develop House of Fraser stores as outlets for its overseas activities at the expense of United Kingdom suppliers. Secondly, many House of Fraser stores would be closed to provide Lonrho with revenue from the sales of the assets. This would affect United Kingdom suppliers to House of Fraser and also lead to House of Fraser staff losing employment. Thirdly, continuing uncertainty flowing from 'battles' between House of Fraser and Lonrho affected not only the two participants but also those who did business with them. In particular, it was difficult for suppliers to conduct effective manpower and investment planning while the future of one of their major customers remained uncertain.

8.5. USDAW said it had come to the conclusion that its 1978 analysis of the possible consequences of a merger between Lonrho and House of Fraser remained valid (see the SUITS report, paragraphs 7.6 to 7.10). The members of USDAW were apprehensive of the results of Lonrho acquiring control of House of Fraser. They believed that the House of Fraser should continue to hold its position as a centre of excellence and a dominant force in the

departmental store sector. They further believed that Harrods was vital to the success of the House of Fraser group in view of its significant contribution to group profits.

8.6. USDAW told us that it had spent much time with representatives of both Lonrho and House of Fraser evaluating their respective intentions for the group. It had concluded that while House of Fraser remained heavily committed to its retail operation, Lonrho's major motivation in seeking to take over House of Fraser was the potential of House of Fraser to help meet Lonrho's own financial needs. USDAW was particularly concerned about the possibility of Harrods becoming a separate trading organisation from the rest of House of Fraser which, it thought, would then be sold with consequent unemployment for the group's staff.

### **Suppliers to House of Fraser**

8.7. Some two dozen suppliers of a wide range of goods and services to House of Fraser sent us their views on the proposed merger. They expressed satisfaction with their relations with House of Fraser and with the group's performance. They were generally fearful that Lonrho's lack of experience in department store retailing would result in a deterioration of the existing position, with the closure of some stores, and that preferential treatment as suppliers would be given to Lonrho's subsidiaries at home and overseas.

### **Local authorities**

8.8. Sixty-four local authorities from every tier of local government in England, Scotland and Wales submitted their views on the proposed merger to us, many of them after being approached on behalf of House of Fraser. They stressed the importance they attached to having House of Fraser stores in their respective areas and most expressed concern about the consequences of any store closures that might follow the merger.

8.9. The local authorities were concerned about the prospects of further reductions in employment opportunities in their areas, the loss of retail shopping services particularly in city and town centres and the loss of revenue from rates. Many regarded the presence of a major department store in their main shopping centre as being of fundamental importance to the viability of the area as a whole and thus viewed with apprehension any threat to a continuing presence of a House of Fraser department store.

### **Scottish Development Agency**

8.10. The Scottish Development Agency said that a recent review of the problems in the Glasgow economy had identified the erosion of company headquarters employment in Glasgow as a major cause of the failure of service sector employment in the city to increase and thus offset the loss of jobs in other sectors. The proposed merger would involve a risk that the headquarters of House of Fraser might be removed from Glasgow or reduced to the equivalent of a branch office. Either development would be contrary to the aims of the Agency and other public and private groups which had been seeking to promote and maintain Glasgow as a business centre and would conflict, in the Agency's view, with the public interest in Glasgow's economic development.

### **Private individuals**

8.11. A few private individuals, most of them House of Fraser shareholders, submitted views on the proposed merger. They generally supported the record of House of Fraser and were opposed to the group being taken over by Lonrho.

### **Mr Peter Hordern MP**

8.12. Mr Peter Hordern MP (Parliamentary Consultant to the House of Fraser since the publication of our 1981 report) submitted that it was not in the public interest that the principal retail stores group in the country should be subjected to continual harassment by a minority shareholder; or that competition and employment should be so exposed to risk as, in his opinion, they would be if Lonrho were to gain control of House of Fraser. Mr Hordern cited the experience of Scottish and Universal Investments Limited (SUITS) following Lonrho's acquisition of that company. Contrary to what Lonrho had predicted there had been a fall in employment and profitability. Between March 1979 and September 1980 £9.6 million had been removed from SUITS and lent to other Lonrho companies. In the three years ended September 1983 SUITS had operated at a loss, and between September 1982 and September 1983 the number of SUITS employees had fallen from 9,410 to 8,451.

8.13. Mr Hordern also commented on Lonrho's high financial gearing. He questioned whether the public interest would be served by allowing a company with such massive debts, exceeding shareholders' funds and backed by assets which might not be easily disposed of (or, if disposed of, provide proceeds which could easily be remitted to the United Kingdom) to acquire the assets of House of Fraser. If Lonrho did acquire House of Fraser there would be a risk of assets being sold and investment in House of Fraser stores reduced. The consequences of such developments would be a reduction in competition and substantial unemployment both in companies supplying House of Fraser and in House of Fraser itself. In addition, the Commission should take into account Lonrho's actions in relation to the 1981 undertakings and the conclusions of the Griffiths report on certain witnesses, including Mr Rowland.

### **Insurance and investment companies**

8.14. The Sun Alliance Insurance Group remained opposed to the possible merger of Lonrho and House of Fraser. As an investor it preferred to invest in 'clearly defined' companies. It believed that there was no clear evidence that takeovers by conglomerates necessarily improved the efficiency or profitability of the two groups concerned. It did not wish to encourage the proliferation of conglomerates and in this particular case did not believe that there was any strong evidence that Lonrho could substantially improve the management of House of Fraser. It considered that Lonrho had shown little evidence of ability to manage its various acquisitions well and suggested that this was reflected in its indifferent profit record in terms of earnings per share. It saw substantial evidence that the House of Fraser management had been making successful efforts over recent years to improve its operations. Moreover its view in 1981 that Lonrho was an unacceptable bidder for House of Fraser was confirmed by the record of Lonrho's conduct *vis-a-vis* the House of Fraser Board since then.

8.15. M & G Investment Management Limited explained that it managed or advised investment funds which amounted to about £2.5 billion on behalf of some 300,000 individual clients as well as for various charitable and pension funds. It presently managed or advised nine funds which in total held shares representing 1.23 per cent of the House of Fraser share capital. It was generally suspicious of conglomerate businesses, preferring to make its own decisions on investment and disinvestment in particular areas of commerce rather than delegate such decisions to conglomerate managers. In the case of Lonrho, it was also concerned about the large proportion of Lonrho's profits that arose in Africa and the company's high financial gearing. Its funds were not invested in Lonrho and, since it did not wish to dispose of its investment in House of Fraser, it did not wish to see House of Fraser taken over by Lonrho. Lonrho's shares would not be an acceptable investment in exchange for House of Fraser shares.

#### **Stockbroking firms**

8.16. Phillips and Drew referred to their paper dated August 1984 which concluded that overall Lonrho would provide strong profit growth over the next two years with an improving earnings quality and lower financial gearing.

8.17. Montagu, Loebel, Stanley and Co said that they believed that Lonrho shares were undervalued and recommended the shares for purchase by funds prepared to overlook the sensational media coverage and to assess the shares on the merits of the underlying business. Their estimate of the effect on Lonrho's gearing of a purchase of the 70 per cent of House of Fraser's ordinary shares which it did not then own was that, on the basis of a cash purchase, borrowings would total £1,079 million against shareholders' funds of £750 million. If the consideration took the form of Lonrho shares borrowings would be £712 million against shareholders' funds of £1,118 million. They expected that in practice there would be a package of cash and shares with most of the bid in the form of cash. They also said that they believed that, rather than carry out a wholesale disposal of House of Fraser shops, certainly in the initial stages of a merger, Lonrho would be prepared to use its own resources to develop the House of Fraser chain of stores.

#### **Alfayed Investment and Trust (UK) Limited**

8.18. Mr Mohamed Al-Fayed and Mr Ali Al-Fayed, representing Alfayed Investment and Trust (UK) Limited, said that they regarded House of Fraser as a well-managed group which had done well in spite of difficulties and distractions arising out of pressures from Lonrho. If the management was left alone to get on with its job and was fully supported by all shareholders, profits could be greatly increased by a number of methods including the injection of additional capital, if needed, and the vigorous exploitation of the House of Fraser's reputation. Particular emphasis could be put on the Harrods name through new marketing and retailing techniques.